



M E M O R A N D U M

Date: May 28, 2020

To: California State Lottery Commission

From: Alva V. Johnson 
Director

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Subject: Item 8(c) - Request to Add One Position to Internal Audits

ISSUE

The California State Lottery's (Lottery) Internal Audits office is responsible for providing independent, objective audit and consulting services to Lottery management. Internal Audits also has the sole responsibility to act as the audit liaison to coordinate external audits of Lottery operations by other state agencies and independent auditors. Since 2014, the Lottery has had an average of 17 audits performed by external auditors each year. To accommodate the ongoing external audit activities, Internal Audits has had to delay or postpone planned internal audits and other services it provides to Lottery management.

BACKGROUND

The Institute of Internal Auditors Performance Standard 2050 requires coordination of internal and external audit work to ensure adequate audit coverage and minimize duplicate efforts. The Lottery's Internal Audits office has four Associate Management Auditors who conduct internal audits and act as liaisons for external audits. Audits performed by external auditors require considerable resources to ensure audits meet management's service expectations. When the Lottery receives notification of an external audit, an Internal Auditor is designated to act as a liaison with the external auditor and Lottery staff. The Internal Auditor is responsible for coordinating the activities of the external auditors, which include scheduling security background checks, scheduling meetings, monitoring meetings and discussions, monitoring email communications, preparing status reports, reviewing documents, responding to audit related questions, and following up on audit findings. Currently, these duties are shared among the Internal Audit staff, and are handled in conjunction with their regular audit activities. The dual role Internal Auditors are currently performing has created a situation that requires Internal

Audits to delay or postpone regular planned audit assignments. As a result, the Internal Audits office has experienced ongoing challenges in the planning and execution of internal audits.

DISCUSSION

Internal Audits is requesting to add one Associate Management Auditor position to its staff. The additional auditor will be responsible for performing all external audit liaison activities which will relieve current audit staff from having to perform these duties. We anticipate that this change to the Internal Audit staffing model will provide current staff with the ability to focus solely on performing internal audits. We project this change will increase productivity and result in workloads becoming more predictable over time. This change will also provide management with the ability to better plan audit activities and reduce the number of postponed audits.

RECOMMENDATION

The Lottery staff recommends the California State Lottery Commission approve the establishment of one additional Associate Management Auditor position in the Internal Audits office and the associated cost of \$10,000 for Fiscal Year 2019-20. The full fiscal year cost for the position is approximately \$120,000 but will fluctuate based on bargaining union contracts and salary range adjustments.