



M E M O R A N D U M

Date: January 27, 2022

To: California State Lottery Commission

From: Alva V. Johnson, Director 

Prepared By: Sara Sheikholislam
Deputy Director, Internal Audits

Subject: Item 8(a) - Emergency Extension of the KPMG LLP Financial Auditing and Related Services Contract

ISSUE

The California State Lottery (Lottery) currently contracts with KPMG LLP (KPMG) for Financial Auditing and Related Services (Contract 50041). KPMG is currently working on the 2020-21 fiscal year financial audit and is unlikely to complete the audit before the contract expires on March 29, 2022.

BACKGROUND

Under California Government Code Section 8880.46.5, "The director shall engage an independent firm of certified public accountants to conduct an annual audit of all accounts and transactions of the Lottery."

KPMG is the current auditor and is auditing the Lottery's fiscal year (FY) 2020-21 financial statements. The current contract started on March 30, 2016 with a contract term of three years and options to extend for three additional one-year periods. The Lottery has exercised all three extensions, and the contract total is now \$1,230,000. Exhibit B, Section 1.4 of KPMG's contract allows the Lottery to request KPMG to provide up to one year of additional emergency extended services upon the same terms and conditions.

KPMG may not complete its audit prior to contract expiration because the Lottery has not closed its books. The Lottery itself is awaiting final pension and other postemployment benefit data from other state departments. Those departments are still working through two recent and very substantial Governmental Accounting Standards Board pronouncements that significantly changed the reporting and financial accounting of

pensions and postemployment benefits other than pensions. There is currently no date for when that information will be provided.

The Lottery is currently conducting a new Request for Proposal to replace the current contract. Regardless of who the successful bidder is, the audit of the Lottery's FY 2020-21 financial statements needs to be completed under the current contract with KPMG.

DISCUSSION

With the delay in the Lottery receiving pension and other postemployment benefit data, the Emergency Extended Service provision should be invoked. This emergency extension is needed to enable KPMG to finish their current audit of the Lottery's FY 2020-21 financial statements and to allow for some transition period between KPMG and the successor to the current contract. Services under this emergency extension are anticipated to end well before March of 2023, and the contract can be mutually terminated before such time. Since sufficient funds remain in the current contract, no additional funds are being requested.

If an extension is not approved, KPMG may not have enough time to complete its audit due to circumstances beyond both KPMG and the Lottery's control. The Lottery would be at risk of having its FY 2020-21 financial statements unaudited, which conflicts with the Lottery's responsibilities under the Government Code.

RECOMMENDATION

Lottery staff recommends that the California State Lottery Commission approve the emergency extension of up to one additional year for the Financial Auditing and Related Services contract with KPMG.