

RICK SCOTT  
Governor



CYNTHIA F. O'CONNELL  
Secretary

## FLORIDA LOTTERY

September 19, 2011

Mrs. Cynthia O'Connell  
Florida Lottery Secretary  
250 Marriott Drive  
Tallahassee, FL 32301

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Dear Secretary O'Connell,

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 March 2011, the Office of Program Policy Analysis and Government Accountability released its report titled *Lottery Profits Decline; Options Available to Enhance Transfers to Education*. The report outlined four recommendations. The following details each recommendation and the current progress of Lottery staff to address each recommendation:

- 1) Evaluate the benefits of adding a fast keno game and continue to assess the option of offering another multi-state lottery game.

*Recommendation: Introducing fast keno has the potential to significantly increase transfers to education, while offering a second multi-state super jackpot game could also increase transfers to education. The Lottery should carefully evaluate the benefits of offering fast keno and another multi-state game and provide the results to the Legislature.*

**Status of Recommendation:** Since the publication of the OPPAGA report in March, the Multi-state Lottery Association's (MUSL's) Powerball Group has approved significant changes in Powerball for launch in January 2012. This revamped Powerball represents Florida's best opportunity to increase On-line Game sales and educational enhancement fund transfers in the current fiscal year. The game is being restructured to provide more million-dollar prize-winners,



improved odds of winning and bigger starting jackpots while increasing ticket prices to \$2. This will allow for better product positioning with our in-state lotto game and perhaps set the stage for a better opportunity to join another multi-state game sometime in the future.

Available data and analysis continues to affirm the Florida Lottery's decision not to allow cross-selling of the Mega Millions game. Our decision was premised on a belief that the minimal sales gain did not warrant the risk of undermining the strong FLORIDA LOTTO brand. Despite jackpots significantly lower than those of Powerball, FLORIDA LOTTO once again outsold Powerball in Florida in FY 2010-11.

The Lottery has not undertaken its own analysis of fast-draw Keno. However, we have been providing information on Keno sales and operations to the Senate Regulated Industries Committee for its interim project regarding lottery revenue ideas. Included in this information was an analysis of "Club Keno" prepared in January 2011 by our gaming system vendor, GTECH.

2) Annually complete retailer recruitment cost-benefit analyses and use these analyses to adjust recruitment efforts.

*Recommendation: The department should annually complete its retailer recruitment cost-benefit analysis and use the resulting data to evaluate the cost efficiency of recruitment activities, adjust these efforts as needed, and plan future activities.*

**Status of Recommendation:** The original benchmark Retailer Recruitment Cost Benefit Analysis covered the period of July 1, 2006 through December 17, 2010. Our intention had been to update our cost-benefit analysis several times during the year. However, a shift in agency resources to strengthening our efforts in regard to corporate prospects and the benefit of looking at longer sales periods caused us to change course. The next analysis will be completed after December 18, 2011 and will cover the period from December 18, 2010 through December 17, 2011. The Lottery remains committed to employing cost-benefit analysis in guiding the retailer recruitment program as well as other programs.

In the current fiscal year, the Lottery is giving careful consideration to trying District Office Open House events as a low-cost means of acquainting retailer prospects of the businesses advantages of selling lottery games. Additionally, the agency continues to work toward improving the quality of the leads received through the Lottery's website by strengthening our screening process.

3) Complete its examination of the retailer commission structure and report results to the Legislature.

**Recommendation:** The department should complete its assessment of the costs and feasibility of alternative retailer commission payment structures, such as prize cashing bonuses and incentives to reward retailers for performance that reflects the volume of tickets sold and prizes redeemed and their contribution to education. The Lottery should present its findings to the Legislature.

**Status of Recommendation:** The Lottery is very close to finishing the cost and feasibility analyses follow-up to the Retailer Compensation Study completed in January 2010. That study had addressed the elements of proviso language contained in the FY 2009-10 Appropriations Act by conducting a benchmark analysis of Florida Lottery retailer compensation—both over time and compared to other U.S. lotteries. It also analyzed eight ideas for improving retailer compensation in Florida.

The current follow-up analysis updates the benchmarking done in the first study, based on the latest available data from other states. However, the follow-up is devoted primarily to financial analyses of each of the eight compensation ideas studied in 2009 and 2010. For each idea, this new analysis asks:

- What would be the costs or savings resulting from this change—as a percentage of current retailer costs and as a percentage of sales?
- What would be the Educational Enhancement Funding benefits of such a change? Typically, this latter question is addressed using a break-even analysis approach?

To calculate these financial impacts, of course, assumptions have to be adopted and scenarios have to be presented. These are specified in the report.

Completion of the analysis is expected later this month. Following careful consideration by the Lottery and the Governor's Office, the report will be offered to the relevant legislative committees for discussion.

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

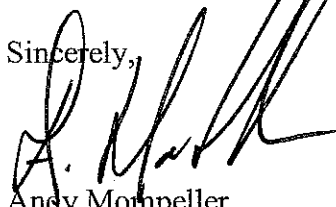
**Recommendation:** The Lottery should work with the Department of Management Services to monitor and evaluate the suitability of state-owned space as it becomes available.

**Status of Recommendation:** Since February the Lottery has orchestrated the following:

1. Held two meetings with DMS to discuss viable options the agency could begin addressing;
2. Obtained a list of state agencies with private leases that expire in the next two years which DMS does not feel they will be able to provide state-owned space at the expiration time;
3. Identified five prospects during the analysis of the previously mentioned list for agencies that have space requirements the Lottery could possibly accommodate;
4. Developed and mailed a letter outlining features the agency can provide to these prospects;
5. Had conversations with two additional groups that have expressed an interest in discussing sublease possibilities;
6. Reviewed preliminary proposals from three local restaurateurs regarding utilization of the currently vacant kitchen facilities;
7. Developed procurement effort for kitchen/catering options. In final stages for approval to release. The procurement has become more attractive given with the anticipated additional occupancy.
8. Finalizing floor plans, construction efforts and staff reorganization requirements to facilitate providing Office of Early Learning with approximately 15,000 sq. ft. for occupancy by September 15<sup>th</sup>. This effort will accommodate 117 FTEs, meeting space, copy and work areas. The agency will share reception, conference, mail and warehouse space. DMS has approved the sublease/space requirements. DMS will be required to approve the actual sublease. Lottery has requested sublease template from DMS to minimize review efforts.

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, Coordinator - Legislative Auditing Committee