

RICK SCOTT
Governor



CYNTHIA F. O'CONNELL
Secretary

July 25, 2014

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

Re: OPPAGA Report No. 14-06, Lottery Transfers Have Recovered; Options Remain to Enhance Transfers

Dear Secretary O'Connell:

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. The referenced statute further requires that no later than six months after the report is published, the Inspector General must provide a written response on 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 2014, the Office of Program Policy Analysis and Government Accountability released its report No. 14-06 titled Lottery Transfers Have Recovered; Options Remain to Enhance Transfers. The report outlined two recommendations. The following details the recommendations and the current progress of Lottery staff to address the recommendations:

Department Options

Recommendation 1: *We recommend that the Department of the Lottery continue efforts to expand the retailer network.*

Management's Status of Corrective Action: We agree with OPPAGA's recommendation to continue to expand our retailer base and have taken the following steps to ensure that base continues to grow:

In 2012, the Lottery has streamlined the process for inquiring about becoming a retailer on our website. Using our website, prospective retailers can contact the District Office nearest them by phone or email. Once the prospect makes contact, a Lottery sales rep responds within 24 hours to set up an appointment to discuss becoming a Lottery retailer. The new process also repositioned two full time

personnel from transferring phone calls or emails from potential prospects to District Offices to Corporate Account Sales Reps responsible for managing existing accounts, generating sales and helping to recruit new corporate retailers.

In 2012, the Sales Division also began to put a stronger emphasis on corporate recruitment. We still actively recruit individual retailers. However, corporate recruitment holds the potential for more stores, higher volume stores, and reduces the potential for terminating stores due to insufficient payments or engaging in criminal activities. Recruiting a corporate chain is more time consuming and is not always a "one time" effort but the end result more than makes up for the time spent working to land the account.

Examples of how the Lottery has benefitted from our corporate focus includes Wal-mart Neighborhood Market stores, a Division of Wal-mart and a chain we recruited in 2012 that's grown from 30 stores to over 60 stores in a 3 year period.

In 2013, Thornton's, a Louisville Ky. based Convenience store group was recruited with 8 stores currently in the Tampa/St. Pete area and more growth planned in coming years.

Also in 2013 after working for over two years with Wawa, the Pennsylvania based Convenience store group agreed to become a Florida Lottery retailer. Wawa currently has 48 stores in Florida with 60 planned to open in Florida during calendar year 2014 and another 75 stores planned over the next three years mainly along the I-4 corridor in the Tampa and Orlando markets. We started installing Lottery vending machines in Wawa on July 7, 2014 and will be in all 60 stores planned for 2014 by December.

We also continue to work with Wal-mart Corporate to test the concept of selling Lottery in their Florida Super Centers, currently over 100 stores. Other chains we've been or are in contact with include Home Depot, Family Dollar, Dollar General, Millers Ale House, and Whole Foods.

Finally, working with our corporate accounts, we continue to see increased new store growth in chains like 7-Eleven, Circle K, Hess, and Publix who became the first Florida Lottery retailer to exceed \$1B in sales during fiscal year 2013-2014. Publix is also adding more liquor stores to include Lottery, which also helps expand our product distribution.

Recommendation 2: We also recommend that when the department seeks bids to replace its contract with GTECH, it solicit bids for both leasing and purchasing vending machines. The Lottery should consider requesting that vendor proposals to sell vending machines include all associated costs, such as maintenance, relocation, and disposal. The Lottery should use this information to determine which procurement method is most cost beneficial to the state.

Management's Status of Corrective Action for Recommendation 2: During 2012 and 2013 the Florida Lottery followed OPPAGA's recommendation and researched the option of buying vs. leasing vending machines from GTECH. The result of our research was as follows:

Buying

Buying the vending machines, would allow us to own the unit and could keep it in the field longer than the contract/lease term. We may also realize a slightly lower per unit cost and possibly not have to pay property taxes.

Chapter 24.111(2)(h), Florida Statutes, currently requires we lease vending machines. Additionally, it would be more difficult to refresh technology updates and the Lottery would be responsible for the maintenance of the machine, which would add cost. In addition to the much larger upfront costs we would be responsible for any software development costs and if/when we wanted to dispose of the units for newer models the Lottery would be responsible for removal and destruction of the old units.

Leasing

Leasing the units eliminates the large up-front cost of buying, spreading payments out over the term of the lease. Additionally, with a long term lease, low initial annual cost could be negotiated. Also, the vendor is responsible for refreshing technology and would also be responsible for performing required maintenance and developing needed software upgrades. Leasing would also mean the vendor would be responsible for the removal and disposal of the machines.

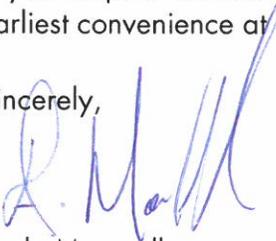
Leased machines would have to go back to the vendor after the lease ends and on balance, the Lottery could end up paying higher payments over time by leasing. Based on our research and with the short time remaining on the current contract, the Lottery concluded it would better to stay with the current lease arrangement. While we can re-visit the issue with whoever wins the new contract bid, at this

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point, it's our opinion for the reasons outlined above, the potential issues associated with purchasing vending machines outweigh the benefits.

If you require additional information in these matters, please feel free to contact me at your earliest convenience at (850) 487-7726.

Sincerely,



Andy Mompeller
Inspector General

cc: Kathy DuBose, Coordinator, Joint Legislative Auditing Committee