CALIFORNIA LOTTERY

Audit Report

CASANOVA PENDRILL
CONTRACT NO. 15143

May 1, 2011, through December 31, 2015

BETTY T. YEE
California State Controller

June 2017
June 29, 2017

California Lottery Commission
700 North Tenth Street
Sacramento, CA 95811
ATTN: Nathaniel Kirtman III, Chair

Dear Commissioners:

We audited the California Lottery’s (Lottery) contract with Casanova Pendrill (Casanova) for the period of May 1, 2011, through December 31, 2015. The purpose of the audit was to determine if the Lottery adequately monitored the contract and complied with its provisions.

Based on our audit, we did not note any findings. We believe the Lottery adequately monitored the Casanova contract and complied with its provisions.

If you have any questions, please contact Andrew Finlayson, Bureau Chief, Division of Audits, by telephone at (916) 324-6310 or by email at afinlayson@sco.ca.gov.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/rg
cc: Gregory Ahern, Vice Chair
    California Lottery Commission
Rowena Libang-Bobila, Commissioner
    California Lottery Commission
Connie M. Perez, Commissioner
    California Lottery Commission
Hugo López, Director
    California Lottery
Nicole Soluri, Chief Deputy Director and Acting Chief Counsel
    California Lottery
Terry Murphy, Deputy Director, Operations Division
    California Lottery
Sharon Allen, Deputy Director, Sales and Marketing Division
    California Lottery
Michele Tong, Assistant Deputy Director, Sales and Marketing Division
    California Lottery
Nicholas Buchen, Deputy Director, Finance Director
    California Lottery
Roberto Zavala, Deputy Director, Internal Audits
    California Lottery
James Shannon, Audit Manager, Internal Audits
    California Lottery
# Contents

**Audit Report**

- **Summary** .............................. 1
- **Background** ................................ 1
- **Objectives, Scope, and Methodology** ................................ 2
- **Conclusion** ................................ 3
- **Follow-up on Prior Audit Findings** ................................ 3
- **Views of Responsible Officials** ................................ 3
- **Restricted Use** ................................ 3
Audit Report

Summary

We audited the California Lottery’s (Lottery) contract with Casanova Pendrill (Casanova) for the period of May 1, 2011, through December 31, 2015. The purpose of the audit was to determine if the Lottery adequately monitored the contract and complied with its provisions.

Based on our audit, we did not note any findings. We believe the Lottery adequately monitored the Casanova contract and complied with its provisions.

Background

In 1984, Proposition 37 amended the California Constitution to authorize the establishment of a statewide lottery. As an initiative statute, the California State Lottery Act of 1984 created the California Lottery Commission and gave it broad powers to oversee the operations of a statewide lottery. The purpose of the Lottery Act was to provide supplemental monies to benefit public education without the imposition of additional or increased taxes. The Lottery is administered by a five-person Commission appointed by the Governor and confirmed by the State Senate.

The Lottery has contracted with Casanova to provide Hispanic market advertising services since June 2005. The current contract (No. 15143) is for the period of January 1, 2012 through December 31, 2017, with a maximum contract amount of $75,000,000. Per the terms of the current agreement, Casanova’s duties include the following services:

- Assisting in overall marketing analysis, strategy development, and positioning of the Lottery and its products;
- Sharing responsibility for planning, coordinating, and executing the Lottery’s overall marketing plan and the Lottery’s Hispanic market annual advertising plan;
- Creating and producing Hispanic marketing advertising for the Lottery’s existing products and new products;
- Advising the Lottery on creative and talent matters related to broadcast production;
- Developing Hispanic market media plans and purchasing Hispanic market television, radio, print, outdoor, digital and any new media vehicle to market Lottery products; and
- Assisting in the development of digital media strategies, including social media and search engine strategies and digital media negotiation, buying, and placement.

Pursuant to Government Code section 8880.46.6, the State Controller’s Office (SCO) may conduct special post-audits of the Lottery, as the State Controller deems necessary. The Controller or his/her agents conducting an audit under this chapter shall have access and authority to examine any and all records of the California Lottery Commission.
Government Code section 12410 states, “The Controller shall superintend the fiscal concerns of the state. The Controller shall audit all claims against the state, and may audit the disbursement of any state money, for correctness, legality, and for sufficient provision of law for payment.” In addition, Government Code section 12411 stipulates that “...the Controller shall suggest plans for the improvement and management of revenues.”

Objectives, Scope, and Methodology

The objectives of the audit were to determine if:

- The Lottery has adequate systems of internal control over the Casanova contract;
- The Lottery complied with applicable laws, rules, regulations, policies, procedures, and contract provisions;
- Contract payments were legal and proper; and
- The Lottery adequately monitored Casanova’s performance to ensure contract compliance.

The audit period was May 1, 2011, through December 31, 2015. To meet the audit objectives, we performed the following:

- Reviewed the Lottery Act, the State Administrative Manual, the Lottery’s policies and procedures, and any other applicable laws, rules, and regulations related to the Casanova contract;
- Reviewed audits performed by the SCO, and followed-up on prior SCO audit findings;
- Reviewed Casanova contract provisions;
- Reviewed the Lottery’s processes and procedures related to the Casanova contract;
- Interviewed and observed individuals involved with the Lottery’s processes and procedures related to the Casanova contract;
- Gained an understanding of and evaluated internal controls over the Casanova contract; and
- Performed tests of procedural and contractual compliance:
  - Tested 77 contract payments
  - Verified insurance coverages specified in the contract

We used a nonstatistical audit sampling approach. Any errors found were not projected to the intended population.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We limited our review of internal controls to gaining an understanding of the administration and monitoring of the Casanova contract. We did not audit the Lottery’s financial statements.
Conclusion

We audited Contract No. 15143 between the Lottery and Casanova for the period of May 1, 2011, through December 31, 2015. Based on our audit, we did not note any findings. We believe that the Lottery adequately monitored the Casanova contract and complied with its provisions.

Follow-up on Prior Audit Findings

We last performed an audit of Casanova in April 2012. Based on work performed in the current audit, we noted that the Lottery has taken appropriate corrective actions on prior audit findings.

Views of Responsible Officials

We discussed our audit results with Lottery representatives on May 18, 2017. As there are no findings, Lottery representatives waived the exit conference and draft report. We agreed that the report could be issued as final.

Restricted Use

This report is intended for the information and use of the Lottery, the California Lottery Commission, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of the final report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

June 29, 2017