

CALIFORNIA STATE LOTTERY

AUDIT COMMITTEE CHARTER

PURPOSE

The purpose of the Audit Committee is to assist the California State Lottery (Lottery) in fulfilling its oversight responsibility relating to (i) the integrity of the Lottery's system of internal controls; (ii) the performance of the internal audit services function; (iii) the department's compliance with legal and regulatory requirements, including the department's policies and procedures; and (iv) the fulfillment of the other responsibilities set out herein.

AUTHORITY

Established pursuant to Government Code:

- 13886 (a) states, "Any governing body that oversees a state agency that performs or reviews internal audits shall establish an audit committee that generally meets the frameworks recommended by the American Institute of Certified Public Accountants, as set forth in the publication entitled "AICPA Audit Committee Toolkit: Government Organizations."
- 13887 (b) In order to achieve independence and objectivity as required by the standards identified in Section 13886, for any state agency that is overseen by a governing body, the internal audit operations shall meet all of the following requirements:
 1. The chief internal auditor shall be accountable to the audit committee of the governing body.
 2. The chief internal auditor shall report audit findings and recommendations made under his or her jurisdiction to the audit committee and the general counsel to the governing body.
 3. The operations shall be organizationally outside the staff or line management function of the unit under audit.

MEMBERSHIP

All members of the Audit Committee are appointed by the Lottery Commission and serve at the pleasure of the Commission. Members may resign after notice to the Commission; however, members shall continue to serve until replacements are named or the committee position is eliminated by the Commission. Members may recommend candidates for membership.

The Audit Committee shall consist of two members. Two members are required to reach a quorum and two votes are required to pass action items. The Internal Audit Deputy Director (IADD) shall serve as staff to the Audit Committee but is not a member of the Audit Committee and has no voting privileges. The Audit Committee shall have a member with financial experience and where feasible, shall have at least one member who is a CPA or has audit experience.

The members of the Audit Committee shall participate in training and/or confer with consultants as deemed necessary or advisable by the Lottery Commission, at the request of the Audit Committee or upon the Commission's own motion. Such training or consulting services shall be paid for as directed by the Commission from the Lottery's administrative budget.

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The Audit Committee shall review this charter and revise it as necessary or advisable to ensure compliance with changes in laws, regulations, auditing standards, best practices, or its role as determined by the Commission, but not less frequently than once each fiscal year.

The IADD shall report to the Audit Committee promptly regarding any relevant changes in laws, regulations or auditing standards. The charter shall be documented and retained within Internal Audits.

ASSESSMENTS

The Audit Committee shall conduct two assessments a year: a self-assessment to ensure it is fulfilling its statutory role, and an assessment on the quality of the services and resources provided by Internal Audits.

These assessments will be provided to the Audit Committee in January of every year. The documents will be retained within Internal Audits.

MEETINGS

The Audit Committee shall meet at least two times per fiscal year, and at additional times as necessary or desirable to discharge its responsibilities. The Audit Committee may conduct regular meetings or executive sessions with the IADD and his/her staff, Lottery management, Chief Counsel, and anyone else that the Audit Committee determines would assist it in discharging its responsibilities. Meetings may be conducted in person or remotely via teleconference.

An agenda and accompanying material will be sent to members of the Audit Committee prior to each meeting. Minutes for all Audit Committee meetings will be prepared to document decisions made and action steps to be taken. Minutes will be provided to the Audit Committee members and approved at the following Audit Committee meeting. All documentation will be retained within Internal Audits.

RESPONSIBILITIES

The Audit Committee members shall carry out the following responsibilities:

- Report to the Commission at least once each fiscal year on (i) significant findings on internal audits during the fiscal year and management's responses thereto; (ii) the effectiveness of the internal audit function and its conformity to applicable law and standards; (iii) the adequacy of the budget and staffing of the Internal Audits Office; and (iv) significant issues/conflicts arising in connection with internal audits.
- Review with the IADD the annual audit plan (and any revisions) and provide input as appropriate regarding focus, scope or any other relevant consideration. Convey concerns regarding the final annual audit plan (and revisions) to the Commission.
- Be available to the IADD to assist in addressing problems encountered during an audit, including restrictions on the scope of work or access to required information. Any issues that are not resolved to the satisfaction of the Audit Committee shall be brought to the Commission.
- Promptly and thoroughly consider reports from the IADD and/or the Lottery's Chief Counsel

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pursuant to Government Code section 13887.5(a) or (b) and forward them with the Audit Committee's recommendations to the Commission. (Government Code section 13887.5 is included below on page four)

- Review management decisions relating to the appointment, replacement, reassignment, or dismissal of the IADD or other internal audit staff to ensure such decisions do not compromise the independence or integrity of the internal audit function. Report concerns to the Commission.
- At the request of the IADD, review, and make recommendations for policies and procedures relating to receipt, retention and handling of internal or external complaints regarding accounting, internal accounting controls, auditing matters, suspected fraud or other wrongdoing that may be the appropriate subject of an accounting/audit. At the request of the IADD, review specific complaints and their disposition.
- Review significant correspondence between the IADD and management as the Audit Committee deems appropriate.
- Review all internal audit reports and managements' responses thereto. Work with the IADD and management to identify significant risks to the Lottery, establish steps to address those risks and monitor compliance with those steps. Report any unresolved concerns to the Commission.
- With the assistance of the IADD and the Lottery's Chief Counsel, monitor statutory and regulatory changes that impact internal audits to ensure compliance.
- Periodically review the Lottery's Incompatible Activities and Ethical Conduct Standards to ensure that it is adequate, effective and consistent with current law and that it is properly implemented. Suggest modifications as appropriate. Inform the Commission of concerns that are not addressed.
- Provide input to Lottery management and the IADD in connection with their coordination of all audit functions to assure effective and efficient use of audit resources, to maximize coverage and minimize redundancy.
- Provide input to Lottery management and the IADD regarding decisions to employ audit firms other than the principal independent auditor for services that the Lottery or the principal auditor determines would be inappropriate for the principal independent auditor to perform.

The IADD shall provide the Audit Committee members information, correspondence, guidance, expected due dates, etc. to assist the members in adhering to the responsibilities.

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**CALIFORNIA GOVERNMENT CODE
Referenced Sections**

§ 13887.5. Protocol where residual risk is unacceptable

- (a) When the chief internal auditor of a state agency believes that senior management in the state agency has accepted a level of residual risk that may be unacceptable to the organization or that senior management has otherwise not taken appropriate action in response to a finding or recommendation by its internal auditors, the chief internal auditor shall discuss the matter with senior management and the general counsel to the state agency. If that decision regarding residual risk or the need for appropriate action in response to an audit finding or recommendation, or both, does not resolve the issue, the chief internal auditor and general counsel shall jointly report the matter to the next highest level of management as pertains to the state agency, including, but not limited to, the chair of the governing body overseeing the state agency, the agency secretary, the Governor's office, or the appropriate constitutional officer.

- (b) If the decision regarding residual risk or the need for appropriate action in response to an audit finding or recommendation that could have a significant impact on the state's fiscal operations, the performance of a significant government program, or the delivery of a significant government service, or other similar significant or critical government services, as determined by the chief internal auditor, is still not resolved after making the disclosures required pursuant to subdivision (a), the chief internal auditor shall report the matter to the Joint Legislative Audit Committee and the State Auditor. At the direction of the Joint Legislative Audit Committee, the State Auditor shall investigate a disclosure made pursuant to subdivision (b) and report the results of the investigation in accordance with Chapter 6.5 (commencing with Section 8543) of Division 1. The disclosure requirements of this subdivision shall not apply to any chief internal auditor who reports and makes disclosures to an audit committee, as described in subdivision (b) of Section 13887.

- (c) Any chief internal auditor who makes a disclosure pursuant to this section shall receive all protection available under the California Whistleblower Protection Act (Article 3 (commencing with Section 8547) of Chapter 6.5 of Division 1).