

CHARLIE CRIST
Governor



LEO DIBENIGNO
Secretary

FLORIDA LOTTERY

September 8, 2009

Mr. Leo DiBenigno
Florida Lottery Secretary
250 Marriott Drive
Tallahassee, FL 32301

Dear Secretary DiBenigno,

Section 20.055(5)(h), Florida Statutes, requires the Inspector General to monitor the implementation of the agency's response to any report on the Florida Lottery issued by the Auditor General or by the Office of Program Policy Analysis and Government Accountability (OPPAGA). The referenced statute further requires that no later than six months after the findings are published, the Inspector General must provide you with a written response of the status of actions taken. The purpose of this letter is to provide updated information on the agency's response to the OPPAGA findings and fulfill these requirements.

In March 2009, OPPAGA released report number 09-14 titled *Lottery Profits Are Slowing with Economic Downturn; Advertising Services and Retailer Commission Rates Need to Be Addressed*. The report outlined seven primary findings. The following details each finding and the current progress of Lottery staff to address each finding:

Recommendation 1:

To continue to increase Lottery sales and transfers to education, we recommend that the department continue to expand its retailer network to increase sales distribution and revenues and evaluate its retailer recruitment efforts to determine which mechanisms are most cost effective and efficient at attracting new retailers.

The Lottery is continuing its efforts to increase the number of Lottery retailers. Four retailer recruitment seminars are planned for this fiscal year and current efforts are being made to evaluate the effectiveness of these seminars. In addition, the Office of Inspector General is finalizing an internal audit of the Lottery Retailer Recruitment program.



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Recommendation 2:

We also recommend that the Lottery submit a proposal to the Legislature relating to use of vending machines for online ticket sales.

Currently, the Lottery is reviewing a proposal to submit to the 2010 Florida Legislature seeking statutory approval and budgetary permission to develop and implement instant ticket machines for online games.

Recommendation 3:

We also recommend that the department take immediate steps to competitively secure advertising services as required by appropriations proviso.

On August 28, 2009, the Lottery entered into a contract with St. John and Partners as its new general market advertising agency.

Recommendation 4:

We further recommend that the Lottery establish alternative retailer payment terms that reduce commissions for selling higher-value scratch off tickets while providing reasonable sales incentives. This could produce substantial cost savings to the state.

As noted in the Lottery's initial response to the OPPAGA report, the Lottery's overall mission is to increase transfers to the Educational Enhancement Trust Fund (EEFT) rather than to reduce commissions. The Lottery is currently researching compensation rates paid by other companies that provide discretionary consumer products to determine where the Lottery rates with other companies competing for sales space and locations. The Lottery will continue to take actions necessary to increase EEFT transfers.

Recommendation 5:

The Lottery also should continue to work with the Department of Management Services to sublease its excess headquarters office space. As part of this effort, the department should reserve the right to mandate that the successful advertising vendor sublease office space at the Lottery's headquarters location.

As a contract condition, the Lottery's new advertising agency has agreed in principle to lease office space located at Lottery Headquarters. It is expected that the advertising agency will lease approximately 464 square feet of headquarters office space. Additionally, in the fourth quarter of this fiscal year the Lottery will begin its planning phase to renovate Lottery Headquarters. The renovation will isolate excess office space in an effort to make it more available for sublease and improve efficiencies by moving like units in close proximity to each other.

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Recommendation 6:

Finally, to better target its limited advertising dollars and maximize advertising investments, we recommend that the department break sales, advertising, and player profile data down by game and media outlet (e.g., internet, print, radio, TV) to provide more precise evaluative information for use in future advertising decision making.

The Lottery is currently in the process of developing a program to track advertising spending. The Lottery program will track the advertising spending irrespective of what advertising agency utilized the funds and break the information down by market, game type, media outlet, and other factors.

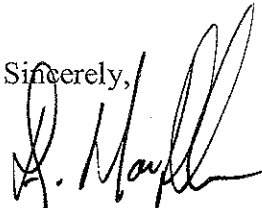
Recommendation 7:

To further improve future marketing decisions, the Lottery should also consider developing a long-term evaluation process for its marketing program. This evaluation could include experimental and control groups to determine specific return on investment by advertising campaign, which the department has done in the past.

The Lottery is currently considering this recommendation.

If you require additional information in these matters, please feel free to contact me at your earliest convenience at 487-7726.

Sincerely,



Andy Mompeller
Inspector General

cc. Kathy DuBose, Director
Legislative Auditing Committee