



M E M O R A N D U M

Date: June 30, 2022

To: California State Lottery Commission

From: Alva V. Johnson *AV*
Director

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Deputy Director, Internal Audits

Subject: Item 9(d) - Draw Auditing and Review Services Contract

ISSUE

The California State Lottery (Lottery) is requesting approval to enter into a three-year agreement with Preston CPA for independent draw auditing and review services. The contract term will begin July 1, 2022, or upon final approval, whichever is first, and will end June 30, 2025 with a contract amount of \$1,026,000.

BACKGROUND

Under California Government Code §8880.30(b), drawings are to be witnessed in person by an independent lottery contractor (contractor).

The current contractor is KPMG LLP (KPMG). The contract started August 1, 2017 and will expire July 31, 2022. The contract term is for three years and options to extend for two additional one-year periods. The Lottery has exercised both extension options.

The Lottery issued a Request for Proposal (RFP) in December 2021 but received zero proposals; therefore, the RFP was resolicited in March 2022.

DISCUSSION

The contractor will be responsible for timely witnessing of all Lottery drawings either at the Lottery headquarters or at the off-site location. The contractor will inspect the draw equipment before and after each draw, certify the draw and submit a draw report to the Lottery.

In response to the resolicited RFP, the Lottery received one qualified proposal from Preston CPA. The evaluation of the proposal determined Preston CPA exceeded the minimum requirements outlined in the RFP. In addition, the rates were determined to be fair, reasonable and the best value to the Lottery.

Since 2010, Preston CPA has performed draw auditing services for the Georgia Lottery Commission and therefore brings direct experience and knowledge of draw games to the Lottery.

The contract cost is based on an hourly rate of \$95 for an estimated 3,600 hours of work per year, which amounts to \$342,000. When combined for three years the total contract funding is \$1,026,000.

RECOMMENDATION

Lottery staff recommends the California State Lottery Commission approve the award of the draw auditing services contract to Preston CPA for a term of three years with a maximum agreement amount of \$1,026,000 and two additional one-year options to extend.