



M E M O R A N D U M

Date: June 30, 2022

To: California State Lottery Commission

From: Alva V. Johnson 
Director

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Subject: Item 9(e) - Emergency Extension of the KPMG LLP Draw Auditing and Review Services Contract

ISSUE

The California State Lottery's (Lottery) contract with KPMG LLP (KPMG) for Draw Auditing and Review Services will expire July 31, 2022. The Lottery requests to exercise emergency extended services for three additional months. The extension is required to ensure continuous draw auditing services while the Lottery completes the new contract execution.

BACKGROUND

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

The current independent lottery contractor is KPMG. KPMG is required to participate in daily draw observation, verification, and certification of Lottery draws, and to report compliance with agreed upon Lottery draw procedures. The current contract started on August 1, 2017, with a contract term of three years and options to extend for two additional one-year periods. The Lottery has exercised both extensions, and the contract total is \$1,599,000.

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 under the same terms and conditions.

The Lottery issued a Request for Proposal (RFP) in December 2021 but received zero bids; therefore, the RFP was resolicited in March 2022. This caused a delay in securing the new contractor before the current contract's expiration. Currently, the new contract team is undergoing the background clearance process. The Lottery is requesting that the

California State Lottery Commission (Commission) approve the new contract award at this Commission meeting.

DISCUSSION

This emergency extension is needed to allow for the new contractor to onboard. Services under this emergency extension are anticipated to end before October 31, 2022. The contract can be mutually terminated at any time.

KPMG's current contract rate of \$91 per hour ends in July 2022. KPMG's new rate of \$200 per hour will be charged for the extended service period. There are sufficient funds remaining in the current contract; therefore, no additional funds are required.

If an extension is not approved, the Lottery would be at risk of insufficient time to transition over to the new contractor, train and perform background checks on the newly recruited local team, thereby impacting the Lottery's ability to comply with GC §8880.30(b).

RECOMMENDATION

Lottery staff recommends the Commission approve the emergency extension for three additional months for Draw Auditing and Review Services through October 31, 2022.