

# CALIFORNIA STATE LOTTERY

Audit Report

## District Sales Representative Activities

*January 1, 2019, through March 31, 2021*



MALIA M. COHEN  
CALIFORNIA STATE CONTROLLER

July 2024



MALIA M. COHEN  
CALIFORNIA STATE CONTROLLER

July 26, 2024

Harjinder K. Shergill-Chima, Director  
California Lottery  
700 North Tenth Street  
Sacramento, CA 95811

Dear Ms. Shergill-Chima:

We audited the California State Lottery's (Lottery) district sales representative (DSR) activities for the period of January 1, 2019, through March 31, 2021. The purpose of the audit was to determine whether the Lottery had adequate internal controls over DSR activities, compensation, and incentive bonus programs; and whether the Lottery complied with collective bargaining agreements, state laws, regulations, policies, and procedures related to DSR activities, compensation, and bonuses.

Based on our audit, we determined that the Lottery had adequate internal controls over DSR activities, compensation, and incentive bonus programs. We also determined that the Lottery complied with collective bargaining agreements, state laws, regulations, policies, and procedures related to DSR activities, compensation, and bonuses.

If you have any questions regarding this report, please contact Roochel Espilla, Chief, State Agency Audits Bureau, by telephone at (916) 323-5744, or by email at [respilla@sco.ca.gov](mailto:respilla@sco.ca.gov).

Sincerely,

*Original signed by*

Kimberly A. Tarvin, CPA  
Chief, Division of Audits

KAT/rs

Ms. Harjinder K. Shergill-Chima

July 26, 2024

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Copy: Gregory Ahern, Chair

California State Lottery Commission

Tiffany Alvidrez, Commissioner

California State Lottery Commission

Anthony Garrison-Engbrecht, Commissioner

California State Lottery Commission

Keetha Mills, Commissioner

California State Lottery Commission

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California State Lottery Commission

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California State Lottery

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# Audit Report

## Summary

We audited the California State Lottery's (Lottery) district sales representative (DSR) activities for the period of January 1, 2019, through March 31, 2021. The purpose of the audit was to determine whether the Lottery had adequate internal controls over DSR activities, compensation, and incentive bonus programs; and whether the Lottery complied with collective bargaining agreements, state laws, regulations, policies, and procedures related to DSR activities, compensation, and bonuses.

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## Background

In 1984, California voters passed an initiative that authorized a state-operated lottery. The initiative created the Lottery Act, codified in Government Code section 8880 et seq. The purpose of the Lottery Act is to provide supplemental money to benefit public education without the imposition of additional or increased taxes.

The Lottery Act also created the California State Lottery Commission (Commission) and gave it broad powers to oversee the Lottery's operations. The Lottery has eight divisions: Executive, Finance, Human Resources, Operations, Public Affairs and Communications, Security and Law Enforcement, Information Technology Services, and Sales and Marketing. As of February 1, 2023, the Lottery had 1,079 budgeted positions, which include positions at Lottery Headquarters in Sacramento, two distribution centers, and nine district offices.

DSRs are part of the Lottery's Sales and Marketing Division. They serve as liaisons between the Lottery and Lottery retailer accounts. DSRs are assigned a state vehicle and conduct field service visits to retailers within their assigned territories to ensure that direct contact is maintained. DSRs provide sales support, retailer consultation, and promotional services for games to maximize Lottery product visibility and profitability. The Lottery had approximately 200 active DSRs during the audit period.

## Audit Authority

We conducted this audit in accordance with Government Code section 8880.46.6, which authorizes the SCO to conduct quarterly and annual audits of all accounts and transactions of the Commission and other special audits as necessary. The SCO has the authority to examine any and all records of the Commission, its distributing agencies, Lottery contractors, and Lottery retailers.

## Objectives, Scope, and Methodology

The objectives of the audit were to determine whether:

- Lottery DSRs provide effective sales support, retailer consultation, and promotional services for games to maximize Lottery product visibility and profitability;
- The Lottery maintains adequate and effective internal controls over DSR activities and compensation and incentive bonus programs to safeguard against potential waste and abuse and maximize contributions to education; and
- The Lottery acts in accordance with collective bargaining agreements and state laws, regulations, policies and procedures related to DSR activities, compensation, and bonuses.

The audit period was January 1, 2019, through March 31, 2021.

To achieve our objectives, we performed the following procedures:

- We reviewed the *State Administrative Manual*, the Lottery’s policies and procedures, and applicable laws, rules, and regulations as they relate to DSR activities.
- We reviewed reports on prior SCO audits of the Lottery and followed up on audit findings.
- We performed walkthroughs and interviews, and observed staff members engaged in the Lottery’s processes and procedures related to DSR activities.
- We gained an understanding of DSR processes and evaluated internal controls that were significant to our audit objectives.
- Upon gaining an understanding of internal controls over DSR activities, we performed the following tests:
  - For sales incentive bonuses, we selected the items for testing from high-performing DSRs who achieved at least 115% of their sales goals for “target games” and territories with Permanent Intermittent DSRs who achieved 150% of their quarter base goal. There were 173 DSRs and 41 territories with Permanent Intermittent DSRs who met the sales goals. We randomly selected 20 of the 173 DSRs, and judgmentally selected 13 of 41 territories with Permanent Intermittent DSRs of their quarter base goal. We tested all 184 sales incentive bonuses that were earned by these DSRs and Permanent Intermittent DSRs during the audit period for compliance with collective bargaining agreements, state laws, regulations, policies, and procedures.
  - To test DSR activity, we selected two weeks during the audit period—one prior to the COVID-19 pandemic and one in the post-pandemic telework environment—and judgmentally selected 34 of the lowest and highest-performing DSRs from each of the nine district offices. We reviewed supporting documentation to determine whether DSRs provided effective sales support, retailer consultation, and promotional services for games to maximize Lottery product visibility and profitability.

- We assessed the reliability of computer-processed data on DSR activities, compensation, and incentive bonus programs by interviewing the Lottery officials knowledgeable about the data; reviewing existing information about the data and the system that produced it; and tracing data to source documents, based on judgmental and random selections. We determined that the data was sufficiently reliable for the purposes of this report.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We limited our review of internal control to gaining an understanding of DSR activities.

## **Conclusion**

Our audit found that the Lottery had adequate internal controls over DSR activities, compensation, and incentive bonus programs. We also determined that the Lottery complied with collective bargaining agreements, state laws, regulations, policies, and procedures related to DSR activities, compensation, and bonuses. We did not identify any findings.

## **Follow-Up on Prior Audit Findings**

The Lottery has satisfactorily resolved one relevant finding noted in our prior audit report on the Lottery's payroll process for the period of July 1, 2016, through April 30, 2019, issued on March 1, 2021.

## **Views of Responsible Officials**

We discussed our audit results with Lottery representatives during a meeting conducted on July 6, 2022. At the meeting, Lottery representatives agreed with the audit results.

## **Restricted Use**

This report is intended for the information and use of the Lottery, the Commission, and the SCO; it is not intended to be, and should not be, used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record, and is available on the SCO website at [www.sco.ca.gov](http://www.sco.ca.gov).

*Original signed by*

Kimberly A. Tarvin, CPA  
Chief, Division of Audits

July 26, 2024

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