

oppaga

Progress Report



January 2004

Report No. 04-01

Florida Lottery Makes Progress by Implementing Many Justification Review Recommendations

at a glance

As recommended in our 2002 report, the Legislature amended the law to increase prize payouts for scratch-off games in order to maximize transfers to education. The Florida Lottery launched new scratch-off games using this flexibility, resulting in an additional \$27 million transferred to the Education Enhancement Trust Fund in 2002-03. The Legislature also increased the bond requirement for filing bid protests, and the Lottery hired a consultant to review its procurement procedures, which contributed to the successful letting of the Florida Lottery's latest on-line vendor contract. The 2003 Legislature reduced the Florida Lottery appropriation by \$1.6 million for 2003-04, based on our estimates of annual savings from centralizing prize redemption functions.

The Florida Lottery implemented our recommendations to develop a long-term plan for revenue growth and enhance the existing on-line games. The Florida Lottery is also in the process of implementing our recommendations to outsource field support operations, reduce the amount of leased office space, and is conducting a pilot study on centralizing prize redemption functions.

Scope

In accordance with state law, this report informs the Legislature of the action taken in response to the findings and recommendations included in our 2002 review of the sale of lottery products program of the Department of Lottery.^{1,2}

Background

In 1986, Florida voters approved a constitutional amendment authorizing the state to operate a lottery. The 1987 Legislature subsequently enacted Ch. 24, *Florida Statutes*, known as the Florida Public Education Lottery Act. The act created the Department of Lottery and charged it with operating much like a business to generate significant funds for education in a manner consonant with the dignity of the state and welfare of its citizens. The Lottery generates significant revenue with both on-line and scratch-off (otherwise referred to as instant) games.

¹ Section 11.51(6), *F.S.*

² *Justification Review, Sale of Lottery Products Program*, OPPAGA [Report No. 02-11](#), February 2002.

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The Department of the Lottery is headquartered in Tallahassee and contracts with three vendors to provide its advertising and on-line and scratch-off games. Seven of its nine district offices sell lottery products and redeem winning lottery tickets worth up to \$250,000.³

The Lottery is self-supporting and receives no general revenue. For on-line games, Florida law requires the lottery to pay, as nearly as practical, 50% of its gross revenues in prizes and transfer at least 39% of all gross revenues to the Education Enhancement Trust Fund.⁴ The Lottery can use the remaining 11% for expenses, but it must transfer any unencumbered balance to education at the end of each year. In Fiscal Year 2003-04, the Legislature appropriated \$170.1 million and authorized 446 positions for Lottery operations.

Prior Findings

Our 2002 justification review identified several opportunities for the lottery to increase revenues and reduce administrative expenses.

Without improved long-term planning and revenue-enhancing measures, the value of Lottery contributions to education would decline

Our prior report concluded that the Lottery performed well but faced future short- and long-term challenges. Although the Lottery consistently met the performance standards set by the Legislature and ranked first on an index of performance measures among the 38 state

³ In Fiscal Year 2002-03, the Lottery consolidated the Fort Lauderdale, Tallahassee, and St. Petersburg district offices with other offices and, as part of a pilot study, ceased sales and redemptions at the Fort Myers and Pensacola district offices.

⁴ In Fiscal Year 2002-03, as a result of Ch. 2003-406, this transfer percentage changed from 38% to 39%. The increase in the percentage will accelerate the transfer of an estimated \$16.7 million to education and the Lottery explained that this additional 1% will be taken out of the operating costs and not from prize payouts.

lotteries, its sales were not keeping pace with lottery sales in peer states or with inflation.

To maximize its revenues, we recommended the Lottery consider the options noted below.

- Establish a long-range calendar for game additions and enhancements.
- Introduce new games, such as super-jackpot or multi-state games.
- Enhance current games through steps such as increasing drawings for daily games.
- Increase the sales availability of lottery games.
- Reduce the percentage of scratch-off game revenue transferred to education while increasing the percentage transferred from on-line games.

To help the Lottery maximize revenues and increase transfers to education, we recommended that the Legislature consider the options described below.

- Amend the statutory requirement that the lottery transfer 38% of Lottery proceeds to the Education Enhancement Trust Fund. The Legislature could do so by either authorizing the Lottery to reduce its scratch-off game transfer percentage, or by eliminating the 38% transfer requirement for all games and mandating instead that the Lottery transfer a specific dollar amount instead.
- Use caution in changing the Lottery's authority to use unclaimed prize money to increase prize payouts, as higher prize payouts increased sales and resulting transfers to education. The Legislature could instead designate another source of funds to be used in conjunction with unclaimed prize money to increase payouts.
- If the Legislature wished to substantially increase Lottery sales, the best options would be to authorize the department to offer video lottery or keno games.

Administrative expenses could be further reduced

Our prior report noted that the Lottery had made considerable changes to its organizational structure and processes in order to significantly reduce its administrative expenses and improve performance. We identified additional opportunities to reduce administrative expenses while maintaining and improving the quality of services.

To reduce the incidence of bid protests over future Lottery procurements, we recommended that the Legislature consider

- raising bond requirements to file bid protests;
- limiting the scope of bid protests; and
- Changing the Lottery's bid protest process.

To reduce other administrative expenses, we recommended that the Lottery take the actions outlined below.

- Reduce its field operations by ending prize redemption at district offices and directing winners of prizes less than or equal to \$600 to retailer locations to redeem their tickets and either centralizing or outsourcing redemption of winning tickets above \$600.
- Pursue outsourcing its remaining field support operations and allow current state workers to bid against vendors to maintain these functions in-house. The Lottery should also periodically re-evaluate the cost-effectiveness of functions it outsources

and the potential to outsource functions performed in-house.

- Reduce its leased space by consolidating district offices, leasing no more space than necessary in the remaining locations, and subletting extra space at its headquarters location to other suitable tenants.

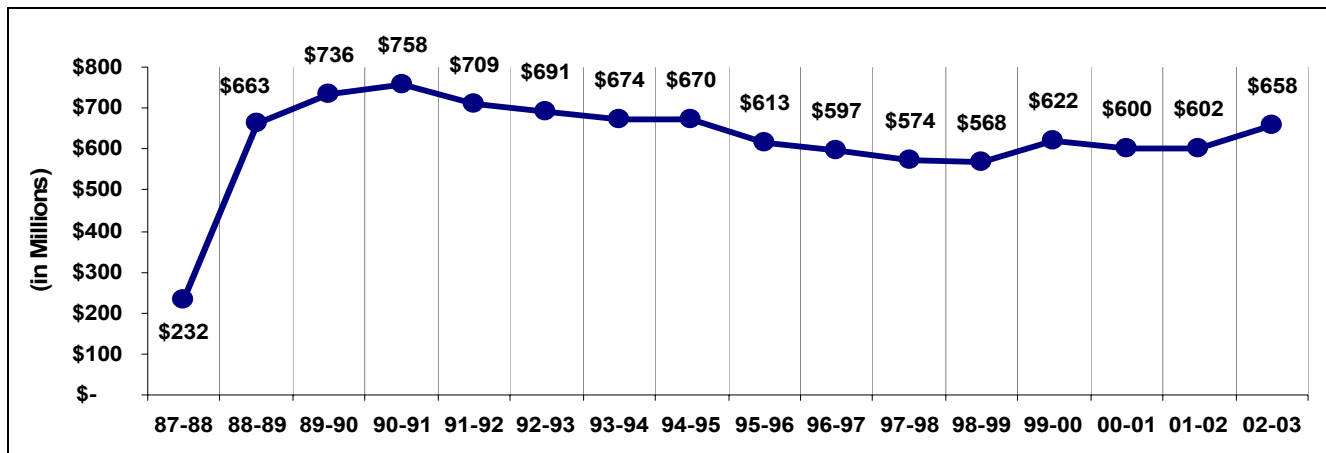
Current Status _____

The Lottery and the Legislature have taken action on many of the recommendations in our 2002 report.

Revenue-enhancing measures

Lottery growth strong in 2002-03, but challenges remain. Despite a general decline since peaking in 1990-01, inflation-adjusted transfers to education grew in Fiscal Year 2002-03 helping to regain some value over prior year declines. However, the value of transfers to education is still below the peak reached in 1990-91. As shown in Exhibit 1, transfers to the Education Enhancement Trust Fund increased \$56 million between 2001-02 and 2002-03, but are still worth \$100 million less than the dollars transferred in 1990-01. We recommend that the Lottery continue to develop and implement lottery products to increase sales.

**Exhibit 1
Inflation-Adjusted Transfers to Education Increase \$56 Million in 2002-03,
But Still Worth \$100 Million Less than Peak Reached in 1990-01**



Source: OPPAGA analysis of Department of Lottery data.

Lottery developed a long-range calendar. As we recommended, improving its long-term planning the Lottery has developed annual and five-year product calendars based on market research, sales data analysis, and customer surveys. These calendars include game additions, enhancements, and implementation plans that should contribute to improved long-term performance.

Lottery did not implement super jackpot and multi-state games. Our previous report highlighted a number of revenue-enhancing strategies and options that the Lottery could consider, including super jackpot and multi-state games. The Lottery has not pursued super jackpot or multi-state games, stating those games are high-risk strategies. Nonetheless, we believe the super jackpot and multi-state games are options to consider, particularly if on-line sales decline over time. We estimate a super jackpot game would generate between \$21 million and \$42 million for education, and multi-state game revenue would be between \$40 million and \$62 million.

Lottery continues regular innovations to games. As we recommended, the Lottery is taking steps to make regular innovations to its

on-line games to maintain customer interest. The Lottery plans to launch a significant enhancement to its Mega Money on-line game in 2004. The Lottery should consider additional options such as increasing the number of draws for its daily games if revenues from those games begin to decline.

Lottery has not expanded product distribution. The Lottery has not implemented our recommendations to expand the distribution of its games at non-traditional locations such as hotels and through instant ticket vending machines at strategic locations.

The Legislature authorized scratch-off prize payout flexibility, increasing transfers to education by \$27 million in 2002-03. As we recommended, the 2002 Legislature amended s. 24.121, *Florida Statutes*, to authorize the Lottery to reduce scratch-off transfer percentages to increase prize payouts to maximize total transfers. The Lottery subsequently launched several new scratch-off games with higher prize payouts, resulting in an additional estimated \$27 million transferred to the Education Enhancement Trust Fund in 2002-03.

The Legislature maintained the Lottery's current use of unclaimed prize money. As we recommended, the Legislature has not changed the Lottery's general practice of using unclaimed prizes to increase jackpots for future games, which tend to increase sales and subsequent transfers to the Education Enhancement Trust Fund.⁵

Although the 2002 changes to s. 24.121, *Florida Statutes*, in 2002 provided the Lottery the flexibility to adjust scratch-off prize payouts and subsequent transfers to education, bond covenants have limited this flexibility to some extent. These covenants require that before transfers may be reduced below 38% of gross lottery revenue, a consultant must provide written certification that the amount transferred for each of the next three years after the percentage reduction will not be less than the amounts projected by the Consensus Revenue Estimating Conference at the 38% rate. In Fiscal Year 2002-03, this bond covenant in practice required the Lottery to maintain at least a 27% transfer rate; a recent consultant study will allow the Lottery to reduce transfers to 24% of gross revenue.

As noted in our prior report, the Legislature could consider other options for supplementing prize payouts, such as requiring the unencumbered balance in the Lottery's Administrative Trust Fund to serve as a source of funds to enhance prize payouts in addition to unclaimed prize money. Section 24.121(4), *Florida Statutes*, requires this balance be transferred to the Education Enhancement Trust Fund at the end of each fiscal year.

Legislature has considered but has not adopted expanded lottery games. During the 2002 and 2003 legislative sessions, the Legislature considered proposals to authorize video lottery games at pari-mutuel facilities.

⁵ Following a \$30.1 million unclaimed jackpot, by far the largest ever unclaimed prize, in October 2003 the Legislature passed House Bill 43-E, requiring the Lottery to transfer that amount to education.

These proposals would generate transfers to education between \$689 million and \$1.266 billion per year, while authorizing keno games would generate transfers between \$180 million and \$207 million per year.⁶ However, this would represent a substantial expansion of legalized gambling within the state.

Administrative expense reductions

The Legislature has raised bond requirements for bid protests. As we recommended, during the 2002 Session, the Legislature amended Ch. 287, *Florida Statutes*, to raise the bond amount required to file bid protests. Pursuant to the amendment, s. 287.042(2)(c), *Florida Statutes*, mandates the posting of a bond equal to 1% of the estimated contract value, with no upper limit on the bond amount. Previously, the statute capped the bond amount at \$5,000. The Lottery also hired a consultant to review its procurement procedures. These actions helped the Lottery award its latest on-line vendor contract without protest in November 2003. Other options the Legislature could consider to reduce bid protests would be to limit the scope of bid protests or provide the Lottery an alternative bid protest process.

The Legislature reduced the Lottery's budget based on OPPAGA recommendations, and the Lottery has implemented a pilot study to test centralizing prize redemption function. Our previous report estimated that an annual savings of \$1.6 million could be achieved by centralizing lottery prize redemptions functions. Accordingly, the Legislature reduced the department's appropriation by \$1.6 million for Fiscal Year 2003-04. The Lottery has implemented this budget reduction by eliminating vacant and non-critical positions and by consolidating some of its district offices

⁶ These estimates are of transfers to education and do not account for indirect impacts on pari-mutuel sales resulting in estimated general revenue losses ranging from \$9.4 million to \$17.2 million for video lottery and from \$2.1 million to \$2.4 million from keno. In addition, these estimates assumed a 39% transfer rate, although the Legislature would decide the actual transfer rate when and if it passed any authorizing statute.

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rather than by centralizing all prize redemption functions.

To evaluate the potential impact of centralizing prize redemption functions on sales, the Lottery began a pilot study in September 2003, ceasing sales and redemptions at the Fort Myers and Pensacola district offices. The Lottery expects to analyze the data from this study prior to the 2004 legislative session. However, as a result of the limitations that data and resources place on such a study (the volatility of ticket sales, the small sample of survey respondents, and the short time frame in which the study was conducted) the Legislature should use caution in making policy decisions based on the study's results. Other options the Lottery could consider to reduce costs and increase customer convenience include having banks, grocery stores, or tax collectors pay prizes over \$600.

The Lottery is considering vendor proposals to outsource field support. As we recommended, the Lottery's has issued a request for proposal to outsource its field support operation. The Lottery received two vendor proposals, and its inspector general conducted an internal study that concluded that its online vendor's proposal to outsource field support is potentially cost-effective. As of November 2003, Lottery officials were considering the inspector general's findings. It will be important for the Lottery to maintain sufficient records of its field support costs before and after outsourcing field support operations to allow for future evaluations.

The Lottery reduced leased office space, saving an estimated \$223,000 per year, but greater efficiency is possible. In response to our recommendation to reduce its excess-leased office space, the Lottery has taken the steps described below.

- It has moved the Tallahassee district office to Lottery headquarters. This will save lease and utility costs in excess of \$63,000 per year in addition to extra space at the headquarters.
- It has consolidated the Tampa and St. Petersburg offices. Closing the St. Petersburg office will save more than \$67,000 per year in lease and utility costs.
- It has closed the Fort Lauderdale office and relocated the sales staff to the West Palm Beach and Miami offices. This move will save more than \$93,000 per year in lease and utility costs.

However, the Lottery continues to lease nearly 38,000 square feet of office space more than necessary at its headquarters location. Lottery officials report they are considering subletting some extra space to a child daycare operation and to its game vendors. We recommend that the Lottery continue to make efforts to find other suitable state agencies to sublet a portion of the extra headquarters space.

Agency Response

In accordance with the provisions of s. 11.51(6), *Florida Statutes*, a draft of our report was submitted to the Secretary of the Department of Lottery for review and response.

The agency response is on the following pages.



JEB BUSH
Governor

FLORIDA LOTTERY

REBECCA DIRDEN MATTINGLY
Secretary

December 31, 2003

Mr. Gary R. VanLandingham, Interim Director
Office of Program Policy Analysis and
Government Accountability
111 West Madison Street, Room 112
Claude Pepper Building
Tallahassee, Florida 32399-1475

Dear Mr. VanLandingham:

In response to your office's December 12, 2003 progress report entitled *Florida Lottery Makes Progress by Implementing Many Justification Review Recommendations*, I would like to thank you and your staff for a thorough review and follow-up evaluation. I am pleased that your review recognizes the Lottery's efforts to implement recommendations contained in the February 2002 Justification Review. In the remainder of this letter, I would like to address those findings that are directed to and within the control of the Florida Lottery.

Finding: Lottery growth strong in 2002-03, but challenges remain.

Response: We believe the best way to maintain efficient net margins and increase total transfers to the Educational Enhancement Trust Fund over the long-term is to increase on-line ticket sales. Over the past five years, scratch-off ticket sales have increased by almost 81%, while on-line ticket sales have grown by only 19%. The Lottery's net profit margin for its on-line product segment is approximately 39%, while the current net profit margin for its scratch-off product segment is approximately 24%. With higher net profit margins, increasing on-line ticket sales will generate more money for education.

Consistent with the Lottery's long-term strategic plan, on-line sales growth will be pursued through a combination of market penetration, product extensions, redesign of existing games, on-line game promotions, and the exploration of new on-line game concepts that follow conservative and traditional on-line game play styles. The first step in this strategic effort involves a redesign and re-launch of the current Mega Money game in January 2004. Conversion to a new on-line gaming system in January 2005 will also support the Lottery's efforts to focus on increasing revenues from on-line game sales.

The report recognizes that, although inflation-adjusted transfers to the Educational Enhancement Trust Fund increased during 2002-03, the value of transfers is still below the peak reached in 1990-91. As shown in Exhibit 1, inflation-adjusted transfers to the Educational Enhancement Trust Fund peaked in 1990-91 and then declined steadily over the next eight years, to \$568 million annually. Under the leadership of Governor Bush and former Secretary David Griffin, the

Lottery employed a twofold strategy of increasing sales and reducing administrative costs to maximize net proceeds available to support education. As pointed out in the report, inflation-adjusted transfers have increased from \$568 million annually to \$658 million annually since 1998-99. For the first time in the Lottery's history, 2002-03 transfers to the Educational Enhancement Trust Fund exceeded \$1 billion.

Finding: Lottery developed a long-range calendar.

Response: Thank you for recognizing our efforts to improve our long-range planning. We too are confident that improved planning will contribute to improved long-term performance.

Finding: Lottery did not implement super jackpot and multi-state games.

Response: The Lottery's current jackpot game, FLORIDA LOTTO, generates per capita sales that are the very best in the domestic lottery industry. Super jackpot games such as the multi-state offerings currently available in the domestic market certainly generate increased sales when jackpot levels reach \$100 million or more, but sales of those games tend to languish at lower jackpot levels (referred to as "jackpot fatigue"). Moreover, the pool of potential winners of such large jackpots is spread among multiple jurisdictions, thereby resulting in fewer "millionaire" winners in Florida. States generally enter multi-state or super jackpot games only when their own jackpot game sales are suffering. Such is not the case in Florida.

One of the most important factors to be considered in implementing a super jackpot or multi-state game is the overall impact of the new game on existing game sales. Based upon the experience of other states, it is unclear whether the introduction of a multi-state game in Florida would yield a net overall increase in revenues that could be sustained over time. There is also a risk that offering a multi-state game could undermine the brand recognition and loyalty of our flagship game, FLORIDA LOTTO.

For all of these reasons, we believe entry into a super jackpot or multi-state game at the present time should be regarded as a high-risk strategy. A more prudent strategy would involve exploring opportunities to strengthen our existing game mix before pursuing any new game offerings. New product development, especially within our on-line game mix, will be a high priority in the coming years.

Finding: Lottery continues regular innovations to games.

Response: The reinvestment of unclaimed prize money, combined with the additional authority provided by HB 2011, has allowed scratch-off games to operate at or near the level necessary to maximize revenues, as required by law. For this reason, enhancing our current on-line game mix is a top priority.

Increasing the number of drawings for daily games has produced mixed results in other states. While there has generally been a short-term boost in sales following the addition of daily drawings, the longer-term experience reflects only a marginal increase in overall sales. Moreover, adding additional drawings does not add perceived value among consumers in the form of improved odds for a winning experience. For these reasons, we believe it is appropriate to focus on on-line game redesign and product extensions that continue to provide meaningful top prizes and better odds of winning. Market research and qualitative testing will play a critical role in all of our game development efforts.

Finding: The Lottery has not expanded product distribution.

Response: We recognize the need to expand product distribution. In July 2003, we began development of a Business and Product Development Unit designed to seek out and secure new business opportunities for the sale of lottery products. This unit was activated on December 1, 2003, and is also responsible for developing and maintaining the Lottery product mix to ensure maximum sales potential, and administering retailer-focused contracting, communications and support programs. The new unit has four Account Executive positions dedicated to grow sales throughout the state with new, innovative and fresh approaches. Opening initiatives of the new unit are aimed at developing new distribution channels for Lottery products and evaluating the economic feasibility of expanding sales at non-traditional trade styles. New products geared toward expanding the Lottery's presence in hotels, convention centers and tourist areas will be developed together with a strategy to maintain on-going sales in these areas for the future.

In evaluating the feasibility to expand retail distribution of Lottery products to "non-traditional" locations, the Lottery must determine that the marginal costs of adding each additional retailer do not exceed the marginal revenues to be generated by each additional new retailer. Factors such as location, local market penetration, customer volume and retail type must be factored into the analysis of retail expansion. Expansion into non-traditional retail venues must be approached incrementally and with a degree of caution to ensure that the corresponding capital investment does not exceed marginal revenues or otherwise result in a net operating loss.

Although the Lottery does not have the present capacity to add full-service retailers, we do have the capacity to add retailers who sell only scratch-off games, with the objective of upgrading retailers that meet sales objectives to full-service terminals once the new on-line gaming system contract goes into effect in January 2005. Over the longer term, the Lottery hopes to recruit 3,000 new full-service retailers (net) statewide, bringing our retailer-to-population ratio down to approximately 1:1,200. Consistent with shifts that have occurred in the retail industry, the primary focus of this effort will be to recruit new corporate or "chain" store retailers; nevertheless, the Lottery shall maintain its efforts in allowing small business participation as retailers as well. If successful, the Lottery will be able to achieve and sustain a competitive level of market penetration based upon industry benchmarks. The Business and Product Development Unit will be responsible for pursuing and managing this strategic objective.

Instant ticket vending machines may be an effective way to increase revenues, but only if the sales generated (minus prize payments, retailer commissions, fees to ticket providers, and transfers to the Educational Enhancement Trust Fund) are sufficient to cover the cost to lease the machines. That has not been the case in Florida. The Lottery discontinued its Instant Ticket Vending Machine Program several years ago after a November 2000 review by the Lottery's Inspector General concluded that average new ticket sales generated by an instant ticket vending machine fail to generate sufficient funds to cover the cost to lease the machine. Less than 3% of the machines generated gross annual sales in excess of the level necessary to be self-supporting, and only 12% generated enough sales to provide sufficient commissions to cover the annual rental costs. When prize payments, retailer commissions; fees to ticket providers, and transfers to the Educational Enhancement Trust Fund were deducted from new revenues generated by the Instant Ticket Vending Machine Program, the Program resulted in a loss of almost \$2.5 million annually.

The only player-activated machines authorized under current law are those that dispense an instant (scratch-off) ticket following the insertion of a coin or currency by a ticket purchaser. We believe that player-activated kiosks offering both instant and on-line products may afford a viable and profitable opportunity to increase sales and net proceeds for education. The Lottery's new on-line gaming system vendor has the capability to provide these kiosks; however, subsection 24.105(9) would have to be amended to authorize the sale of on-line tickets through a player-activated machine.

Finding: The Legislature has raised bond requirements for bid protests.

Response: To mitigate the likelihood of disputes arising from the procurement of a contract for on-line gaming and related services, the Lottery enlisted the services of an unbiased and objective consultant to assist with the development of a request for proposals that is fair and that will provide for an on-line gaming system that best meets the needs of the Florida Lottery. In July 2002, the Lottery hired Battelle Memorial Institute, a not-for-profit organization with extensive experience in the lottery industry, to facilitate the preparation of a request for proposal, the evaluation and scoring of vendor proposals, and the acceptance testing (of equipment and systems) effort.

Battelle offers its experience and capabilities exclusively to lotteries, not to vendors and suppliers of lotteries. Battelle makes no products for sale to lotteries that would compete with products provided by lottery vendors, nor does Battelle offer any services provided by lottery vendors. This allows Battelle to maintain an unbiased and objective viewpoint. The fact that a contract of this size and scope could be awarded without protest is due in large part to the involvement and guidance of Battelle. Based upon costs incurred by the state to resolve the last on-line gaming system contract protest, we believe the use of Battelle to facilitate the preparation of a request for proposal, the evaluation and scoring of vendor proposals, and the acceptance testing effort saved the state millions of dollars in legal fees and lost revenues.

Finding: The Legislature reduced the Lottery's budget based on OPPAGA recommendations, and the Lottery has implemented a pilot study to test centralizing prize redemption function.

Response: Every effort has been made to design and conduct a study that can be useful to the Governor, the Legislature and the Lottery in planning the future of the services offered at Lottery field offices. Every effort has been made to minimize biases, seek the advice of appropriate stakeholders, and layout all of the assumptions and methodologies. A working group that includes analysts from OPPAGA, the Governor's Finance and Economic Analysis Office and the Legislature's Economic and Demographic Research Office, was created to oversee the study's design and progress. The working group provided input into the purpose; approach and methodology of the study, and has been kept informed of the study's progress. We believe the results of the study will be helpful in determining how our players want to redeem prizes.

The Lottery has explored the possibility of contracting with banks or "super retailers" to redeem prizes. Banks and grocery store chains have expressed little or no interest in redeeming prizes of \$600 or greater due to the labor-intensive processes of the statutorily required checks for state owed debt and tax reporting. The Lottery is also looking at available technology that would allow the district prize validation and redemption process to be completely automated. An internet-based system is envisioned that integrates the different components of the validation and redemption process in a way that ensures repeatable, precise, controlled and secure prize redemption. Once entered, a prize redemption transaction would pass through its entire lifecycle without any manual intervention, thereby providing the Lottery with another opportunity to maintain its standard of operating efficiency, with a customer-centered focus.

Finding: The Lottery is considering vendor proposals to outsource field support.

Response: Prospective vendors for the new on-line gaming system contract were invited to include as part of their proposal a price for providing services currently provided by Lottery field support staff. The successful bidder, GTECH, did include a price for these services. Consistent with the Governor's "Guidelines for Introducing Competition into Government Services", any decision to outsource field support operations will be preceded by a determination that the effectiveness, quality, timeliness, and thoroughness of private provider delivery must match or exceed an agency's delivery at the same or less cost; and by an opportunity for current employees to bid against vendors to maintain these functions in-house.

Regardless whether field support operations are outsourced, we believe there will be a continued need to maintain a community presence. District managers and staff work closely with our retailers to better understand the challenges they face, respond to customer complaints and help to resolve problems. Prize redemption and the need to monitor the field support activities of the vendor would also justify the need not to close the district offices.

Finding: The Lottery reduced leased office space, saving an estimated \$223,000 per year, but greater efficiency is possible.

Response: Thank you for recognizing our consistent efforts to achieve operational efficiency. The report recognizes the Lottery's efforts to consolidate space and reduce administrative costs, but concludes that the Lottery continues to lease considerably more office space than necessary at its headquarters location. We anticipate that, as the on-line gaming system conversion process begins, a portion of the headquarters building will be subleased to the new on-line gaming vendor. We are also working with Department of Management Services Secretary Bill Simon and his staff to align our office space needs consistent with the Governor's initiative to reduce costs and increase efficiency by centralizing the State's leasing functions.

Once again, I would like to thank you and your staff for recognizing our efforts implement recommendations contained in the February 2002 Justification Review, and for giving us an opportunity to respond to the report. If you have any questions about our response, please call me at 487-7728.

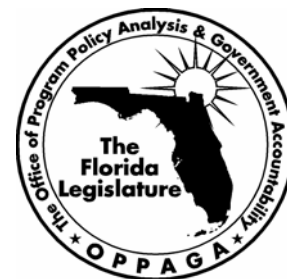
Sincerely,

/s/
Rebecca Dirden Mattingly
Secretary

cc: Governor Jeb Bush
Patricia Levesque
Jim Magill
Mike Frick

The Florida Legislature

Office of Program Policy Analysis and Government Accountability



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