



## M E M O R A N D U M

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**Date:** May 28, 2020

**To:** California State Lottery Commission

**From:** Alva V. Johnson   
Director

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Deputy Director Internal Audits

**Subject:** Item 8(d) - Draw Auditing and Review Services Contract Extension

### **ISSUE**

The California State Lottery's (Lottery) contract for draw auditing and review services is expiring on July 31, 2020. These services are required by statute, therefore the option to extend the current contract and add funding is necessary.

### **BACKGROUND**

The Lottery is required under California Government Code Section 8880.30(b) to hire an independent lottery contractor, who possesses qualifications established by the California State Lottery Commission (Commission) to witness all draws via manual or physical selection. The contractor is required to participate on a daily basis in draw observation, verification, and certification of Lottery draws, and to report compliance with agreed upon Lottery draw procedures.

The current contract with KPMG LLP has been in place since August 1, 2017, following a competitive bid process. The contract term is for three years with options to extend for two additional one-year periods. The current maximum agreement amount is \$969,000.

### **DISCUSSION**

As the contract term is set to expire on July 31, 2020, exercising the one-year option to extend services through July 31, 2021, will permit the Lottery to continue services with KPMG LLC without interruption. With the extension of contractual services additional funding will also be necessary. The estimated hours worked for contract years 2017, 2018 and 2019 were 3,800 hours, Actual hours worked annually, have shown a decrease, and

averaged at 3,370 hours. Historically, rates have increased each year and are expected to occur during the new term, the new rate during the one-year extension period will be \$89 per hour. This will require funding in the amount of \$300,000.00.

If the Lottery does not implement this extension, the alternative would be to undergo a formal Request for Proposal process to seek another qualified firm. However, this would pose a risk of interruption in the Lottery's draw audit services if a new contract is not finalized before expiration of the current one.

### **RECOMMENDATION**

Lottery staff recommends that the Commission approve the option to extend the term by one year, from August 1, 2020 to July 31, 2021, and augment the available contract funds by \$300,000.00, bringing the maximum authorized contract expenditure authority to \$1,269,000.00.