



M E M O R A N D U M

Date: September 26, 2019

To: California State Lottery Commission

From: Alva V. Johnson, Director *AVJ* [Initials on file]

Prepared By: Roberto Zavala, Deputy Director, Internal Audits

Subject: 9(g) - Extension of KPMG Financial Audit Contract

ISSUE

The Lottery Act requires the California State Lottery (Lottery) to hire an independent firm to conduct an annual audit of accounts and transactions of the Lottery. The current contract for independent financial auditing and related services will expire on March 29, 2020.

BACKGROUND

Government Code Section 8880.46.5 states, "The director shall engage an independent firm of certified public accountants to conduct an annual audit of all accounts and transactions of the lottery. The audited financial statements shall be presented to the commission, the Governor, the Controller, the Treasurer, the Attorney General, and the Legislature not more than 120 days after the close of the fiscal year."

The current contract with KPMG LLP has been in place since March 30, 2016, following a competitive bid process in 2015. The contract term is four years with options to extend for two additional one-year periods. The current maximum agreement amount is \$720,000.

DISCUSSION

As the contract term is set to expire on March 29, 2020, exercising the one-year option to extend through March 29, 2021 will allow the Lottery to continue receiving assurances on its financial statements and prize liabilities without interruption.

KPMG begins providing financial services in June each year, its audit team performs preliminary work while Lottery staff prepares year-end financial statements. The audit team then performs and completes fieldwork in October. The completed and signed audited financial statements are provided to the various constitutional officers and the legislature not more than 120 days after the close of the fiscal year.

Subsequently, KPMG will begin their review of prize liabilities for Powerball® and Mega Millions®, to assist the Lottery in meeting its reporting requirement with Party Lotteries under the Amended and Restated Multi-State Lottery Agreement. The deadline for completion of these reports is December 31st.

In summary, the extension of time and additional funding will cover the following services:

- 2020 Prize Liability Audit of Powerball and Mega Millions, due December 31, 2020
- 2020 Financial Statement Audit, due 120 days after the close of the fiscal year

RECOMMENDATION

Lottery staff recommends that the California State Lottery Commission approve the option to extend the term by one year, from March 30, 2020 to March 29, 2021, and augment the available contract funds by \$260,000, bringing the maximum authorized contract expenditure authority to \$980,000.