



## M E M O R A N D U M

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**Date:** February 10, 2011

**To:** California State Lottery Commission

**From:** Linh Nguyen  
Acting Director

**Prepared By:** Roberto Zavala, Chief  
Internal Audits

**Subject:** Item 9(a) - Financial Services Contract

### **ISSUE**

Should the California State Lottery Commission (Commission) approve a contract award to KPMG LLP (KPMG) for financial auditing and related services?

### **RECOMMENDATION**

Staff recommends that the Commission approve the contract award to KPMG to provide financial auditing and related services for three years with the option to extend up to two (2) one (1) year periods. The total contract expenditure authority is \$700,000.

### **BACKGROUND**

Government Code 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."

Since January 1, 2006, the California State Lottery (Lottery) has contracted with KPMG to provide financial audits and agreed upon procedures. The contract was entered into after a competitive bid process in 2005. With Commission approval, the Lottery extended the contract for an additional two (2) one (1) year periods. This contract expired on December 31, 2010.

## **DISCUSSION**

On October 1, 2010, Request for Proposal (RFP) 1105 was posted on the Lottery public website, a letter of notification was e-mailed and mailed via regular US Postal Service to 32 potential vendors from the Lottery's Contract and Procurement Services Section database and a list of bidders provided by Internal Audits. The RFP was advertised in the Small Business Exchange, Disabled Veteran Voice, Bid Sync, and the Lottery Interplay News.

The Lottery received an Intent to Bid from 10 companies and received 136 questions by the October 13, 2010 deadline. The Lottery responded to questions submitted by November 15, 2010. Five (5) proposals were received at the Lottery by November 23, 2010.

Lottery staff evaluated the proposals according to its policies and procedures including the following four elements:

### 1. Mandatory Submittals Evaluation

The RFP instructed Bidders to complete and submit; a Price Sheet, a Guaranty, an optional Small and Microbusiness Participation, a Disabled Veteran Business Enterprise (DVBE) Participation Program and a Confidential General Contractor Disclosure. All five (5) proposals passed the Mandatory Submittals Evaluation and advanced to the next step.

### 2. DVBE Evaluations

The Lottery's Small Business & DVBE Program conducted the DVBE evaluations. All five (5) proposals passed the DVBE participation requirements and advanced to the next step.

### 3. Rated Submittals Evaluations

The evaluation team rated and compared proposals in four categories using ratings of Superior, Significantly Exceeds, Exceeds, Meets, Meets with Exceptions, and Does Not Meet. The categories rated include:

- a. Bidder's Background, Experience and Capabilities
- b. Personnel Education & Work Experience
- c. Company and Account Team Organization Chart(s)
- d. Work Plan

For the purposes of evaluation all categories are equally important; however, categories a, b and d combined are significantly more important than the c.

The Rated Submittals Evaluation for all proposals was completed with all five (5) proposals moving forward to the next step.

#### 4. Price Proposal Assessment

After price clarifications were requested from three (3) Bidders and received, Lottery staff conducted and completed the Price Proposal Assessment.

### **RESULTS**

Pursuant to the Lottery Act and the terms of the RFP, the contract is to be awarded to the Bidder that offers the best value to the Lottery. In accordance with the Lottery's competitive bidding procedures, "best value" maximizes greater overall benefits and value to the Lottery.

Lottery staff believes the proposal submitted by KPMG provides the overall "best value" for the Lottery. KPMG was the only proposal to achieve a rating of "Superior" for Personnel Education and Experience and KPMG also submitted the second lowest overall price.

Based on the evaluations and to obtain the best value, Lottery staff recommends that the Commission approve the contract award to KPMG.