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California State Lottery

The Lottery Has Not Ensured That It Maximizes Funding for Education

Background

Created when voters approved an initiative in 1984 to supplement funding for California's public schools and colleges, the California State Lottery (Lottery) sells lottery tickets to the public. The revenue generated from these ticket sales pays for the Lottery's operational and administrative costs, prize payouts, and supplemental funding for education. Although the Lottery's operations are exempt from most state oversight entities, the State Controller's Office (SCO) is required to conduct audits of all accounts and transactions and other audits as it deems necessary. A five-member commission oversees the Lottery's operations and administration and approves its budget and business plans.

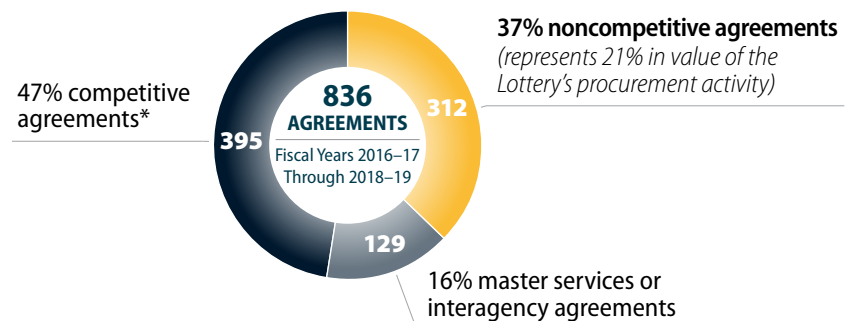
Our Key Recommendations

- The Legislature should require the Lottery to pay \$36 million it owes to education and the SCO to conduct regular audits of the Lottery's procurement processes.
- The Lottery should do the following:
 - » Determine optimal prize payout rates and use them when setting its future budgets.
 - » Develop procurement procedures that fully explain exemptions for noncompetitive bidding and identify the necessary justification and documentation to support noncompetitive bidding.
- The SCO should develop protocols to ensure that it reports all relevant findings in its audits and conducts effectiveness and efficiency reviews of the Lottery.

Key Findings

- Although it is required to maximize funding for education, the Lottery has not prioritized this funding when setting its budgets and, thus, has not funded education at the required level.
 - » In fiscal year 2017–18, it should have provided education with \$36 million more than it actually did because its budgeting process is not designed to meet the education funding requirements.
 - » It does not have an up-to-date analysis of the optimal balance between prize payouts and education funding and, therefore, does not know if it is diverting too much funding to prize payments—its most current analysis is 10 years old.
- The Lottery may not have always received the best value on its procurements, which could reduce the funding it provides to education—it does not have current guidance for conducting procurement activities and lacks sufficient safeguards for using noncompetitive procurements.
 - » Our review of a selection of procurements disclosed that it often entered into noncompetitive agreements without adequate justification, raising concerns about the agreements—nearly 40 percent of its agreements over the past three fiscal years were noncompetitive.
 - » It entered into 17 agreements with hotels for its retailer trade shows but cannot show that it evaluated other options before entering into these agreements, some of which contained excessive costs for food and beverages.
- The SCO's oversight of the Lottery's performance has been ineffective, and its current approach to auditing the Lottery will not identify shortcomings in the Lottery's performance.
 - » It inappropriately removed a significant finding, which questioned hotel costs of about \$720,000, from a recent audit report after the Lottery requested changes.
 - » It did not adequately assess or report to the Legislature about the Lottery's performance after significant changes were made to the law. Instead, the SCO submitted a report written by the Lottery about whether the Lottery was adequately fulfilling its mandate.

Nearly 40 Percent of the Lottery's Agreements Were Noncompetitive



* Excludes one contract that was 30 times larger in value than the next highest contract.