



M E M O R A N D U M

Date: May 27, 2021

To: California State Lottery Commission

From: Alva V. Johnson 
Director

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Deputy Director Internal Audits

Subject: Item 8(c) - Extension and Addition of Funds to the KPMG LLP Draw Auditing and Review Services Contract

ISSUE

The California State Lottery's (Lottery) contract for draw auditing and review services will expire on July 31, 2021. 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 the 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 \$1,269,000.

DISCUSSION

As the contract term is set to expire on July 31, 2021, exercising the final one-year option to extend services through July 31, 2022 will permit the Lottery to continue services with KPMG LLP without interruption. With the extension of contractual services additional funding will also be necessary. The estimated hours worked per annum for contract years 2017 through 2020 were 3,800 hours. Actual hours worked annually, have shown a

decrease, and averaged at 3,239 hours. Historically, rates have increased each year and will occur during the new term. The new rate for the one-year extension period will be \$91 per hour.

Furthermore, as of August 23, 2021, the Powerball® draw game will add an additional draw increasing the estimated hours worked for game monitoring. Additional funding will be required in the amount of \$330,000.00 to accommodate these occurrences.

Over the life of this contract the quality of service provided has improved due to the knowledge and experience obtained over time. This is evident in the number of hours expended year over year having decreased. The auditors' dependability, quality of work and meeting challenges over the last year during the pandemic are noteworthy.

If the Lottery does not implement this extension, the alternative would be to undergo a formal Request for Proposal (RFP) 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. Currently, Internal Audits is developing a Request for Information to seek industry information from the contractor community, which will aid in the development of the upcoming RFP. The plan is to have a new contract award prior to expiration of this one on July 31, 2022.

RECOMMENDATION

Lottery staff recommends that the Commission approve the final option to extend the term by one year, from August 1, 2021 to July 31, 2022, and augment the available contract funds by \$330,000.00, bringing the maximum authorized contract expenditure authority to \$1,599,000.00.