



M E M O R A N D U M

Date: March 17, 2022

To: California State Lottery Commission

From: Alva V. Johnson 
Director

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Deputy Director, Finance

Subject: Item 8(a) – Contract for Independent Financial Services Auditor

ISSUE

The California State Lottery (Lottery) is requesting approval to enter a three-year agreement with Weaver and Tidwell LLP (Weaver) for independent financial audit services. The three-year contract amount is \$550,000.00 with two one-year options to extend. The contract term will begin in April 2022 upon final signature and will end April 15, 2025.

BACKGROUND

KPMG, LLP (KPMG) is the current auditor and is conducting an audit of the Lottery's fiscal year (FY) 2020-21 financial statements. The contract with KPMG started on March 30, 2016 with a term of three years with options to extend for three additional one-year periods. With the California State Lottery Commission's (Commission) approval, the Lottery exercised all three extensions from 2019 through 2022. Given delays in completing the audit of the Lottery's financial statements for FY 2020-21, on January 27, 2022, the Commission approved an emergency extension of up to one additional year to enable KPMG to complete this audit. This contract will expire on March 29, 2023 or when the FY 2020-21 audit is complete, whichever comes first.

DISCUSSION

Government Code Section 8880.46.5 states, in part, "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 Lottery conducted a Request for Proposal (RFP) for these services in September 2021 and received one qualified proposal. The Lottery evaluated the proposal and determined that Weaver exceeded the minimum requirements outlined in the RFP and the rates were determined to be fair and reasonable. Since 2013, Weaver has performed financial statement audits for the Texas Lottery Commission. With revenues exceeding \$7 Billion annually, a balance sheet exceeding \$900 million, and contributions of more than \$1.6 billion annually to their beneficiary, the operations of the Texas Lottery Commission are similar in scope to the California Lottery. Additionally, Weaver's proposed engagement team for the Lottery has direct experience with the Lottery's gaming system vendor, which will translate into efficiencies in the audit. Further, Weaver has experience in transitioning audit services from KPMG.

RECOMMENDATION

The Lottery recommends the Commission approve the award of the independent financial services auditor contract to Weaver for a contract term of three years for a maximum agreement amount of \$550,000, with two one-year options to extend.