




M E M O R A N D U M

Date: November 19, 2020

To: California State Lottery Commission

From: Alva V. Johnson 
Director

Prepared By: Roberto Zavala
Deputy Director, Internal Audits

Subject: Item 8(d) – Request to Add Statistician and Information Technology Auditor

ISSUE

The California State Lottery (Lottery), Internal Audits is responsible for providing independent, objective auditing and consulting services to Lottery management. A critical part of providing these services is to have the necessary professional skillsets that can effectively assess critical Lottery programs. Currently, Internal Audits lacks the statistical and information technology skillsets in its professional audit staff to review these programs. Internal Audits is requesting to add a Research Data Specialist I, and a Staff Management Auditor, Specialist to its staff. These positions will allow Internal Audits to provide management with assurances that the respective programs are effectively operating.

BACKGROUND

Statistician:

The Lottery requires statistical services for its on-going evaluation of all automated draw equipment performance. This service provides management assurances that draws are meeting expectations. Over the last twenty-plus years, Internal Audits provided these assurances by contracting with an outside consultant in lieu of hiring professional staff. This practice provided the Lottery with satisfactory independent, professional statistical services. The last contract with an external consultant, SenData, expired on September 30, 2019. Currently, Internal Audits has only been able to provide minimal independent assurances on its draws through various means including executing one-time purchase orders.

In January 2019, before the SenData contract expired, Internal Audits solicited statisticians by advertising a request for information to 42 statisticians from the American Statistical Association directory of Statistical Consultants in California. Unfortunately, Internal Audits received no interest.

Following this solicitation, Internal Audits contacted the University of Davis (UCD) and University of Los Angeles (UCLA) for statistical services. While Internal Audits received interest from both Universities, bids received for these services were at a substantially greater cost as they included additional overhead and administrative expenses.

IT Auditor:

According to the International Standards for the Professional Practice of Internal Auditing (ISPPA), Internal auditors must possess the knowledge, skills, and other competencies needed to perform their individual responsibilities. Specifically, Internal auditors must have sufficient knowledge of key information technology risks and controls and available technology-based audit techniques to perform their assigned work.

In 2006, Internal Audits had a professional position entitled Auditor Specialist I (Information Technology Auditor) that fulfilled this skillset. The Auditor Specialist I performed IT audits of Lottery programs including but not limited to on-line and instant game operations, administrative game operations, administrative IT systems, and on-line or instant contractors' IT operations as related to the Lottery.

This position was removed from Internal Audits when the employee in the position left the Lottery. Since then Internal Audits has hired vendors or used other Lottery staff for this skillset over the years.

DISCUSSION

Statistician:

The UCLA and UCD bids included proposed rates that averaged at least 100 percent more than the contracted rate with SenData. Specifically, UCLA proposed \$300 per hour plus a 25 percent supplemental fee and UCD proposed \$200 per hour. By comparison, the combined salary and benefit cost of an internal statistician (Research Data Specialist I) works out to be \$57 per hour.

In lieu of hiring a consultant for statistical services, Internal Audits is requesting to add one statistician to its professional staff. The statistician will be responsible for providing assurances on current and future Lottery draw equipment as well as assurances on current and future Lottery games. In addition, the statistician will provide statistical consult services to audit staff and Lottery management on an as-needed basis. We believe bringing this professional practice into the Lottery will increase productivity, make tasks

more predictable over time and increase institutional knowledge at a significantly lower cost.

IT Auditor:

In lieu of hiring consultants or using other Lottery employees for IT Audit services, Internal Audits is requesting to establish an IT Auditor position to its professional staff. The IT Auditor professional duties will include, but are not limited to, the following:

- Perform complex information systems audits and evaluations of Lottery policies, programs, systems, and procedures, and entities doing business with the Lottery.
- Perform complex information systems audits involving physical and logical security; hardware, software, and application security; database integrity; data communications; data backup; and data recovery.
- Evaluate and assess the security controls regarding the information technology services provided by the Lottery's Information Technology Services Division (ITSD), such as; cloud services, client-server, and mainframe applications; quality management; network and voice services; server administration; communication services and cybersecurity controls.
- Provide recommendations to ITSD on issues regarding information technology industry "best practices".
- Independently or acting as a team leader, perform evaluations of the efficiency and effectiveness of the Lottery's programs, contracts and operational systems.
- Serve as a liaison with external audit entities.
- Develop risk-based audit programs within the generally accepted principles, practices and guidelines of ISPPA and Information Systems and Control Association (ISACA).

Establishing this position will allow Internal Audits to provide the Lottery with assurances that these programs are effectively and efficiently operating.

RECOMMENDATION

Lottery staff recommends the California State Lottery Commission approve the establishment of two new positions in Internal Audits: one Research Data Specialist I position (working as an Internal Audits statistician) with an associated cost of \$39,736 for Fiscal Year (FY) 2020-21, and one Staff Management Auditor, Specialist position (working as an IT auditor) with an associated cost of \$42,888 for FY 2020-21. The full fiscal year cost for each position is approximately \$119,000 and \$129,000, respectively, but will fluctuate based on bargaining union contracts and salary range adjustments.

Because these positions were not anticipated when the Lottery zero-based its budget for FY 2020-21, the Lottery will transfer from the Administrative Spending Reserve to fund these positions in the remainder of this current fiscal year.