



M E M O R A N D U M

Date: November 21, 2019

To: California State Lottery Commission

From: Alva V. Johnson, Director *AVJ*

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Subject: Item 8(e) - Appointment of California State Lottery Audit Committee Members

ISSUE

The California State Lottery Commission (Commission), Audit Committee (Committee) does not have active members because Committee members have since left the Commission. According to the Committee's Charter, members must be appointed by the Chair of the Commission.

BACKGROUND

The Committee is established to satisfy Government Code sections 13886(a) and 13887(b), requiring the establishment of a Committee to ensure the independence of internal auditors of the California State Lottery (Lottery) and that their audit findings are reported to the appropriate levels of government. Pursuant to the statutory scheme, the Lottery's Internal Audit Chief (IAC) is accountable to the Committee. The statute provides that the Committee generally meets the framework recommended by the American Institute of Certified Public Accountants, as set forth in the publication entitled "AICPA Audit Committee Toolkit: Government Organizations."

In addition, the Committee has been charged by the Commission to provide it additional guidance in connection with financial statements, compliance with statutory and regulatory requirements and qualifications and performance of audit personnel with the goal that all Lottery audits be conducted in a most ethical, professional, and efficient manner to protect the people of the State of California.

The Committee consists of at least two and no more than five members. Two members are required to reach a quorum and two votes are required to pass action items. The IAC will serve as staff to the Committee but is not a member of the Committee and has no voting privilege. In addition, the Committee shall have a member with financial

experience. Where feasible, the Committee shall have at least one member who is a CPA or has audit experience.

The Committee meets at least two times per year, and at additional times as necessary to discharge its responsibilities. The Committee may conduct regular meetings or executive sessions with the IAC and his/her staff, Lottery management, Chief Counsel, and anyone else that the Committee determines would assist it in discharging its responsibilities.

To discharge its responsibility the Committee:

- Reports to the Commission at least once each year.
- Reviews and provides input on the Annual Internal Audit Plan.
- Provides support to the IAC in addressing problems encountered in the course of an audit.
- Reports to the Commission issues not resolved to the satisfaction of the Committee.
- Promptly and thoroughly considers reports from the IAC and/or Chief Counsel.
- Reviews management decisions relating to the appointment, replacement, reassignment, or dismissal of the IAC or other internal audit staff to ensure that such decisions do not compromise the independence or integrity of the internal audit function.

DISCUSSION

The Committee has met regularly either before or after Commission meetings since the Committee's establishment in 2009. The Commission is currently tracking 21 active audits and various corrective action plans on past audit findings. The Committee's role in monitoring and reporting on Commission audits is critical to the transparency, integrity and oversight of the Commission. However, the Committee has not met since 2018, because its members have since left the Commission following the expiration of their appointments.

RECOMMENDATION

Lottery staff recommends that the Commission approve two Lottery Commissioners to serve as Committee members. This will allow the Committee to resume regularly meeting and assisting the Commission in its oversight responsibilities.