



**Florida Lottery  
Citizens Review Group Executive Summary**

Prepared for  
Governor-Elect Crist and Lt. Governor-Elect Kottkamp

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## Acknowledgments

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### Department of Lottery Citizens Review Group

The Lottery Citizens Review Group was comprised of the following persons:

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# **Table of Contents**

## **Acknowledgements**

I	<b>Overview of the Department of Lottery</b> .....	1
II	<b>Department Structure</b> .....	1
III	<b>Operations</b> .....	2
IV	<b>Past Success</b> .....	5
V	<b>Immediate and State Term Concerns</b> .....	6
VI	<b>Challenges and Opportunities for improvement</b> .....	7
VII	<b>Long Term Plans (The Next Four Years)</b> .....	9

**CITIZENS REVIEW GROUP:**  
**Report to Governor-Elect Crist & Lieutenant Governor-Elect Kottkamp**  
**Florida Department of the Lottery**  
**Executive Summary**

**I. OVERVIEW OF THE DEPARTMENT OF THE LOTTERY**

**Authority and Mission:** The state lottery was authorized by Section 15, Article X of the Florida Constitution to maximize revenues in a manner consistent with the dignity of the state and the welfare of its citizens. Section 20.317 of the Florida Statutes authorize the creation of the Florida Department of Lottery in 1987 as a self-supporting, revenue-producing department to provide additional financial support for improvements to Florida's public education system.

**Lottery Objectives:**

- Transfer at least \$1 Billion annually to the Educational Enhancement Trust Fund
- Maintain operations that are among the most efficient in the domestic lottery industry
- Increase public awareness of the Lottery's role in improving public education
- Achieve recognition as a leader among domestic lotteries for promoting excellent customer service and responsible play
- Build a model work environment and workforce that is based upon integrity, trust, respect, cooperation and service

**II. DEPARTMENT STRUCTURE**

The chief executive officer of the Lottery is the Secretary, appointed by the Governor, subject to confirmation by the Senate and charged with the overall management of the Department. The Department is comprised of six (6) organizational branches: Marketing, Operations, Business Development, Finance and Budget, Administration and Security and Public Affairs. The Florida Lottery has approximately 440 FTEs and, as of October 2006, there were nineteen (19) vacancies. Listed below are the positions that make up the Lottery Executive Management Service Staff:

**Secretary:** Provides overall leadership for the Florida Lottery.

**Chief of Staff:** Assists the Secretary in providing overall organization of day-to-day activities and long range planning.

**Inspector General:** Reviews and evaluates internal control systems necessary to ensure fiscal accountability and integrity of the Lottery.

**General Counsel:** Provides legal advice to the Secretary and Executive Managers regarding federal statutes, state and federal regulations.

**Chief Financial Officer:** Responsible for the financial operations of the Department of the Lottery.

**Chief Marketing Officer:** Responsible for coordinating all activities relating to the sale of Lottery products, advertising, branding and promotions.

**Chief Administrative Officer:** Responsible for personnel, labor relations, purchasing and support services issues and functions.

**Chief Information Officer:** Responsible for technology solutions and services to support the Lottery's marketing, business needs and gaming system vendors.

**Deputy Secretary Planning:** Assists the Secretary with Information Resources, Security, Communications and Public Affairs.

**Deputy Secretary Business Development:** Assists the Secretary with Development and Business Strategies.

The Florida Lottery has nine (9) district offices staffed with marketing and sales representatives to serve sixty-nine (69) counties throughout the state. The District offices are located in Tallahassee, Pensacola, Jacksonville, Gainesville, Orlando, Tampa, Ft. Myers, West Palm Beach and Miami. Winning tickets with values up to \$250,000 are redeemed in district offices, while tickets exceeding \$250,000 may be redeemed only at the Florida Lottery Headquarters in Tallahassee.

### **III. OPERATIONS**

The Florida Lottery provides just one service, Lottery Operations. The primary objective is to maximize revenues generated from lottery games, while also reducing operating costs. Based on the Office of Program Policy Analysis and Government Accountability (OPPGA Report No.04-80), the Florida Lottery ranks first among U.S. Lotteries using four key performance indicators.

- Total Transfers to the State (net income)
- Transfers as a percentage of all Revenue
- Per Capita Transfers to the State
- Expenses as a percentage of Total Transfer

The results from the initial operations strategy focusing on increased sales and reduced operating costs were impressive. However, other strategies will be considered for future implementation such as: higher-prize-payout/higher-priced games; refreshing the daily games, Cash 3 and Play 4 with new play styles; adopting new technologies for Scratch-off game play; leveraging business opportunities to reach new customers and establish new revenue streams.

## Budget

All money received by the Department that remains after payment of prizes and initial compensation paid to retailers is deposited in the Administrative Trust Fund. Money remaining in the Administrative Trust Fund after transfers to the Educational Enhancement Trust Fund pay for the expenses of the Department including operational, administrative, purchasing and leasing costs.

<b>Revenue</b>	<b>FY 2005-06</b>	<b>Current Year Est. 2005-06</b>	<b>FY 2007-08 (Requested)</b>
Scratch-Off	2,100,117,753	2,432,600,000	2,541,100,000
CASH3	343,174,440	352,300,000	356,400,000
LOTTO	835,027,894	771,400,000	772,700,000
FANTASY5	306,678,652	323,700,000	330,200,000
PLAY4	215,529,550	220,300,000	231,100,000
MEGA MONEY	128,501,582	131,000,000	130,300,000
Interest Income	6,670,446	5,320,000	5,320,000
Security Lending Income	3,787,261	3,080,000	3,080,000
Retailer Contract Fees	243,804	200,000	200,000
Misc. Revenue	7,047,563	5,600,000	5,600,000
Unclaimed Prize Revenue	41,887,799	42,400,000	42,400,000
<b>Total Revenue</b>	<b>3,988,666,744</b>	<b>4,287,900,000</b>	<b>4,418,400,000</b>
<b>Expenditures</b>			
<b>Appropriation</b>	<b>FY 2005-06</b>	<b>Current Year Est. 2005-06</b>	<b>FY 2007-08 (Requested)</b>
<b>Recurring Categories:</b>			
Salaries & Benefits	\$24,119,306	\$25,754,274	\$26,152,135
FTE	440	440	440
OPS	900,878	748,296	748,296
Expense	11,573,436	8,675,355	7,175,355
Contracted Services	0	2,000,000	3,500,000
OCO	2,500	2,500	2,500
Advertising	34,522,867	34,869,453	34,869,453
Gaming Vendors	75,519,757	83,017,026	87,047,179
Retailer Incentives	3,405,365	2,500,000	2,500,000
Vehicle Acquisitions	193,635	-	-
EEFT	75,000,547	4,000,000	2,000,000
Other	541,832	561,479	581,801
<b>Non-Recurring Categories:</b>			
Vehicle Acquisitions	-	200,000	0
OCO	140,980	1,312,977	0
<b>Administrative Trust Fund</b>	225,921,103	163,641,360	
<b>Operating Trust Fund:</b>			164,516,719

### **Current Contracts**

The Lottery has six primary contractors that have the right to subcontract some of their duties to other businesses in support of the One Florida Initiative.

- **Scratch-Off Ticket Service Provider.** Scientific Games International provides all of the scratch-off ticket services and is compensated 2.5% of net scratch-off ticket sales, reduced to 2.25% on October 1, 2006.
- **On-Line Service Provider.** GTECH Corporation is responsible for installation, operation and maintenance of new on-line game hardware, software, retailer terminals, telecommunications network and related services. The contract terminates in March 2011 with two, two-year renewal terms at the sole discretion of the Department. GTECH's base compensation is 1.1499% of net sales for on-line tickets and 1.0699% for net sales of tickets during the renewal terms.
- **Compulsive Gambling.** Florida Council on Compulsive Gambling Inc. (FCCG) is a non-profit corporation that provides confidential statewide services and programs to assist lottery players with issues relating to compulsive gambling. FCCG also manages and operates the 24-hour Helpline (888-ADMIT-IT).
- **Marketing Advertising and Promotions.** Florida Lottery contracts some of its marketing and advertising functions among three vendors. CooperDDB, LLC is responsible for general market advertising, Zubi Advertising is responsible for Hispanic market advertising and MRD Consulting, Inc. is responsible for Public Relations. Department spends \$34 million annually in advertising and promotions to maximize awareness, build player loyalty, communicate with players and maintain market share.

### **IV. PAST SUCCESSES**

The Department's success can be attributed to the two-fold strategy of increased sales and reduced operating costs. Highlighted below are the notable successes in one or more of the following areas: revenues and proceeds, consumer protection, customer service, organization and operating efficiency, gaming, public awareness and minority participation.

<b>Approved Performance Measures for FY 2006-07</b>	<b>Approved Prior Year Std. FY2005-06</b>	<b>Prior Year Actual FY 2005-06</b>	<b>Approved Standards FY 2006-07</b>	<b>Requested FY 2007-08</b>
Transfers to EETF	\$1.119.5M	\$1.225 B	\$1.206 B	\$1.206 B
Total Revenue in Dollars	\$3,876.9M	\$3.989 B	\$3.918 B	\$3.918 B
Operating Expense as percent of total revenue	10%	9.31%	9.52%	9.52%
Percent of respondents aware of the Lottery's contribution to Education	65%	65%	65%	65%
Provide executive direction and support services for all operations (% of total agency budget)	6.5%	4.4%	6.2%	6.2%

### **Revenues**

- The Department has generated over \$43 billion in revenues, paid \$22 billion in prizes and transferred over \$16 billion to the Educational Enhancement Trust Fund since 1998.
- Total revenues increased from \$2.11 billion in FY 1998-99 to \$3.99 billion in FY 2005-06.
- Fiscal Year 2005-06 marked the fourth consecutive year that transfers to the Educational Enhancement Trust Fund exceeded \$1 billion dollars.

### **Operating Costs**

- Controllable costs decreased 16% from \$95.4 million in FY 1998-99 to \$71.8 million in FY 2005-06.
- Operating costs, excluding payments to vendors and retailers, have decreased each year since FY 1998-99 from 4.06% to 1.80% in FY 2005-06.
- FTEs were reduced from 722 to 440 (40% decrease).
- Supervisors reduced from 165 to 86 (48% decrease).

### **Public Awareness**

- Maintained legislative standard (65%) for public awareness regarding lottery's contribution to public education.

### **Public Responsibility**

- The Department, through the Florida Council on Compulsive Gambling, provides a comprehensive compulsive gambling program including a 24-hour Helpline
- The Department initiated several programs to market its products responsibly

## Successful Game Changes

- MEGA MONEY™ Increased annual sales by \$30 million dollars
- FANTASY 5® Sales rose 37% in first year
- Scratch-Off tickets Increase of more than \$150 million in annual EEFT Dollars
- EZmatch™ Sales exceeded projection yielded \$50 million increase
- FLORIDA LOTTO™ Sales averaged \$100 million per year more when re-launched
- Variable Payouts for On-line Games Holiday 2005 promotion yielded a net \$4.5 to \$5.0 million to EEFT funding

## V. IMMEDIATE AND SHORT-TERM CONCERNS

- Reports
  - ❖ Auditor General Report (Dec. 2006)
  - ❖ OPPAGA Report Completion (Jan. 2007)
- Pilot Programs
  - ❖ ITVMs (Jan. 2007)
  - ❖ Florida Lottery Retailer Extranet (Apr. 2007)
  - ❖ Florida Lottery Retailer Website (Jun. 2007)
- Contract Renewals
  - ❖ Credit Data Services (Dec. 2006)
  - ❖ Take-a-Ticket, Inc. (Jan. 2007)
  - ❖ Zubi Advertising for Hispanics (Feb. 2007)
  - ❖ Heavenly Catering (Feb. 2007)
  - ❖ Valiente & Hernandez P.A. (Mar. 2007)
- Contract Executions
  - ❖ Department of Legal Affairs (Apr. 2007)
  - ❖ Allen, Norton 7 Blue, P.A. (Apr. 2007)
  - ❖ Florida Council on Compulsive Gambling (Apr. 2007)
  - ❖ Allen, Dyer, Doppelt, Milbrath & Gilchrist (Apr. 2007)
  - ❖ Liebert Global Services (Apr. 2007)
- Contract Solicitations
  - ❖ Lottery Industry Consultant (Dec. 2006)
  - ❖ Headquarter Janitorial Services (Dec. 2006)
  - ❖ Scratch-Off Tickets (Jun. 2007)
- Facility Leases
  - ❖ West Palm Beach District Office (Dec. 2006)
  - ❖ Jacksonville District Office (Jan. 2007)
  - ❖ Miami District Office (May 2007)

## VI. CHALLENGES AND OPPORTUNITIES FOR IMPROVEMENT

- The greatest challenge for the Lottery appears to be finding ways to continue sustainable sales and the generation of moderate growth to enhance transfers to Education
- Lotto sales (the largest revenue source) appear to be “flattening out”.
- The advent of an internet lottery could take the Florida Lottery to the next level.

### Process Review / Improvements

- The Lottery has a combination of in-house and outsourced functions. The in-house functions are performed by a relatively small group of employees who have been with the Lottery for a significant tenure. There is a great deal of institutional knowledge housed with these individuals.

The primary challenge with this situation is that with a lack of documented processes institutional knowledge only exists as long as the employees remain with the organization. The loss of a single key resource can cause confusion and loss of productivity. The other challenge is that processes that have evolved over a number of years may be effective in that they perform the job that is needed, but they may not be the most efficient and they may not be making the best use of the resources and technology available to the Department.

There is an opportunity to document the existing processes of in-house functions and analyze them for areas where they might be improved or technology might be applied to achieve additional efficiencies. Even if nothing about the process changes, having it documented puts the Department in a much more secure position vis-à-vis training and hiring of new resources.

### Technology

- The Lottery has a strong and active Information Technology division that manages to accomplish a significant amount of work with a limited staff, and with “Technology” covering such a broad range of concepts, it can be difficult to select one or two areas that would benefit the most from improvements. However, the Information Technology Division completed a Strategic Plan in 2006 that outlined a number of potential improvements that would increase productivity, accountability and efficiency. Four areas that were of particular interest were improvements in customer service technologies, standardization of technology processes, implementation of Business Intelligence and implementation of a Financial Accounting package.

With a customer service emphasis, there are a number of ways that Technology can be leveraged to provide a more robust experience to Lottery customers. In addition to direct-to-customer services like online ticket sales and self-service kiosks, technology can enrich a customer’s experience by improving the interface between the Lottery and retailers by offering an online portal or by improving the service provided to customers by third party vendors by developing Performance-Based Service Level Agreements that those vendors are held accountable for. Standardizing the processes of the Technology

unit would enable them to provide consistent results by applying consistent procedures to every project. A number of the recommendations of the Strategic Plan spoke to the need to establish a Project Management Office, create Key Performance Indicators and formalize processes. These steps allow the unit to reduce risk and raise its maturity level in project implementations.

Business Intelligence software enables the aggregation of data into more useful information for managers. The Lottery already has the necessary software and can now develop the metrics and dashboards that will allow managers to receive key data about the business.

A Financial Accounting package that would be used internally would allow the Lottery to retire a number of manual processes and spreadsheets that are used today to track and manage data from a variety of financial information sources. This information would still be fed into the State's core financial systems, but would allow the Lottery to manage its internal books far more efficiently.

If the Lottery is to meet the challenges and pursue opportunities for improvement so as to enable it to attain its strategic goals, a recent self-study concluded the following transformational actions need to be undertaken:

- **Organizational Transformation** – Operations must invest in remaking itself from a procedure, skills, structure and communication standpoint. Formalization of currently practiced process and procedures coupled with adjustment to management structures will enable Operations to execute this plan and continue to provide outstanding service and support to the Lottery. These changes require little in the way of capital investment but do require significant investment in people and time. Without these changes it will be exceedingly difficult for Operations to execute this plan.
- **Infrastructure Transformation** – The Lottery must invest to ensure it has the requisite computing and network infrastructure to allow it to ensure data integrity and security while working to achieve the strategic goals as outlined in the Agency's strategic plan. These efforts are capital intensive but can be planned and managed.
- **Application Development/Deployment** – Operations currently has several development and migration projects underway, with many more on the schedule. Investments in this area will equip Operations with the skills and structure to undertake complex concurrent development that will be needed to execute the new initiatives in this plan while ensuring the current slate of projects is not adversely affected.
  
- **Web Based Initiatives** – The Lottery has invested significant resources in the newly launched *iNET* site in an effort to enhance its interactions with the public at large and players. These investments will need to be sustained and augmented in order for the Lottery to continue to strive for achieving its strategic goals.

- **Ongoing Initiatives** – Many of the activities and investments described above will require ongoing attention and investment.

## **VI. LONG TERM PLANS**

### **The Next Four Years**

- Improve product distribution channels
- Offer ongoing professional development training
- Further develop corporate partnerships
- Strengthen quality assurance
- Eliminate unnecessary procurement hurdles
- Implement new business intelligence technology