

RICK SCOTT
Governor



CYNTHIA F. O'CONNELL
Secretary

June 19, 2015

Melinda Miguel
Chief Inspector General
The Capitol
Tallahassee, FL 32399-0001

Re: OPPAGA Report No. 15-03, Lottery Transfers Continue to Increase; Options Remain to Enhance Transfers and Improve Efficiency

Dear Chief Inspector General Miguel:

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 2015, the Office of Program Policy Analysis and Government Accountability released its report No. 15-03 titled Lottery Transfers Continue to Increase; Options Remain to Enhance Transfers and Improve Efficiency. The report outlined one recommendations with three bullets. The following details the recommendation and the current progress of Lottery staff to address the recommendations:

Department Options

Recommendation 1: *We recommend that the Department of the Lottery*

- *continue its efforts to expand the retailer network;*
- *continue its efforts to improve its data analysis and reporting capabilities for identifying and investigating potential ticket theft or brokering by retailers, as well as increase the number of retailer locations with player scanners; and*
- *develop a schedule to regularly assess its overall advertising return to the Educational Enhancement Trust Fund.*

Management's Status of Corrective Action:

Lottery Response – Retailer Network Expansion

The Lottery is committed to expanding its retailer base and is working to obtain new retailers through cold calling at the independent and corporate levels. Corporate accounts are typically more financially stable and have a faster growth pattern. For example, Florida broke the Walmart ceiling in 2011 and became the first Lottery to do business with Wal-mart. 27 Walmart Neighborhood Market locations began selling lottery products in 2011. We have increased to 70 locations in 2015. Additionally, we are selling in 12 CVS Drug Stores in Miami as part of a self-service test and 65 Wawa stores throughout Florida with over 100 expected by 2017. Finally, we are working with our terminal vendor, IGT (formerly GTECH) to provide us with a qualified cold call store listing.

Even with the success we have had in recruiting new corporate stores, our total store list hovers around 13,200. This is due in part to chain acquisitions such as Winn Dixie acquiring Sweet Bay, Speedway acquiring Hess, and Circle K acquiring Pantry. In every case the acquiring corporate account seeks to improve efficiencies by closing unprofitable stores, thus shrinking our overall base while increasing overall sales. This, combined with terminations due to financial and/or integrity issues, has made it difficult to increase our base even though record sales have been achieved 12 of the last 14 years (soon to be 13 of 15).

The Lottery will continue to make retailer expansion a priority.

Lottery Response – Improving Retailer Integrity Data Analysis and Reporting

The Lottery continues its efforts to improve data analysis and reporting relative to Retailer Integrity provided in detail in the last response. As also noted in the last response, a more robust system will be provided with the new gaming contract. Anticipated execution date is FY 2017.

The Lottery also currently has 7,076 ticket scanners in stores that can be used by players to check to see if they have a winning ticket. The number currently in use represents over 53% of our retailer base. Due to budget constraints, the Lottery has not increased that number. However, as part of the Gaming System Contract ITN, the Lottery has specified the winning contractor "must provide a terminal peripheral at each Retailer that would allow players to check their own Terminal and Scratch Off tickets for winners." Again, we anticipate implementation sometime in FY 2017.

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Lottery Response – Regularly Assessing Overall Advertising Return to EETF

The Lottery uses a third party to perform a thorough assessment on its advertising return on investment every two years. MGT recently completed a study showing how advertising had a significant return on investment to both sales and the EETF, and also showed a reduction in advertising dollars would significantly diminish both. The Lottery also has new software that will be used by both agencies – General Market and Hispanic. The software will allow the Lottery to request each agency to provide specific ROI information in advertising efficiencies and sales. These reports will be provided to the Lottery on a monthly basis. Our General Market agency has the software in place and our Hispanic Market agency will have it shortly. We expect the reports will be fully implemented no later than December 2015.

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: Cynthia O'Connell, Florida Lottery Secretary
Kathy DuBose, Coordinator, Joint Legislative Auditing Committee