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Controller's Audit Finds California Lottery Owes State \$46,000 for Inappropriate Expenditures

SACRAMENTO – Controller John Chiang today said an audit by his office found the California Lottery inappropriately spent \$46,336 in public funds for an employee recognition and training event November 8, 2007.

“Billed as an employee recognition and training event, the expenses actually went to entertainment, prizes and black-peppered prime rib dinners for Lottery employees, retirees and guests,” Chiang said. “These expenditures are an inappropriate use of public funds and the State’s strained coffers should be reimbursed as quickly as possible.”

The audit found that the Lottery spent \$29,074 on the “employee appreciation” segment of the event, which included hors d’oeuvres, a no-host bar and a full-course dinner with dessert. It also included \$4,444 for silver-plated photo frames for the employees, almost \$2,000 for a photographer who took photos of the attendees, \$800 for a disc jockey; and more than \$2,500 in table decorations.

The audit found that the “training” segment of the event, totaling \$17,262, consisted of mock Lottery games played by the employees, retirees and their guests for entertainment. Among those costs were \$5,000 paid to a former Big Spin host hired as the master of ceremonies and \$10,932 worth of prizes for mock Scratcher, Hot Spot, Big Spin and other games.

The Controller’s Office reimbursed the Lottery for \$16,884 of the costs associated with the event based on invoices that indicated the claims were for legitimate and reimbursable Lottery merchandise and business promotional costs. In January, the Controller ordered an audit of all expenditures related to the event. The audit determined those expenses were not for legitimate Lottery activities and, as such, constituted an improper gift of public funds. The audit report recommends that the Lottery reimburse the State for the unallowable expenditures. The Lottery has asked the Attorney General’s Office to issue a formal opinion on the legality of the expenditures, an opinion that is expected to be issued in May.

“Even if the Attorney General’s Office finds these expenditures are legal, by the Lottery Director’s own admission, they are inappropriate and should never have happened,” Chiang said. The audit also found that the Lottery used its state account to make a \$2,558 charitable contribution to the Poway Unified School District Fire Relief Fund. Lottery officials said \$1,160 of that amount came from \$10 donations made by 116 of the 118 guests who attended the employee recognition event. The Lottery said the remaining \$1,398 came from other fundraising activities, but was unable to provide documentation.

In addition, the Lottery spent \$1,872 in public funds to purchase thesauruses, dictionaries, pencils and graduation owl figurines for table decorations, which were donated to the North Sacramento Unified School District after the event.

The audit found the use of state accounts, the commingling of charitable contributions with public funds and the donation of products purchased with public funds are inappropriate and unauthorized by law. In her response to the audit, the Lottery director agreed the Lottery is prohibited from using public funds for charitable contributions and said she will implement policies and procedures to prevent those activities.

The audit also reviewed expenditures for the past five annual Lottery employee recognition events. Expenditures for the events held in 2002-2006 totaled \$60,078. The bulk of the invoices submitted for these events appeared to be for legitimate types of promotional or employee meeting and training expenses, and the Controller’s Office did not question the claims at the time they were submitted.

The [audit](http://www.sco.ca.gov) is available on the Controller’s website at www.sco.ca.gov.

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