



# MEMORANDUM

**To:** California State Lottery Commission      **Date:** March 19, 2008

**From:** Joan M. Borucki  
Director

**Prepared By:** Roberto Zavala, Deputy Director  
Internal Audits Office

**Subject:** Item 9(c) - Approval to Extend the KPMG Contract for Draw Auditing and Review Services

## **ISSUE**

Should the California State Lottery Commission (Commission) approve Amendment 03 to KPMG's Draw Auditing and Review Services contract to extend the term for six months and add funds?

## **RECOMMENDATION**

California State Lottery (Lottery) staff recommends that the Commission approve Amendment 03 for KPMG's Draw Auditing and Review Services contract to extend the contract for six months and add \$150,000 to the total amount obligated.

## **BACKGROUND**

The Lottery is required by Government Code section 8880.30 to ensure that drawings are witnessed by an independent lottery contractor having qualifications established by the Commission. As a result of formal competitive bidding, KPMG was awarded the current contract for Draw Auditing and Review Services in July 2003 with a total expenditure authority of \$1,116,000. KPMG auditors participate on a daily basis observing, verifying, and certifying Lottery draws. The audit firm is also responsible for reporting compliance with Lottery draw procedures.

The original contract was executed in 2003 with an initial three year term beginning July 1, 2003 and ending June 30, 2006. The contract included an option to extend the contract under the same terms and conditions for up to two additional years, as

well as a provision allowing for an additional six month extension at the Lottery's discretion.

In November 2003, the Lottery executed Amendment 01 that changed invoicing terms. The remaining terms did not change and no additional funding was requested at that time. The Lottery executed Amendment 02 in May 2006, exercising the Lottery's option to extend the contract term for two years through June 30, 2008, and increasing the total amount obligated under the contract by \$200,000 for a total of \$1,316,000.

### **DISCUSSION**

The current KPMG contract is scheduled to expire on June 30, 2008. Amending the contract for a final six month extension will allow Lottery staff time to develop, issue and process a new Request for Proposal (RFP) for draw auditing and review services.

In addition, extending the Lottery's contract with KPMG will allow the Lottery time to make alternative arrangements to replace the ongoing agreement between KPMG California and KPMG Georgia that allows KPMG Georgia to witness MEGA Millions draws in Georgia on the Lottery's behalf.

The current expenditure authority of \$1,316,000 covered the original three year contract term plus the initial two year extension. Amendment 03 would add \$150,000 to cover the costs of extending the contract for an additional six months, thereby bringing the total amount obligated under the contract to \$1,466,000.

The Lottery has been satisfied with the performance of KPMG throughout the term of the contract, and KPMG is agreeable to the final six month contract extension.