

CHARLIE CRIST
Governor



LEO DIBENIGNO
Secretary

FLORIDA LOTTERY

July 29, 2010

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

Dear Secretary DiBenigno,

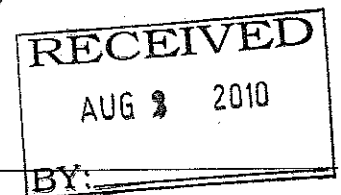
Section 20.055(5)(g), Florida Statutes, requires the Inspector General to monitor the implementation of the agency's response to any report on the Florida Lottery issued by the Auditor General or by the Office of Program Policy Analysis and Government Accountability. The referenced statute further requires that no later than six months after the findings are published, the Inspector General must provide 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 Office of Program Policy Analysis and Government Accountability findings and fulfill these requirements.

In January 2010, the Office of Program Policy Analysis and Government Accountability released its report titled *Lottery Profits Flat; Increasing Retailer Outlets is Critical to Increasing Sales*. The report outlined seven recommendations. The following details each finding and the current progress of Lottery staff to address each finding:

1) Consider offering Mega Millions, another multi-state lottery game

Recommendation: Introducing a second multi-state super jackpot game could increase transfers to education. The Lottery should carefully evaluate the benefits and disadvantages of adding another multi-state game and provide the results of its assessment to the Legislature.

Status of Recommendation: The Lottery has continued to evaluate the benefits and disadvantages of joining another multi-state game. The most prominent, readily available avenue for doing so would be to allow cross-selling of the Mega Millions game in Florida. In June, the department's gaming system vendor, GTECH, provided updated information and a special analysis on the results to date on cross-selling by other U.S. lotteries. The same report also included analyses of a number of other game launch options for the coming year.



Based on that report, as well as a concern about the impacts of a second multi-state game on existing Florida Lottery games, the Department decided to launch a brand-new On-line Game in October rather than beginning sales of yet another multi-state game. The Florida Lottery will continue to consider multi-state game opportunities.

2) Take additional steps to increase the number of participating retailers.

Recommendation: We recommend that the department examine its market penetration geographically by type of retailer to identify specific areas in need of additional retailers based on the population rate, and to target retailer recruitment efforts in locations with low penetration rates and trade styles that have not saturated, such as independent grocery stores, drug stores, and liquor stores. When the department approaches 13,500 terminals, the maximum currently authorized, it should request legislative budget authority to increase the number of retailer terminals.

Status of Recommendation: The Business Development unit revised the assigned work structure to improve the telephone outreach retailer recruitment program and added the "sales outreach mission" method to its recruitment program. A Sales Outreach Mission was conducted July 13th – July 16th, 2010 that resulted in 19 face-to-face appointments in low-market-penetration areas of the Orlando District. As of July 27th, 2010, five applications had been received and two other prospects had been referred to the district office for follow-up. We are currently following up with 8 of the remaining 12 prospects to attempt to obtain their applications. Four of the businesses had informed us that they no longer were interested in joining the Lottery retailer network.

The Lottery has also reduced the number of seminars held annually from 4-6 down to 2. So far, the Lottery has conducted one seminar, the South Florida Retailer Recruitment Seminar on May 13, 2010 in Deerfield Beach and is in the process of circling back with the retailers that attended the seminar to obtain additional applications. To date, thirteen prospects have expressed interest in becoming lottery retailers. At this point, as many as 9 of these prospects could be submitting applications. Additionally, the Business Development team is following up with other prospects that confirmed attendance, but then could not attend.

Finally, the navigability of the Lottery's website has been improved to make it easier for prospective retailers to find out the requirements, benefits and procedures for becoming a Florida Lottery retailer.

3) Evaluate and report on retailer recruitment efforts and target increasing corporate accounts.

Recommendation: We recommend that the department evaluate its retailer recruitment efforts by conducting a cost-benefit ratio analysis that includes all associated planning and production costs, to determine what methods work best where to and to identify an acceptable cost per retailer per recruitment method. This information should be collected on a regular basis and reported to executive management. In addition, the department should establish standard criteria to be used by both the Office of Inspector General and the Office of Business Development to evaluate specific reporting mechanisms. To maximize the number of retailers statewide, the department should also target its recruitment efforts on increasing corporate chain accounts.

Status of Recommendation: To make sure that the Florida Lottery is making the best use of retailer recruitment tools and strategies, we also are conducting research into the retailer recruitment programs, incentives, policies and procedures of other U.S. lotteries. Our survey has been completed, and the responses are currently being populated into a report for further review and analysis.

In regard to corporate accounts, formal outreach efforts are underway with larger corporate clients. The Lottery also has begun to conduct focused prospecting by trade style, for example, contacting home improvements stores.

The Lottery is currently in the process of compiling the data for the recruitment-method cost benefit analysis ratio report. It is anticipated that this report will be completed by November 1, 2010.

4) Request legislative authorization to install additional Instant Ticket Vending Machines.

Recommendation: If instant ticket vending machines meet or exceed projected sales levels, we recommend that the department seek legislative authority to expand the number of instant ticket vending machines statewide with the option of installing the equipment in both existing and new retail outlets.

Status of Recommendation: During the 2010 Legislative Session the Lottery requested an appropriation for an additional 250 ITVMs as well as the authority to return to ask for an additional 750 ITVMs from the Legislative Budget Commission.

5) Examine the retailer commission structure

Recommendation: *We recommend that the department continue to review its retailer commission payment structure including prize cashing bonus and incentives to reward retailers for performance that reflects the volume of tickets sold and their contributions to education.*

Status of Recommendation: The Florida Lottery Retailer Compensation Study was completed and delivered on time to the appropriations committees of both the House and the Senate. The Lottery then gave a special presentation on the study to the February 9 meeting of the House Government Operations Appropriations Committee.

The study was based on interviews, focus groups and surveys of more than 500 Florida Lottery retailers as well as reviews of compensation programs in other states and the Florida Lottery's own experience with commissions, bonuses and incentives. Eight ideas for change were considered in depth.

Next month the Lottery will begin cost and feasibility analyses of the ideas generated in the study.

6) Work with the Department of Management Services to reduce excess office space.

Recommendation: *To ensure the state's short- and long-term interests are maintained, the Legislature should direct the Department of Lottery to develop a space consolidation plan in conjunction with the Department of Management Services. This plan should clearly identify space to be consolidated where economical, particularly excess office and redundant special use space, including the warehouse, and to clearly identify space most suitable for sublease. In this way, rather than shopping for a sublet tenant based on undefined available space, the Department of Management services and the Lottery can search for a tenant that is appropriate for the defined available sublet space. This plan should than be presented to the Legislature for approval before the Lottery may proceed with any further renovations plans. The Legislature should also direct the Department of Management Services to evaluate the lottery's current and future headquarters space needs, identify options for meeting those needs, and present the options to the Legislature.*

Status of Recommendation: In conjunction with EMO Architects, the Department of Management Services, Cushman and Wakefield (the Lottery's contracted Tenant Broker), the Lottery developed a comprehensive space consolidation plan. This plan included several building renovation options, which would have allowed the Lottery to increase its' ability to secure commercial tenants. The final

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Florida Lottery Secretary
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analysis, including the renovation costs and potential tenants were provided to Chairman Hays and Schenck on March 30, 2010.

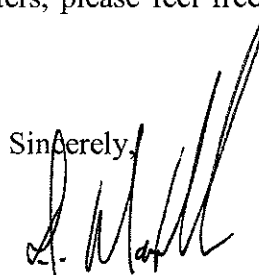
7) Update the business case study.

Recommendation: We recommend that the department update its field support services business case study. If the results indicate that the benefits and risks of outsourcing field support services are acceptable, it should issue a request for proposals for the function. For complete comparative information, the Lottery's sales division should submit a proposal to maintain the services in house.

Status of Recommendation: The Lottery currently is reviewing the business case study from six years ago to determine methodologies for gathering the data needed for an update and to identify any changes in the business or legal setting that could affect the analyses of that data. A complete draft should be ready by November 1, with the final version of the case study complete by January 31.

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

Sincerely,



Andy Mompeller
Inspector General

cc. Ms. Cathy Dubose, Director
Legislative Auditing Committee