



M E M O R A N D U M

Date: September 26, 2019

To: California State Lottery Commission

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

Prepared By: Vincent Espinosa, Chief Enterprise Risk Officer Executive Division

Subject: Item 9(h) - Request to Add Positions to Support the Risk & Process Evaluation Section

ISSUE

The Lottery is subject to numerous audits from various entities which have resulted in a number of audit findings related to ineffective internal controls. The Lottery does not currently have dedicated staff at the enterprise level that can evaluate Lottery policy, programs, procedures and documentation efforts on an ongoing basis outside of Internal Audits. As a result, audit findings and recommendations are not effectively addressed increasing the likelihood of repeat findings.

BACKGROUND

Government Code section 8880.46 requires mandatory and discretionary audits and assessments on the Lottery. Over the past three years the Lottery has been the subject of over 50 audits. The audits focused on operational, financial, technology, security and reporting practices.

As a result of these audits, the Lottery is currently tracking 80 audit findings that occurred between 2015 and 2019. A common thread among these findings involved policies, procedures and documentation. The Lottery maintains policies, procedures and guidance documentation in many forms. An effort to identify, catalog and update these documents to ensure uniformity, consistency and ultimately their effectiveness was initiated in February 2018, and continues today.

DISCUSSION

Enterprise Risk Management (ERM) is the process of planning, organizing, leading and validating the activities of an organization in order to minimize risk to the Lottery. To increase the effectiveness of Lottery processes a dedicated resource team is needed to serve as monitors to ensure focus remains on the continuous strengthening of controls, reducing audit findings and assisting in documented practices. The proposed team will support the Risk and Process Evaluation Section and will work under the Chief Enterprise Risk Office with the objective of monitoring controls.

Monitoring and reporting on controls at the enterprise level ensures communication, expectation and compliance at the divisional level. Monitoring controls is essential to ensure controls are operating efficiently as required. Implementing a competent monitoring system can be cost-effective for Lottery in resolving issues timely and efficiently. A monitoring system can consist of ongoing activities, separate evaluations, or a combination of the two; all of which are focused on our organization's identified risks.

The Lottery requests the approval of the following four positions to serve as the Risk and Process Evaluation Section:

- 1 Information Technology Manager II – Manages all aspects and activities of the team. Works with executive leadership to define the priority of programs and processes that require evaluation and presents progress to executive management and the commission as needed.
- 2 Information Technology Specialist II – Works within divisions to identify the current as-is process and procedures. Identifies process improvements and works with divisions to design, test, implement and document the modifications.
- 1 Information Technology Specialist I – Works within the group to lend support analysis and documentation practices with the objective to ensure all process evaluation and improvements performed by the team are indexed and maintained for the department's reference.

RECOMMENDATION

Lottery staff recommends that the California State Lottery Commission approve the establishment of the four aforementioned positions and associated funding of \$295,500 for the remainder of the fiscal year to perform ongoing monitoring of internal controls to reduce risk, evaluation of process and maintenance of uniformed documentation practices across the enterprise. The full year cost of the four positions is \$443,000.