

CALIFORNIA LOTTERY

Audit Report

PRIZE VALIDATION PROCESS

January 1, 2007, through February 28, 2009



JOHN CHIANG
California State Controller

June 2009



JOHN CHIANG
California State Controller

June 26, 2009

Joan M. Borucki, Director
California Lottery
600 North Tenth Street
Sacramento, CA 95811

Dear Ms. Borucki:

The State Controller's Office audited the California Lottery's (Lottery) prize validation process, for the period of January 1, 2007, through February 28, 2009.

Our audit did not disclose any significant deficiencies in the Lottery's administration of the prize validation process.

If you have any questions, please call Andrew Finlayson, Chief, State Agency Audits Bureau, at (916) 324-6310.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/sk

cc: John Mass, Chairman
California Lottery Commission
Cynthia Flores, Commissioner
California Lottery Commission
C.C. Yin, Commissioner
California Lottery Commission
Michael T. Ota, Deputy Director
Finance Division
California Lottery
Roberto Zavala, Chief
Internal Audits
California Lottery

Contents

Audit Report

Summary	1
Background	1
Objectives, Scope, and Methodology	2
Conclusion	2
Restricted Use	3

Audit Report

Summary

The State Controller's Office (SCO) audited the California Lottery's (Lottery) prize validation process for the period of January 1, 2007, through February 28, 2009.

Our audit of the prize validation process did not disclose control deficiencies in the Lottery's administration of the prize validation process.

The purpose of the audit is to determine if the prize validation process is adequately controlled and whether prize payments made by the Lottery are legal and proper.

Background

By authority of the California Constitution, 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."

Proposition 37, the California State Lottery Act of 1984 (Lottery Act), amended the California Constitution to authorize the establishment of a statewide lottery, to create the California Lottery Commission, and to give the commission broad powers to oversee the operation of a statewide lottery.

Pursuant to Government Code section 888046.6, the SCO may conduct other 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.

The Lottery validates all online and off-line (Scratcher) game prize claims received from the players and district offices. The Prize Payments Section and the Mailroom are responsible for receiving, recording, and approving claims for the Lottery. The Prize Payments Section also works closely with the Security/Law Enforcement Division on questionable claims. In processing online and off-line (Scratcher) prize payments, the Lottery provides assurance that:

- Only those winning tickets eligible for payment are paid;
- No winning ticket is paid more than once;
- All statutory restrictions are observed; and
- Prize payments data is completely and accurately recorded.

The prize validation process requires considerable oversight because of the high visibility of the Lottery and the numerous prize payments and transactions.

Objectives, Scope, and Methodology

The purpose of the audit is to determine whether the Lottery's fiscal controls over the prize validation are adequate and whether prize payments made by the Lottery are legal and proper. We reviewed the Lottery's controls over online and off-line (Scratcher) validation processes in the Lottery's Prize Payments Division and Security/Law Enforcement Division. The period under review was from January 1, 2007, through February 28, 2009.

We conducted this performance audit in accordance with generally accepted government auditing standards. We did not audit the Lottery's financial statements. 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objectives of the audit were to determine whether:

- The Lottery's fiscal controls over the online and off-line (Scratcher) prize validation process are adequate;
- Prize payments were legal and proper; and
- The Lottery is complying with state laws, regulations, and policies with regards to prize payments.

The procedures we performed during the audit included:

- Analyzing and evaluating the online and off-line (Scratcher) prize validation process;
- Performing tests of procedural compliance and propriety of prize payments, as deemed necessary;
- Reviewing work performed by any external audit organization or by the Lottery's Internal Audits Unit; and
- Reviewing the California Lottery Act, State Administrative Manual, and other applicable rules and regulations.

We did not audit Lottery's financial statements. Those financial statements were audited by other external auditors whose reports have been furnished to us. Our review of Lottery's internal controls was limited to gaining an understanding of the prize validation process as necessary to develop appropriate auditing procedures.

Conclusion

We discussed our audit results with Marty Rubio, Audit Manager, Internal Audits, on May 7, 2009. No findings were disclosed during our audit; therefore, a draft report is not necessary and the report will be issued as final.

Restricted Use

This report is intended for the information and use of the California 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
Chief, Division of Audits

June 26, 2009

**State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, CA 94250-5874**

<http://www.sco.ca.gov>