



THE COLORADO LOTTERY

Performance Audit, August 2013

Report Highlights



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PURPOSE

Conduct an analysis and evaluation of the Colorado Lottery's (the Lottery) management of sales revenue, expenses, and proceeds available to beneficiaries; the integrity and public image of its operations; and significant high-dollar contracts.

BACKGROUND

- The Lottery was created as a Division within the Department of Revenue by statute in 1982.
- The Lottery Commission (the Commission) is a five-member oversight entity tasked with creating rules to govern Lottery operations, conducting hearings on complaints, and reporting changes needed to improve the Lottery's effectiveness.
- The Lottery offers a variety of scratch ticket games, four in-state jackpot games, and two multistate jackpot games.
- Since its creation, the Lottery has distributed \$2.6 billion in proceeds to its beneficiary agencies, including Great Outdoors Colorado, the Conservation Trust Fund, and the Capital Construction Fund.
- In Fiscal Year 2013, the Lottery collected more than \$566 million through ticket sales, paid out more than \$345 million in prizes, and netted more than \$135 million to distribute to beneficiary agencies.

OUR RECOMMENDATIONS

The Lottery should improve its operations and maximize the proceeds paid to beneficiary agencies by:

- Fully implementing controls that would increase the efficiencies of the scratch ticket auto-reorder system.
- Ensuring sales staff bonuses are designed to incentivize staff performance and thereby increase sales.
- Evaluating the impact that prize payout percentages have on total sales in Colorado.
- Working with the Commission to ensure that retailer compensation properly incentivizes retailers to increase sales of Lottery products.
- Working with the Commission to ensure that communication about significant Lottery activities is optimal for both parties.
- Establishing comprehensive policies and procedures, supervisory review, and staff training processes for all types of security investigations utilized.

The Lottery and the Commission agreed with all of these recommendations.

AUDIT CONCERN

The Lottery may be able to realize efficiencies and cost savings, and increase the amount of proceeds available for beneficiary agencies, through full use of the auto-reorder system, and analysis and modification to sales staff bonuses, retailer compensation, and prize payouts.

KEY FACTS AND FINDINGS

- The Lottery has not implemented the scratch ticket auto-reorder and courier system to realize efficiencies that would result in administrative cost savings as intended. Specifically:
 - Lottery sales staff do not always allow the auto-reorder system to operate as designed for optimal sales.
 - The Lottery has made limited changes to its sales force structure to reflect efficiencies gained through the system's implementation.
 - The Lottery has not significantly reduced vehicle fleet costs.
- The Lottery has not always calculated its sales staff bonus incentives with actual sales data, as described in the approved plan.
- The Lottery has not ensured that all sales staff bonus incentives are designed specifically to reward individual sales achievements.
- The Lottery may be paying more in prize payouts than is needed to achieve optimal sales, thereby lessening the proceeds available for beneficiary agencies.
- The most recent data available in a national study showed that in Fiscal Year 2011 Colorado's prize payout percentage was 63 percent, 2 percentage points higher than the national average of 61 percent. The 2 percentage point difference equated to about \$10.4 million.
- Lottery retailers are eligible for four different types of compensation, and the rates of retailer compensation in Colorado are higher than in most other states.
- Lottery staff have not always provided the Commission with complete and timely information prior to Commission decisions on new product development.
- The Lottery did not conduct annual background rechecks for a majority of vendor employees, including those employees who have access to the Lottery's gaming systems and terminals.