



M E M O R A N D U M

Date: January 28, 2021

To: California State Lottery Commission

From: Alva V. Johnson 
Director

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Subject: Item 8(b) – Extension and Addition of Funds to the KPMG LLP
Financial Statement Audit Contract

ISSUE

The Lottery Act requires the California State Lottery (Lottery) to hire an independent firm to conduct an annual audit of accounts and transactions of the Lottery. The current contract for independent financial auditing and related services with KPMG LLP (KPMG) will expire on March 29, 2021.

BACKGROUND

The Lottery is required under California Government Code Section 8880.46.5 to hire an independent lottery contractor.

Government Code Section 8880.46.5 states, “The director shall engage an independent firm of certified public accountants to conduct an annual audit of all accounts and transactions of the lottery. The audited financial statements shall be presented to the commission, the Governor, the Controller, the Treasurer, the Attorney General, and the Legislature not more than 120 days after the close of the fiscal year. The independent auditor’s report shall be posted on the Internet.”

The contract has been in place since March 30, 2016, following a competitive bid process in 2015. Its term is four years with options to extend for two additional one-year periods. The current maximum agreement amount is \$980,000.

DISCUSSION

As the contract term is set to expire on March 29, 2021, exercising the remaining one-year option to extend services through March 29, 2022, will permit the Lottery to continue receiving assurances on its financial statements and prize liabilities from KPMG without interruption. In addition, the extension will allow the Lottery time to prepare and process a formal Request for Proposal for a new contract in the coming year. Together with the extension of contractual services additional funding will also be necessary.

KPMG begins its financial services review in June of each year. Its audit team performs preliminary work while Lottery staff prepares year-end financial statements. The audit team then performs and completes fieldwork in October. The completed and signed audited financial statements are provided to the various constitutional officers per the Government Code stated above, not more than 120 days after the close of the fiscal year.

Subsequently, KPMG begins its review of prize liabilities for Powerball® and Mega Millions®, to assist the Lottery in meeting its reporting requirements with the Party Lotteries under the Amended and Restated Multi-State Lottery Agreement. These reports have a deadline for completion by December 31st.

In summary, the extension of time and additional funding will cover the following services:

- 2021 Prize Liability Audit of Powerball and Mega Millions, due December 31, 2021;
- 2021 Financial Statement Audit, due 120 days after the close of the fiscal year;
- 2021 Comprehensive Annual Financial Report (CAFR), due 120 days after the close of the fiscal year.

If the Lottery does not implement this extension, the alternative would be to undergo a formal Request For Proposal process to seek another qualified firm. However, this would pose a risk of interruption in the Lottery's financial audit services if a new contract is not executed before expiration of the current one on March 29, 2021.

RECOMMENDATION

Lottery staff recommends that the California State Lottery Commission approve the option to extend the term by one year, from March 30, 2021 to March 29, 2022, and augment the available contract funds by \$250,000, bringing the maximum authorized contract expenditure authority to \$1,230,000.