

To: California State Lottery Commission **Date**: October 15, 2008

From: Joan M. Borucki

Director

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Internal Audits

Subject: Item 9(d) - Contract Award for Draw Auditing and Review Services

<u>ISSUE</u>

Should the California State Lottery Commission (Commission) approve a contract with KPMG LLP for draw auditing and review services?

RECOMMENDATION

Staff recommends that the Commission approve the contract award to KPMG LLP for draw auditing and review services. This contract is for a three-year term with the option to extend up to three additional years under the same terms and conditions. The total contract authority is \$788,100 for the three year-term.

BACKGROUND

The California State Lottery (Lottery) is required by Government Code Section 8880.30 to ensure that a representative of an independent Certified Public Accountant firm witness all draws of winning numbers, second chance entries, and finalists for any Lottery game, and to inspect any equipment used in such draws, both before and after each draw. The auditors participate on a daily basis in observing, verifying, and certifying Lottery draws. The audit firm is also responsible for reporting compliance with Lottery draw procedures.

The current contract expires on December 31, 2008, and in preparation for a new contract to become effective January 1, 2009, a Request for Proposal (RFP) was developed. On June 24, 2008, the RFP was posted to the Lottery's website and a letter of notification mailed to all interested vendors in the Lottery's Contract and

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Procurement Services Sections database. In addition, the RFP was advertised in the Small Business Exchange, Contracts Register, and Challenge News. The Lottery received Intent to Bid notifications from four firms.

DISCUSSION

Three firms submitted bid proposals in response to the RFP by the due date of August 15, 2008. Those firms in alphabetical order were KPMG LLP, Macias, Gini & O'Connell, LLP, and Stonefield Josephson, Inc. Each proposal was reviewed for compliance with mandatory requirements and all required information pursuant to Mandatory Submittals/Criteria as stated in the RFP. All three successfully met the mandatory requirements and advanced to the Rated Evaluation. As part of the Rated Evaluation, the three proposals were evaluated on the following factors: Personnel Education and Work Experience; Chart(s), Experience and Capabilities; Company and Account Team Organization; and Work Plan. The rating scale used during the evaluation process was as follows: Superior, Significantly Exceeds, Exceeds, Meets, Meets with Exception, and Does Not Meet, defined below:

Superior (S) – Proposal exceptionally exceeds performance or capability requirements; proposal demonstrates extraordinary strengths that will more than significantly benefit the Lottery.

Significantly Exceeds (SE) – Proposal significantly exceeds performance or capability requirements; proposal demonstrates exceptional strengths that will significantly benefit the Lottery.

Exceeds (E) – Proposal exceeds performance or capability requirements; proposal has one or more strengths that will benefit the Lottery.

Meets (M) – Meets specified minimum performance or capability requirements necessary for acceptable contract performance.

Meets With Exception (MWE) – Proposal demonstrates weak performance or capability standards necessary for minimum contract performance; proposal has one or more weaknesses that offset any strengths.

Does Not Meet (DNM) – Fails to meet specified minimum performance or capability requirements. Proposals with an unacceptable rating are not awardable.

Overall results of the Rated Evaluation Phase were:

KPMG LLPSignificantly Exceeds Macias, Gini & O'Connell, LLP.....Exceeds Stonefield Josephson, Inc......Meets

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Price sheets were also evaluated for all three proposals. Based on the evaluations, KPMG LLP was selected as the apparent successful bidder for this RFP based on their Significantly Exceeds rating and the lowest cost proposal. Staff recommends that the KPMG LLP bid proposal represents the best option to obtain draw audit and review services.