

February 26, 2016

Jeffrey S. DeWitt
Chief Financial Officer of the District of Columbia
1350 Pennsylvania Avenue, NW
Washington, DC 20004

Dear Mr. DeWitt:

Attached is the result of the independent best practices review of the DC Lottery requested by your office. The objective of this engagement was to review best practices in the U.S. lottery industry and then develop and tailor recommendations based on those best practices that the DC Lottery could implement within the statutory and legal structure in which the DC Lottery operates.

The DC Lottery is one of the most successful lotteries in the U.S., ranking seventh in the most important financial measure of a traditional lottery's success—operating income per capita. The DC Lottery's ranking as one of the top ten lotteries in the U.S. was reflected in the results of our findings.

Delehanty Consulting evaluated more than fifty processes, practices, and systems. Only three current issues were identified as needing to be resolved. Three recommendations were provided for implementing best practices and twelve additional recommendations were provided for enhancing current operations.

We found the DC Lottery to be an organization focused on continuous improvement. Given the DC Lottery was implementing a number of changes during the review, nine recommendations associated with these efforts were also provided.

Top 10 U.S. Lotteries - FY 2014 Operating Income Per Capita		
Rank (x of 45)	Lottery	Operating Income Per Capita
1	Massachusetts	\$144.49
2	New Jersey	\$107.03
3	New York	\$98.14
4	Georgia	\$92.76
5	Connecticut	\$92.33
6	Pennsylvania	\$84.43
7	District of Columbia	\$83.61
8	Maryland	\$81.90
9	Michigan	\$75.41
10	Florida	\$75.07

In comparing DC Lottery practices to those in other lotteries, Delehanty Consulting identified ten DC Lottery processes or systems that we believe are industry best practices. Thirty-one additional processes or systems were highlighted as being exemplary.

Our assessment of the DC Lottery's retailer integrity program determined the DC Lottery's rules, policies, and processes for protecting players' winning tickets are consistent with industry best practices. Once a player signs the back of the ticket, the Lottery will not allow anyone else to collect the prize without sufficient evidence of an agreement from the original signer. Additionally, the DC Lottery has equipped every lottery agent who had available space with a ticket-checker that players can use to determine the winning status of their ticket.

The cost controls and performance efficiency of the DC Lottery are adequate. The DC Lottery is a small lottery operating in a very large and expensive market.

Overall, we found the DC Lottery to be an extremely well run lottery that meets the unique challenges presented by operating in an extremely expensive and competitive market.

Delehanty Consulting LLC has been providing auditing and consulting services to the lottery industry since 2005. Our consultants have evaluated and consulted with more than forty government-sponsored lotteries on four continents since 1985.

Sincerely,

A handwritten signature in dark ink, appearing to read "Herb Delehanty", written in a cursive style.

Herb Delehanty
Principal

Best Practices Review of the DC Lottery

Final Report

February 26, 2016

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EXECUTIVE SUMMARY

Delehanty Consulting LLC conducted an independent best practices review of the DC Lottery at the request of the Office of the Chief Financial Officer. The objective of this engagement was to review best practices in the U.S. lottery industry, and then develop and tailor recommendations based on those best practices that the DC Lottery could implement within the statutory and legal structure in which the DC Lottery operates.

The DC Lottery is unique. It is the only city lottery in the United States and operates with federal restrictions that prevent it from selling in certain areas that have the highest day-time population. The Washington D.C. metropolitan area is the eighth most expensive media market in the U.S. This unique market includes counties in Maryland and Virginia, with media and sports teams overlapping the three jurisdictions. The revenue generated by the DC Lottery does not fund identifiable programs such as education or senior programs—this precludes the DC Lottery from having a strong constituency.

The DC Lottery is one of the top ten lotteries in the U.S. This status was reflected in the results of our review. The D.C. Lottery:

- Ranks seventh in the most important financial measure of a traditional lottery's success—operating income per capita
- Ranks first in draw game sales per capita
- Ranks first in daily number games sales per capita
- Ranks fourth in combined Powerball and Mega Millions sales per capita
- Has implemented almost every best practice known to protect players against retailer fraud
- Has implemented two best practices that significantly increase customer convenience for cashing tickets
- Maintains a strong commitment to retailers by providing excellent compensation programs, providing self-service solutions that reduce manpower requirements, and recognizing and addressing language challenges
- Offers a diverse game portfolio that is supported by a solid, multifaceted marketing program

Delehanty Consulting evaluated more than fifty practices and systems. Sections 1 through 13 of this report contain the results of our evaluation and include highlights and recommendations. Recommendations are presented at the end of each section under four headings:

1. **Resolution of Current Issues.** These recommendations coincide with a finding that we believe represent an operational deficiency that will be corrected by adopting the recommendation. The report contains three recommendations under this category. Two are related to the DC Lottery's tel-sell operation and one is related to assurances from the lottery's gaming system vendor.

2. **Best Practice Enhancements to Existing Operations.** These recommendations are recognized industry best practices that have not been fully adopted by the DC Lottery. These recommendations do not coincide with a deficiency in existing operations.
3. **Additional Recommendations.** These recommendations, although not necessarily recognized as ‘best practice’¹, have the potential to improve existing operations. These recommendations do not coincide with a deficiency in existing operations.
4. **Recommendations in Progress:** We found the DC Lottery focused on continuous process improvement. The lottery identified a number of areas where improvements were desired and started an initiative prior to the beginning of our engagement. This category recognizes the efforts of the DC Lottery.

The analysis identified ten DC Lottery processes or practices that represented industry best practices and an additional thirty processes or practices that are of an exceptional nature and worthy of being highlighted. These processes or practices are highlighted prior to the recommendations in each section.

Our assessment of the DC Lottery’s retailer integrity program determined the DC Lottery’s rules, policies, and processes for protecting players’ winning tickets are consistent with industry best practices. Once a player signs the back of the ticket, the Lottery will not allow anyone else to collect the prize without sufficient evidence of an agreement from the original signer. Additionally, the DC Lottery has equipped every lottery agent who had available space with a ticket-checker that players can use to determine the winning status of their ticket.

Given the DC Lottery’s status as one of the top performing lotteries in the U.S., this report focused on comparing the DC Lottery’s practices and metrics with those of the other top performing lotteries. However, comparing the DC Lottery’s cost structure with those of lotteries that have sales in the billions of dollars would not have been meaningful. Hence, a group of six lotteries with annual sales between \$125 million and \$325 million were used for the financial review in section 9. The cost controls and performance efficiencies of the DC Lottery were found to be adequate. The DC Lottery is a small lottery operating in a very large and expensive market.

Overall, we found the DC Lottery to be an extremely well run lottery that meets the unique challenges presented by operating in an extremely expensive and competitive market.

¹ Lotteries operate in various geographic, socioeconomic, competitive, and legal environments. What may be a best practice for one lottery may not be successful or legal in another lottery.

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1. ORGANIZATION STRUCTURE AND STAFFING

This section provides an evaluation of the DC Lottery's governance structure and organization structure and staffing. The first section compares and contrasts the governance structure of the Lottery. The second section analyzes the organization structure of the Lottery and provides information on variations used in the industry. The third section provides a summary analysis of position descriptions and the level of staffing.

1.1 Governance Structure

The DC Lottery and the forty-four state lotteries in the United States have various governance structures. These structures are defined by law and reflect the levels of oversight, control and autonomy the authorizing government determined was appropriate for its lottery. A lottery is typically the only entity within the government that primarily exists to generate profits from a commercial enterprise. This unique feature has led governments to create a variety of governance structures. The forty-five government-sponsored lotteries in the U.S. operate under one of five governance structures.

1. Lottery is part of another government agency and does not have a board or commission
2. Lottery is part of another government agency and has a board or commission
3. Lottery is an independent government agency and does not have a board or commission
4. Lottery is an independent government agency and has a board or commission
5. Lottery is a quasi-public corporation or authority and has a board or commission

1.1.1 Part of an Agency – Without Board or Commission

The DC Lottery is one of six lotteries that do not have a lottery board or commission and operate as part of an agency. The DC Lottery is part of the Office of the District Chief Financial Officer. The chief executive officer of the lottery has the title of Executive Director and is appointed by the District Chief Financial Officer. The Executive Director reports to the Deputy Chief Financial Officer and Chief of Staff.

The lottery in Arkansas was an independent agency reporting to a commission from its inception in 2009 until February 2015 when the commission was abolished and the lottery became an office within the Arkansas Department of Finance and Administration.

The Delaware Lottery is one of three agencies within the Delaware Department of Finance. The Director of the State Lottery Office is appointed by the Secretary of Finance with the approval of the Governor.

The Nebraska Lottery is one of four Divisions within the Nebraska Department of Revenue. The Lottery Director is appointed by the Tax Commissioner with the approval of the Governor.

The Pennsylvania Lottery is a subdivision of the Revenue Collection and Administration division of the Department of Revenue.

The Wisconsin Lottery is one of six divisions within the Department of Revenue. The Lottery Director reports to the Director of the Department of Revenue.

1.1.2 Part of an Agency – With Board or Commission

Six lotteries are part of another government agency and have an oversight body. The lotteries in Colorado, Rhode Island, and South Dakota are part of their respective departments of revenues. The Maine Lottery is part of the Department of Administration and Financial Services and the Massachusetts Lottery is part of the Treasurer & Receiver General. North Dakota's lottery is a division in the Attorney General's office. Each of the lotteries has a commission except Rhode Island which has a Permanent Joint Committee on State Lottery.

1.1.3 Independent Agency – Without Board or Commission

Three lotteries operate as independent agencies without a board or commission that provides oversight or guidance. This structure permits the lottery's chief executive officer to report directly to the governor without the oversight or input from a board or commission.

- The Florida Lottery's chief executive has the title of Secretary. The Secretary is appointed by and reports directly to the governor. There have been 7 Secretaries in the years since the lottery began in 1988. The Florida Lottery originally had a commission; the commission was abolished in 2001.
- The Michigan Bureau of the Lottery's chief executive has the title of Commissioner. The Commissioner is appointed by and reports directly to the governor.
- The Minnesota Lottery's chief executive has the title of Executive Director. The governor, with the advice and consent of the Senate, appoints the Executive Director. The Executive Director serves at the pleasure of the governor.

1.1.4 Independent Agency – With Board or Commission

Twenty-one lotteries operate as independent agencies² with a board or commission that provides oversight or guidance. This is the most prevalent governance structure for lotteries in the United States. These lotteries report directly to a board/commission or to the governor. The boards/commissions vary in size, involvement, and authority. Some lotteries have boards that are advisory in nature; others have boards that approve everything from game rules to vendor contracts.

² These include lotteries that are attached to departments for administrative reasons but the departments do not have any control over the lottery. For example, the Missouri Lottery is officially part of the Missouri Department of Revenue; however, the Lottery Director serves at the pleasure of the governor and reports to the Missouri Lottery Commission. The Missouri Lottery does not receive services from the Department of Revenue.

1.1.5 Quasi-public Corporation or Authority

Nine lotteries are set up as quasi-public corporations or authorities with boards. The board members are political appointees with defined terms. The chief executives of these lotteries typically report to a board and are appointed by the governor.

This governance structure is intended to provide a lottery with the flexibility and autonomy to operate similar to a commercial enterprise. The actual autonomy given to these lotteries varies considerably. Although most of these lotteries have the authority to manage their own major procurements, they generally follow state government procurement practices. One of these lotteries must have all personal services contracts approved by the state purchasing authority.

Six of these lotteries, including Georgia Lottery Corporation and Kentucky Lottery Corporation, were set up as quasi-public corporations from their beginning. However, the other three lotteries, including Connecticut Lottery Corporation, State Lottery Commission of Indiana, and the Iowa Lottery Authority were converted from previous structures to quasi-public corporations.

1.1.6 Governance Structure Best Practice

The legislative and executive branches of governments in the United States that legalize government-sponsored lotteries have always formulated laws and policies that require the lotteries to operate with the utmost integrity and fairness to players, retailers, and other stakeholders. One method of providing oversight to address integrity and fairness is to establish a board or commission. Although eighty percent of the lotteries in the U.S. have a board or commission, three lotteries that were originally created with commissions have since had the commissions abolished. No objective method exists for determining which governance structure best serves the integrity and fairness requirements of the authorizing government bodies or whether a board/commission provides benefit in that regard.

Given that lotteries primarily exist to sell lottery products and make money for good causes, the most appropriate method for determining which governance structure best serves this purpose would be to analyze sales results by governance characteristics. Table 1-1 groups the forty-five U.S. lotteries into the five groups based on their governance structure characteristics and provides sales per capita for the best performing lottery in each group, the lowest performing lottery in each group, and the median performance for each group.

U.S. Lottery Per Capita Annual Sales³ 2014 By Governance Characteristics					
Group #	Governance Characteristics	Number of Lotteries in Group	Highest per cap Sales	Lowest per cap Sales	Adjusted Average per cap Sales⁴
1	Part of other government agency; does not have board or commission	6	\$ 368	\$ 85	\$ 197
2	Part of other government agency; has board or commission	6	\$ 714	\$ 38	\$ 146
3	Independent government agency; does not have a board or commission	3	\$ 252	\$ 103	\$ 202
4	Independent government agency and has a board or commission	21	\$ 360	\$ 52	\$ 160
5	Quasi-public corporation or authority and has a board or commission	9	\$ 387	\$ 68	\$ 175
Table 1 - 1					

None of the groups stand out as an obvious “best practice” in terms of generating sales.

- Group 1 has the highest median per capita sales aside from Group 3, which only has three lotteries.
- Group 2 includes the highest performing lottery but also has the lowest performing lottery and has the lowest median.
- Group 3 has the lowest highest and highest lowest per cap lotteries; it also has the highest median per capita sales
- Group 4 has the second lowest median per capita sales
- Group 5 does not have any values that stand out

If Group 3 (which contains less than 7% of lotteries) is excluded, then Group 1 could be considered the best performing group given its high median per capita sales and the fact that it has the highest low performing lottery. The DC Lottery is member of Group 1 and has the highest per capita sales in the group.

³ Excludes video lottery sales.

⁴ Adjusted average sales is the average sales excluding the top and bottom performers. For the group with three lotteries, the median is the average of the three lotteries.

1.2 Organization Structure

The operation of a lottery that sells instant scratch games and draw games through retailer terminals requires a number of functions.

1.2.1 Lottery Functions

Lotteries have numerous functions in common with other government agencies but also have many functions that are not required within a typical government agency. As organizations that sell products through retailer channels, lotteries have many functions in common with other sales and marketing organizations. However, lotteries also have functions that are unique to the lottery industry. The following sections list the various functions lotteries must perform or outsource and provides applicable commentary.

1.2.1.1 Generic Functions

Numerous functions are generic to most large business and government enterprises. Table 1-2 lists these generic functions within five broad categories.

Generic Organizational Functions		
Administrative	Finance	Information Technology
Human Resources Purchasing /Procurement Contract Management Facilities Mail Fleet	Budgeting	Business systems support
	Accounting	System Administration
	Accounts payable	Network Administration
	Accounts receivable	
	Financial analysis	
	Executive Support	Security
	Legal	Background investigations
	Internal Audit	Physical security
	Public Relations	Investigations
		Liaison
Table 1-2		

Where these categories and functions report within an organization varies. Some lotteries, such as the North Carolina Education Lottery have the Administrative, Finance, and Security functions all reporting to one individual. Other lotteries, such as the Kentucky Lottery Corporation have Administrative and Finance functions reporting to one individual and Security reporting to another. Information technology usually reports to one individual. The legal function almost always reports directly to the chief executive officer. The public relations function may report to the chief executive officer or may be part of the communications function found in the marketing department. If a lottery is large enough to have an internal audit function, that function should report at a level that ensures enough independence to properly perform the audit function—ideally, a commission or government audit agency.

1.2.1.2 Marketing and Sales Functions

Lotteries sell products through networks of retail outlets and also directly promote their products through advertising, promotions, and events. Hence, lotteries have the usual sales and marketing functions found in other business enterprises that sell products through retail channels. Table 1-3 lists the marketing and sales functions found in most U.S. lotteries.

Marketing and Sales Functions	
Marketing	Sales
Product development	Outside sales
Product marketing	Inside sales (Tel-sell)
Advertising	Corporate Account Management
Marketing research	
Marketing communications	
Promotions	
Special events	
Table 1-3	

Most lotteries group the marketing and sales functions as shown in Table 1-3 with separate managers for each group. In some lotteries the two managers report to a senior vice president or deputy director who oversees both groups. In other lotteries, the two managers report directly to the lottery's chief executive. As long as there is sufficient communication and coordination between the groups, it does not matter whether or not the groups report directly to the chief executive.

"Outside sales" function includes physically visiting retailers, assisting with merchandising, and recruiting new retailers. A few lotteries have outsourced the outside sales function to contractors. "Inside sales" function includes calling retailers to determine how much inventory the retailer should order and answering retailers' questions. The inside sales function has been dropped by many lotteries as they have acquired sophisticated systems that can accurately predict the quantity of tickets retailers need. Some lotteries, including DC Lottery, have outsourced the inside sales function.

1.2.1.3 Lottery Specific Functions

The operation of a traditional lottery that sells instant scratch games and draw games through retailer terminals requires a number of functions specific to lotteries. Several of these functions are frequently outsourced for various reasons including the expertise, economies of scale, shifting liability, and efficiency of operating outside a government structure. Table 1-4 provides a brief description of these functions and indicates the frequencies at which these functions are outsourced.

Lottery Specific Functions		
Function	Description	Outsourcing Frequency
Claims and payment	Receipt of mailed-in or carried-in tickets to determine the winning status of the tickets and to make payments when appropriate.	Never
Customer service	Answer phone calls, emails, and other communications from players and other stakeholders regarding any lottery-related issue. Topics include winning numbers, questions regarding how game is played, and issues regarding retailers.	Seldom
Gaming system operations	Operation of the computers, network, and retail devices used in the operation of the games and the production of draw game tickets at retail. Also, includes delivery of stock and maintenance of equipment in retail locations.	Almost Always
Instant ticket shipping	Delivery of instant tickets from warehouse to retailer locations.	Almost Always
Instant ticket warehousing/ staging	Receipt of instant tickets from ticket manufacturer and staging in warehouse in preparation for shipping to retailer. Packing of tickets ordered by retailer into individual container for final shipment.	Sometimes
Internal control system operation	Operation of system that provides check and balance for gaming system.	Never
Lottery drawings	The choosing of winning numbers using mechanical or computerized draw machines.	Seldom ⁵
Retailer accounting	Making appropriate accounting adjustments and answering retailer accounting questions.	Never
Retailer contracting/ licensing	Processing retailer applications and managing retailer suspensions and revocations.	Never
Table 1-4		

Consistent with lottery best practices, the DC Lottery has outsourced its gaming system operations and instant ticket shipping.

Where each functions report within a lottery varies across the lottery industry. In many cases, the reporting structure does not matter; however, these reporting structures should be avoided:

- Internal control system operation should always be performed by lottery employees and should never report to the same person as gaming system operations if the lottery is running the gaming system.
- Retailer accounting and retailer contracting/licensing should never report to the sales function.

⁵ Lotteries do not outsource drawings with three exceptions. First, Powerball and Mega Millions drawings are performed by the Multi-State Lottery Association and the Georgia Lottery Corporation, respectively. Second, some lotteries have games (particularly Keno) that are drawn by a random number generator that is provided by the lottery's gaming system provider. Third, in some cases the game providers manage second chance drawings.

- Claims and payment, lottery drawings, and retailer accounting should have clear segregation from the gaming system function.

1.2.2 DC Lottery Organization Structure

The DC Lottery's organization structure is comprised of six primary divisions that report to the Executive Director and the Chief Operating Officer.

- Office of Resource Management includes lottery drawings, customer service, and administrative functions such as human resources, purchasing, fleet, mail, and facilities.
- Finance Division includes budgeting, accounting, retailer accounting, financial analysis, instant ticket warehousing, and management of contractor staff performing staging of instant tickets and inside sales.
- Marketing Division includes communications, advertising, special events, research, and product development.
- Sales Division includes outside sales and corporate account management.
- Security Department includes protection of people and assets, inspection of retail agents, investigations, retail licensing (including denial, suspension and revocation), and instant ticket security
- Information Technology Division actually reports to the Office of Information Technology and includes internal control system operation, network and systems administration, system architecture, and systems analysis and support.

Three attorneys and one paralegal from the Office of the General Counsel are assigned to provide legal advice to the DC Lottery.

1.2.3 Analysis of DC Lottery Organization Structure

The analysis of the DC Lottery's reporting structure focused on three primary questions:

- **Segregation of Duties:** Does the reporting structure provide an adequate segregation of duties to reduce the opportunity for internal fraud?
- **Effectiveness of Operations:** Does the reporting structure meet the requirements of each function?
- **Efficiency of Operations:** Does the reporting structure minimize the resources required to effectively perform the required functions?

From an effectiveness perspective, the one area that is inconsistent with best practices is having the inside sales function not reporting to the Sales Division. The DC Lottery has the inside sales function (referred to as "tel-sell" within the Lottery) reporting to the Warehouse Manager who reports to the Finance Division. The tel-sell function's primary responsibility is to ensure the retailers have an adequate inventory of instant game tickets. The Sales Director's job description

includes “management of instant games” and “increasing sales of existing agents.” In all other lotteries that have a tel-sell function, that function reports to Sales.

The management-level of the position supervising the DC Lottery security function is below that of the positions supervising sales, marketing, administration, and information technology. Lotteries with staffing levels similar to the DC Lottery usually have their security function managed by a department director or vice president that reports at the same level as the individuals managing sales, marketing, administrative, and information technology functions. In some cases, it is legislatively mandated that the security function is managed by a director and that the person filling the position have a law enforcement background.

The DC Lottery outsourced the inside sales function and the pick and pack function as one contract. Including both of these functions into a single contract was a good decision because neither of these functions would have been large enough on their own to warrant proposals. Given the two functions and issues with retailers hording tickets that were not activated, the decision was made to have this contract managed by the Warehouse Manager. This arrangement works from an efficiency standpoint, but the DC Lottery loses the sales focus that a lottery generally has within the inside sales function.

The organization structure does not contain reporting relationships that would reduce efficiency.

1.3 Staffing Levels and Position Descriptions

1.3.1 Staffing Levels

The DC Lottery’s various division, department, and unit staffing levels are appropriate.

1.3.2 Job Descriptions

Job descriptions are updated by the OCFO Director of Human Resources and are not within the DC Lottery’s control. Existing job descriptions are generally adequate, although a number of job descriptions could use updating.

The only job description that deviated from best practices was the warehouse manager who is responsible for tel-sell. This position manages functions that have been contracted to third parties: 1) the staging of instant tickets for shipment to retailers and 2) tel-sell. Two individuals are assigned to each function, giving the warehouse manager the responsibility of supervising four people. From an effectiveness standpoint, the two inside sales people should be supervised by someone in the Sales Division. However, this could be very inefficient if this required the addition of another DC Lottery employee to supervise the inside sales function.

1.4 Highlights and Recommendations

1.4.1 Highlights

The DC Lottery has done a nice job of combining some functions and having employees work across functions to increase efficiency while maintaining necessary segregation of duties.

Examples include:

- The DC Lottery conducts multiple drawings per day, 365 days a week with only two full-time draw staff. This is possible because the Lottery has three individuals who work for other departments and are willing to work part-time performing drawings
- The DC Lottery has combined the customer service function with the claims and payment function. This provides enough people to perform both functions during peak demand and reduce the slack time
- The DC Lottery assigns Contract Officer Technical Representative (COTR) tasks to individuals who have domain knowledge of each contract. This is a much more efficient method than having a designated COTR who is required to manage contracts without intimate knowledge of the contract domain.

1.4.2 Recommendations

1.4.2.1 Resolution of Current Issues

The DC Lottery should add a staff position to oversee the tel-sell function.

1.4.2.2 Best Practice Enhancements to Existing Operations

The DC Lottery should consider consolidating Security and Licensing and Charitable Games into a single division. This would give the appropriate level of supervision and would ensure the integrity of the retailer review, licensing, and adjudication processes. This unit should be led by a director with a law enforcement and investigative background—with a strong preference for some fraud investigation experience. Having this combined unit as a major operating division will send a strong message to internal and external audiences regarding what is important to the Lottery. As the lottery industry modernizes and implements more technology, it is imperative that lotteries have security functions that are capable of meeting the new challenges being presented.

1.4.2.3 Additional Recommendations

No additional recommendations were identified.

1.4.2.4 Recommendations in Progress

The DC Lottery has begun an effort to enhance the capability of the tel-sell function to support the sales efforts of the DC Lottery. Policies and systems will be designed to manage inventory issues at retail locations.

2. INTERNAL CONTROLS

This section provides an evaluation of the DC Lottery's internal controls in areas known to be of high and medium risks for lotteries. Several areas identified in the Final Report on the Operational Risk Assessment Update at the District of Columbia Lottery and Charitable Control Board published in January 2010 by the OCFO were also evaluated.

The first section assesses the internal controls followed by the DC Lottery's gaming system provider with particular emphasis on game integrity and problem resolution. The second section assesses the DC Lottery's claim center operations. Section 2.3 evaluates the Draw Division's operating procedures and business continuity plan. The next section evaluates how the DC Lottery is addressing the risk of retailers not paying players and the issue of high frequency winners. Section 2.5 discusses the processes and systems for handling customer complaints and section 2.6 addresses the DC Lottery's financial system. The final section summarizes highlights and provides recommendations.

2.1 Gaming System Operations

The primary objective of the gaming system operations is to ensure the gaming system infrastructure operates with the highest levels of integrity, security, and availability. Integrity and security are ensured, in part, by having a CPA firm perform a review on the controls for the gaming system provider. Availability is addressed by the redundancy built into the system and network architecture and by ensuring that if and when errors occur, the gaming system provider identifies and corrects errors in the gaming system infrastructure.

DC Lottery meets with Intralot and DC09 on a weekly basis. These are senior level meetings to review upcoming events, issues, and status of various projects.

2.1.1 SOC 1 / SSAE 16 Type 2 AUDIT

The Lottery requires Intralot have an SOC1 / SSAE16 Type 2 audit be performed each year. This provides the lottery with a report on the fairness of the presentation of management's description of the service organization's system and the suitability of the design and operating effectiveness of the controls to achieve the related control objectives included in the description throughout the fiscal year covered by the report. The report for FY 2014 was reviewed and the following issues were identified regarding the controls in place and the tests performed by the auditor:

Topic	14.4 Liability Limits for Games
Control	<i>The game processing system tracks the liability associated with DC3 and DC4 draw games and wagers are rejected once this liability meets the predetermined tolerance stipulated by the lottery.</i>
Tests	Tests for the stated control were appropriate.
Comments	DC5 has a \$3 million liability limit. This limit is reached more often than either DC3 or DC4.
Recommendations	Control should be expanded to include all games that have liability limits.

Topic	16.58 Race2Riches
Control	<i>A random number generator system selects the winning numbers every 4 minutes.</i>
Test	<i>Observed a random number generator system to determine that a random number generator system selected the winning numbers per draw every 4 minutes.</i>
Comment	One of the primary concerns for random number generators used for choosing winning numbers is whether the winning numbers are predictable or whether they are random.
Recommendation	The control should be enhanced to require the system to select winning numbers that are sufficiently random and a test of the sufficiency of the randomness of the numbers actually being drawn should be added.

Topic	16.63 Keno
Control	<i>A random number generator system (Horizon) selects the winning numbers every 4 minutes.</i>
Test	<i>Observed the Horizon system to determine that a random number generator system selected the winning number per draw every 4 minutes.</i>
Comment	One of the primary concerns for random number generators used for choosing winning numbers is whether the winning numbers are predictable or whether they are random.
Recommendation	The control should be enhanced to require the system to select winning numbers that are sufficiently random and a test of the sufficiency of the randomness of the numbers actually being drawn should be added.

Topic	16.69 Fast Play
Control	<i>A random number generator selects the numbers for play at the time of ticket purchase.</i>
Test	<i>Inquired of the Operations Manager to determine that a random number generator selects for play at the time of ticket purchase.</i>
Comments	<ul style="list-style-type: none"> One of the primary concerns for random number generators used for choosing winning numbers is whether the winning numbers are predictable or whether they are random. As this control is described, the random generator is selecting the numbers and then the ticket is played against the game rules to

	<p>determine whether the winning status of the ticket.</p> <ul style="list-style-type: none"> Accepting the word of a person who is employed by the target of an audit should not be an acceptable method of obtaining reasonable assurance that the control is adequate.
Recommendations	The control should be enhanced to require the system to select numbers that are sufficiently random and a test of the sufficiency of the randomness of the numbers actually being drawn should be added.

Topic	16.70 Fast Play
Control	<i>There are a finite number of possibilities for the results of the Fast Play tickets, with each purchase, the result chosen is immediately replaced so that the odds are never changed. There is no limit to the amount of tickets available for purchase for any Fast Play games.</i>
Test	<i>Inquired of the Business Analyst regarding Fast Play games to determine there were a finite number of possibilities for the results of the Fast Play tickets, with each purchase, the result chosen was immediately replaced so that the odds are never changed. There was no limit to the amount of tickets available for purchase for any Fast Play games.</i>
Comments	<p>The description of this control would indicate that when tickets are purchased, a drawing is held and something is removed and then put back.</p> <p>The more likely process is that when a ticket is purchased the system either:</p> <ol style="list-style-type: none"> Randomly determines the winning status of the ticket and then assigns play spots, or Randomly determines play spots and then determines the winning status of the ticket
Recommendations	<ul style="list-style-type: none"> Ensure the description of the process and control are accurate Test the control

Topic	Tap-N-Play
Comments	No controls are defined to address the selection of winners for the TAP-N-PLAY games. The only TAP-N-PLAY controls were 16.72 (protecting against inputting invalid entries on terminal touch screen) and 16.73 (ticket transactions be sent to LOTOS and logged).
Recommendations	Controls and appropriate tests should be included to address the selection of winners for the Tap-N-Play games.

Complementary user entity controls defined in the description of the system provided by Intralot were evaluated for appropriateness, adequacy of definition, and adherence by the DC Lottery. The seventeen complementary user entity controls are controls that Intralot believes should be implemented by the DC Lottery to provide additional assurance that Intralot's control objectives are met. Select user entity controls were examined to obtain reasonable assurance they had been implemented and were being followed. The examination revealed:

- The System Compliance and Investigator, Lottery Security, reviews the user lists for access to the LOTOS gaming system.
- Lottery Security, IT, and Resource Management review all remote access by vendor employees to the gaming system production environment.
- Lottery IT and Resource Management monitor compliance of the gaming system contract.

2.1.2 Resolution Management Process

Intralot and DC09 have a documented process for escalating problems and issues to higher authorities if they cannot be resolved at the lower level. Four escalation levels are defined and timing for notification and response are established. An OWNER is designated for each problem escalated.

All agent records and activity are entered in the Siebel System by the Call Center Operators. The DC09 Siebel System is used to monitor and track issues through the troubleshooting and resolution process. The data input into the system is adequate and provides sufficient information for management reporting and tracking. Standard reports regarding call center activity and field service activity are available.

All incidents are assigned a root cause or the root cause is designated as unknown. A review of the root causes assigned indicated that the root causes are consistent with the resolutions.

2.1.3 Operations

An evaluation of the checklists used by Intralot computer operators in Ohio indicated that the operations staff strictly follows well-defined and detailed checklists. A review of incidents did not indicate issues with the integrity of Intralot's data center operations.

2.2 Claim Center Processing

The primary objective of the claim center processing operations is to ensure prize money is paid accurately to the rightful owner of a prize. Additional objectives include ensuring the customers cashing tickets receive proper customer service and providing adequate security for lottery staff that process the claims.

2.2.1 Claim Processing Policy and Procedures

The DC Lottery's policy that once a person signs a ticket they are recognized as the owner of the ticket is an industry best practice. The DC Lottery will not allow a person to transfer ownership of a ticket once they have signed it. This provides players protection against ticket theft and cashing fraud if the players sign their tickets. If tickets are not signed when they are given to the DC Lottery customer service staff, the staff returns the tickets to the player and has them sign the ticket. The Lottery requires two forms of identification from a player cashing a ticket valued at \$600 or more. At least one form of identification must be government-issued and one must have

the presenter's social security number or other tax identification number. The names on the identification cards must match and be consistent with the name signed on the back of the ticket.

The DC Lottery has nine AgentPlus retailers who can cash winning lottery tickets for up to \$5,000. The AgentPlus locations are required to enter the claimant's tax identification number into the system to check for offsets. If the tax identification number is flagged for owing taxes or child support, the system will not allow the claim to be processed, and the claimant must go to the DC Lottery to claim the prize. Based on a one-week sample analysis, AgentPlus retailers processed 72% of the claims between \$600 and \$5,000. Customer Service provides AgentPlus statistics to the Security Department. The statistics show the number of claims, dollar amounts, and the number of errors made by each claimant. The Security Department monitors AgentPlus locations and addresses issues. If an AgentPlus location continues to have issues, the DC Lottery will remove its AgentPlus status.

The DC Lottery customer service staff also processes mailed-in claims. The staff processes each claim and will either send a check to the winners or a form letter that indicates why the ticket or tickets are being returned. Processing is performed in the claim center and the activity and workflow is captured in the IQ system. The IQ system provides the ability to query activity using various parameters. The customer service staff processes approximately ninety mailed-in claims/letters per month.

2.2.2 Problem Tickets

When the Claim Center receives tickets that have issues, they will contact security. Tickets can be considered Problem Tickets for a number of issues including tickets that have been signed more than once, tickets that have been defaced, tickets that have already been cashed, and tickets where the winning status according to the system does not agree with the winning status as it appears on the ticket. Problem Tickets are referred to the Security Department by sending the claim form and the ticket to Security Department. Each Problem Ticket is entered into the Security Department's database as a Problem Ticket and recorded on the DCLB Security Department Problem Ticket Log. If appropriate, the Security Department will provide information to the Legal Department for processing. Customer Service is responsible for tracking all Problem Tickets until they are resolved. The Customer Service Department creates a monthly Claims Center Monthly Productivity Report.

The Security Department received eighteen Problem Tickets during FY 2015. Only one of the Problem Tickets remained open at the end of the year—that issue was opened July 30, 2015. However, the Customer Service Summary showed there were forty-two tickets referred to Security from March through August of 2015. The Customer Service Department did not produce a current Problem Ticket Register⁶.

⁶ A sample from April 2014 was provided.

2.2.3 Activity Monitoring and Segregation of Duties

The Claim Center is typically staffed by at least two people. The public area is supervised by an armed guard and is monitored by two cameras covering the counter area and the entrance on the public side. The customer service area is segregated from the players by a locked door that requires card access and a glass window with slots for communicating with customers. A camera located behind the counter monitors the counter area and the door.

Duties are properly segregated within the department and all documentation is forward to Accounting after processing.

2.2.4 Winner Awareness

Lottery rules require winners of \$2,500 or more require to have their picture taken. The Communications Department chooses pictures at random to post on the Lottery's webpage.

A number of winners do not want to have their pictures taken. The customer service staff must require the photographs in accordance with the rules prior to paying the player but offers to give the player the contact information for DC Lottery Communications Division if they do not want their photos made public.

Fifteen of the nineteen lotteries in the U.S. that responded to a survey in October, 2015 do not require players to have pictures taken of winners. Two lotteries require pictures for winners of over \$1,000,000 and one required pictures of winners over \$10,000.

2.2.5 Staff Safety

The DC Lottery sets an example for industry best practice for employee safety. All customers wishing to enter the claim center must pass through a security checkpoint that includes a metal detector. After passing through the security checkpoint, the customers enter the Customer Service reception area. The reception area is under video surveillance that is monitored by DC Lottery Security. Also, there is an armed guard who patrols the Customer Service reception area.

2.2.6 Information Systems Support

The Automated Claims Process (ACP) system used by the DC Lottery may be the most automated claims processing system in the lottery industry.

The DC Lottery Claim Center at its headquarters uses a highly automated process. Most lotteries require a player to fill out a claim form and submit it with their tickets; the lottery reviews the claim form for accuracy and key-enters the information. Most lotteries also photocopy the front and back of the player's identification card and the front and back of the ticket. The DC Lottery has automated the claims process and made it much more customer friendly and efficient. Using the *Automated Claims Process (ACP)* system, the lottery customer service staff uses a dual

sheet-fed scanner to scan both sides of the ticket, ticket receipt, and player identification cards with a single pass. All the scanned images stored in the ACP system.

Additionally, the scanner software usually is able to read the information on the identification card and populate the necessary fields, such as address and ticket number, in the claim form. The lottery customer service staff verifies the information captured by the system and prints the claim form for the player to sign. This process reduces the information that must be completed by the players and typed by the customer service staff.

2.3 Draw Division Operating Procedures and Business Continuity Plan

The primary objectives for the drawings conducted by the DC Lottery are to ensure the integrity of the drawing results and ensure the results are accurately entered into the system and accurately reported to the media and other entities. An additional objective is to provide reasonable assurance the drawing processes can take place in the event of a disaster or other business interruption.

The drawing is conducted by one Lottery Program Manager and one external auditor. Lottery follows typical process of randomly selecting which random number generator to use. In addition, the procedures require the selection of an algorithm. The selections are performed by the external auditor and confirmed by the Program Manager. Selections are performed at an uncluttered table that is under video surveillance by Lottery Security. The surveillance camera is a pan-tilt-zoom, fish-eye camera that records the entire room. Winning numbers are entered into the gaming system by a member of the Lottery IT staff and an employee of the gaming system operator.

Evidence of drawing process includes the Safe or Cabinet Security Record log, Program Manager's Checklist, Independent Auditor's Checklist, Winning Numbers Record, DC Lottery Seal Record, a DVD for the random number generator that captures all screen activity, and a DVD for the video generation program. The two DVDs are changed every week.

Winning numbers are sent to the media via fax using the Summary Winning Numbers List generated by the random number generator. The DC Lottery confirms the winning numbers by calling the DC Lottery's winning numbers line and obtaining verbal confirmation from Lottery IT, Program Manager and external auditor. The Program Manager also confirms the winning number by calling both radio stations that broadcast the numbers. Finally, the animated drawing is reviewed and winning numbers verified by the external auditor and the Program Manager prior to the drawing being placed on the DC Lottery website.

All problems are documented and reported. Bi-weekly reports are created and submitted to the DC Lottery Director of Resources Management and to the external audit firm.

The DC Lottery has made arrangements with the Multi-State Lottery Association to perform drawings in the event of a disaster.

2.4 Risk of Fraud Associated with Non-Payment of Player's Winnings

2.4.1 Preventing and Detecting Retailer Fraud Against Players

Preventing and detecting retailer fraud against players is extremely difficult because lotteries cannot directly control or monitor all retailer activity. The safeguards the DC Lottery has put in place to protect players against retailers not paying winning tickets were evaluated against the industry best practices. The best practices included in this document were catalogued in 2014 through a rigorous process over a three-month period with the input and cooperation of twelve U.S. lotteries.

The best practices project revealed that the methods available for addressing retailer fraud against players vary from lottery to lottery depending upon the available resources, organizational structure, legal environment, and political environment. The practices employed by lotteries fall into four categories. The results of our analysis are provided for each category.

2.4.1.1 Statutes, Regulations, and Policies

The District of Columbia Code and the District of Columbia Municipal Regulations define certain requirements and restrictions for lottery agents that result in an excellent level of player protection. In addition, the DC Lottery has adopted certain policies and procedures that provide additional protection to the players.

Best Practice	DC Lottery Status / Comment
The Lottery will never pay an individual presenting a ticket that has been signed by someone else.	Implemented. This DC Lottery policy is the best protection a lottery can provide to its players. If a player signs his or her ticket, no one will be able to fraudulently cash the ticket at the Lottery.
Retailers can lose selling privileges if suspicious, high-frequency winning cannot be explained.	Implemented. The DC Lottery regulations allow the lottery to suspend or revoke an agent's license for committing any act which impairs the agent's reputation for honesty and integrity.
Lottery cannot pay a prize if ticket is stolen.	Implemented.
Lottery cannot pay prize if ticket is purchased from someone other than an official lottery retailer.	Implemented. The DC Lottery statutes state that tickets can only be purchased from a licensed agent.
Winning tickets cannot be assigned or sold to someone else; a person cannot claim a ticket on someone else's behalf without proper documentation.	Implemented.
Retailer can lose selling privilege for various reasons including jeopardizing the integrity or efficient operation of the lottery, committing fraud or misrepresentation, charging a fee to redeem a ticket, or violating the Lottery's ethics rules.	Implemented. The DC Lottery's regulations allow the lottery to suspend or revoke an agent's license for committing any act which impairs the Lottery's and/or the agent's reputation for honesty and integrity.

Best Practice	DC Lottery Status / Comment
Retailers are prohibited from paying player less than the full prize amount for a winning ticket	Implemented. The DC Lottery's regulations allow the Lottery to suspend or revoke an agent's license for committing any act which impairs the Lottery's and/or the agent's reputation for honesty and integrity.
Retailer employees must return non-winning tickets to players.	Implemented. Although the DC Lottery does not have a policy or regulation that specifically requires retailers to return tickets, the DC Lottery can require retailers to return tickets if requested by the customer. Existing rules would allow the DC Lottery to remove a retailer's sales privileges if they refuse to return tickets. This best practice is not in widespread use and would be difficult to enforce. However, if players complain that a retailer would not return a ticket that a retailer claimed was not a winner, the DC Lottery could invoke the regulation regarding the agent impairing the Lottery's reputation.
Table 2-1	

2.4.1.2 Technology for Player Protection

The U.S. lottery industry has been diligent in developing technology to assist in reducing fraud regarding cashing tickets. The DC Lottery has implemented most of this technology.

Best Practice	DC Lottery Status / Comment
Self-checkers that allow players to determine the winning status of lottery tickets.	Implemented. This is the second best protection a lottery can provide its players. The DC Lottery has equipped every lottery agent who had available space with a ticket-checker that players can use to determine the winning status of their ticket. The Lottery is currently in the process of upgrading these devices to provide more information to the players.
Lottery terminals provide audio alerts when winning tickets are checked.	Implemented. The DC Lottery terminals in agent locations are programmed to provide an audio alert when a retailer scans a winning ticket. The Lottery is currently in the process of upgrading this functionality to bring it into full compliance with best practices.
Customer display units near lottery terminals identify the winning status of lottery tickets when scanned by retailer.	Implemented. The customer display units located by the DC Lottery terminals identify the winning status of a lottery ticket when it is scanned by the retailer.
Mobile apps that will allow players to determine the winning status of lottery tickets.	Under Development. The DC Lottery has a contract in place, and an app is being developed.
Table 2-2	

2.4.1.3 Communications and Public Relations

Lotteries can use their communication and public relations capabilities to educate players on what the players can do to protect themselves against fraud.

Best Practices	DC Lottery Status / Comment
Lottery provides information to players on how to determine the winning status of a ticket.	Implemented. The DC Lottery provides player information in several locations.
Lottery warns players to sign their tickets or that tickets are a “bearer instrument” if not signed.	Implemented. The DC Lottery provides player information in several locations. For example, the website warns players “Unless signed, anyone in possession of the ticket may file a claim.”
Lotteries periodically run campaigns to push player protection messages such as “sign your ticket” or “know you’re a winner.”	Implemented.
Table 2-3	

2.4.1.4 Investigations, Data Analysis, and Integrity Checks

Lotteries cannot monitor all retailer activity, so detecting retailer fraud against players is extremely difficult. Lotteries can capture and analyze data on high frequency winners and unusual win patterns. They can also perform investigations based on information received and whether they are retailers. Many are not.

The best practices in this area are confidential. Providing information regarding what information is captured, how it is analyzed, and how a lottery conducts its investigations and integrity checks would serve to aid and abet would-be perpetrators to commit fraud in a manner that would make it less likely that they would be caught. Hence, only the topic of each best practice is provided below.

Best Practices	DC Lottery Status / Comment
Data Capture	Implemented.
Data Analysis	Implemented.
Complaint Capture	Implemented.
Investigations	Implemented.
Integrity Checks	Implemented.
Collaboration with law enforcement	Implemented. The DC Lottery works closely with the U.S. Attorney’s Office and the DC Inspector General, and the Office of Integrity and Oversight.
Table 2-4	

The DC Lottery has implemented most of the industry best practices identified by the twelve state workgroup. The Lottery is in the process of further enhancing several practices. With its policy of protecting players who sign their tickets and making ticket checkers available in most retail locations, the DC Lottery has armed players who sign and check their tickets with excellent protection against fraud.

2.4.2 Understanding High Frequency Winners

Since at least 1998, various state auditors and journalists have raised questions regarding individuals who claim lottery tickets with unusually high frequency. Issues raised regarding high frequency wins range from the winners not paying adequate income taxes to accusations that high frequency winners must be doing something illegal. In 2007, analyses performed in Canada indicated that retailers were among the high frequency winners. By 2009, many U.S. lotteries, including the DC Lottery, were addressing the issue of retailer wins.

U.S. lotteries have always been cognizant of their responsibility to protect lottery players from embezzlement and fraud. For more than thirty years, lotteries have required their gaming system and ticket providers continually increase the security features of the games they sell. Today, with lottery machines in retail stores connected to centralized computers, the DC Lottery provides its players with the security of one hundred percent real-time accounting of tickets and prizes. Players can use lottery-provided ticket checkers to determine the winning status of each ticket. By combining this technology with the DC Lottery's policy of considering the first person to sign the back of the ticket to be the rightful owner of the ticket, the DC Lottery has provided its players protection against someone stealing their winning ticket or someone telling the player a winning ticket is a non-winner.

From a lottery's standpoint, its most important responsibility is protecting legitimate winners from losing their winning tickets via fraud or theft. Our analysis indicates that the DC Lottery is providing its players excellent protection to prevent perpetrators from stealing or defrauding players of their winnings. Many of these protections have been in place since 2010. Nonetheless, periodically, a journalist raises questions regarding the integrity of the lottery based on an analysis that shows several individuals claiming an unusually high number of prizes. The following sections explain what is known regarding high frequency winners.

2.4.2.1 *Players Who Beat the Odds*

A person only has to buy one ticket to win a jackpot. Lotteries and journalists are aware of this, so a person who wins one large prize is not relevant when discussing high frequency winners. However, when a player appears to beat the odds and cashes eight tickets each for \$5,000, questions are asked. Unfortunately for the lottery and the players, the accusations and conclusions that may follow can be misguided and inaccurate. Worse yet, the erroneous conclusions are given additional credibility by citing sources who, although capable statisticians, are ignorant regarding lotteries and how people play. Although their mathematics may be correct, the assumptions regarding how a player purchases tickets may be wrong.

The most egregious examples of this typically pertain to a lottery's 4-digit daily numbers game (in the District, the DC4 game). The odds of winning \$5,000 on a straight bet in the 4-digit game are 1 in 10,000. Invariably, if someone analyzes lottery winners for more than a year in a jurisdiction with a strong numbers game, one or more individuals will be found who have claimed multiple \$5,000 prizes in the 4-digit numbers game. For illustrative purposes, assume one person claims eight \$5,000 prizes within one year. Given the odds of 1 in 10,000, an uninformed journalist will assume that there must be something wrong—either the game is fixed or the claimant illegally obtained the tickets. The journalist locates a statistician with a PhD, explains the situation and asks the statistician to determine the odds of the player legitimately winning. A way to make the story even better would be to determine how much money the player would likely have had to bet to win that much money.

The story is only sensational if the statistician assumes the player placed \$1 bets and each win was for a different drawing. The odds of a player winning eight times in a year placing one \$1 bet per day would be approximately 1 in 274 octillion⁷. However, many daily number players will play the same sets of numbers multiple times in a day. These numbers usually have meaning such as house numbers, birthdays, birth years, etc. or just be a “hunch.” Also, these players will have each bet on a separate ticket so they can spread out their cashing if they want. The result if they win is they win on multiple tickets. If the player in our example placed four \$1 bets on the same set of numbers every day for one year, the odds of that player winning eight times is 1 in 274,000. Of course, the player who plays \$4 on one draw each day will have spent \$1,460 instead of the \$365 spent by the player playing \$1 at a time.

The two important points regarding lucky players who beat the odds are 1) sometimes players will beat the odds and 2) sometimes the “experts” are very wrong regarding the odds of a player having won so often. High frequency winners who only claim prizes from one game may merely have beaten the odds.

2.4.2.2 Players Who Play Large Amounts of Money

Players who appear to consistently beat the odds may be heavy players who spend more on lottery tickets than most people would believe. However, these “heavy players” may be risking far less money than it appears. The illusion of playing more than they are actually risking can be the result of three issues—house money, income tax laws, and churning prizes.

House Money

Players make a decision on how much they will spend on lottery tickets. However, assume a person decides to spend \$60 and buys a few tickets and wins \$500. Most players realize that if they stick \$60 in their pocket, the rest of the money is the “lottery's money” or, as it is referred to in the casino industry, “house money.” They are no longer using their own money, so their playing decisions may change. There are many cases in the U.S. where players have won large prizes in a lottery game and then won several more prizes in the future. Whereas many people

⁷ 274 followed by twenty-seven zeros.

might believe it is ridiculous for someone to spend \$10,000 or \$20,000 on lottery tickets in a year, they would be less likely to think it is ridiculous if they knew the person had won \$50,000 upfront. People playing with large amounts of “house money” have a tendency to spend more and, consequently, win more than other people.

Churning Prizes

Some lottery games lend themselves to what is referred to in the industry as *prize churn*. Players who win small amounts in a lottery game frequently “re-invest” their winnings in to additional tickets—and the additional tickets may result in additional winnings.

The table illustrates how the total amount played by a player can be misleading if the player uses all of his or her winnings to buy additional tickets. The assumption in the “Steady Loss” column is that the player decides he or she will purchase \$100 in lottery tickets and use all the winnings to purchase more tickets until he or she is down to less than \$1, at which time he or she will keep the remaining money and not purchase more tickets. The game pays out 68%, so theoretically the player will win 68% of his or her money back on each bet. By summing all the bets, we find that the player who started with only \$100 has managed to spend almost \$310 without using any more of his or her money.

The third column adds the “House Money” dimension to the analysis. In this case, the player plays \$60 on a Race 2 Riches game and hits a quinella, which pays \$820 on each of three tickets. The player now invests the entire \$2,460 and the process follows the same methodology used in the “Steady Loss” example. In this instance, the player started with only \$60 and wagered a total of \$7,740 without using any more of his or her money.

Games such as Keno, Race 2 Riches, and instant games have very high churn factors.

Income Tax Laws

If someone wins \$600 or more, the DC Lottery will issue a W-2G and report the winnings to the Internal Revenue Service (IRS). The IRS and the jurisdiction where the person cashing the ticket lives will require the person cashing the ticket to pay personal income taxes on the winnings. However, the individual can deduct all amounts wagered up to the amount of the prize. Hence, for someone who is in the top income tax bracket who has won a prize, the cost of purchasing additional tickets is subsidized based on the tax laws. A DC resident who is in the top marginal tax bracket can deduct 49.3 cents of each dollar spent on lottery tickets up to the amount of his or

Theoretical Play for Game with 68% Payout		
	Steady Loss	House Money
1st Play	\$100.00	\$60.00
1 st Win/2 nd Play	\$68.00	\$2,460.00
2 nd Win/3 rd Play	\$46.24	\$1,672.80
3 rd Win/4 th Play	\$31.44	\$1,137.50
4 th Win/5 th Play	\$21.38	\$773.50
5 th Win/6 th Play	\$14.54	\$525.98
6 th Win/7 th Play	\$9.89	\$357.67
7 th Win/8 th Play	\$6.72	\$243.21
8 th Win/9 th Play	\$4.57	\$165.39
9 th Win/10 th Play	\$3.11	\$112.46
10 th Win/11 th Play	\$2.11	\$76.47
11 th Win/12 th Play	\$1.44	\$52.00
12 th Win/13 th Play		\$35.36
13 th Win/14 th Play		\$24.05
14 th Win/15 th Play		\$16.35
15 th Win/16 th Play		\$11.12
16 th Win/17 th Play		\$7.56
17 th Win/18 th Play		\$5.14
18 th Win/19 th Play		\$3.50
Total Played	\$309.45	\$7,740.07

Table 2-5

her winnings; the deductions are 49.2 cents and 47.4 cents for Maryland and Virginia residents, respectively. For a person who has won a \$1 million, the cost of the next lottery ticket is slightly more than fifty cents.

2.4.2.3 *Individuals Cashing Other People's Tickets*

The cashing data analyzed by lotteries will typically reveal one or more people who are likely cashing tickets that were purchased by someone else. Although it is possible these tickets were obtained through fraud, the DC Lottery has provided the players with sufficient protection that the players should not be subject to such fraud. It is important to understand why someone might be motivated to have someone else cash their ticket and why someone else would be willing to cash the ticket.

There are five primary reasons why someone would prefer to have their ticket cashed by someone else.

1. **Avoiding Disclosure.** The freedom of information laws in most jurisdictions require the lottery to disclose winner information. Many people do not want anyone to know they won, so they are motivated to find someone to cash their ticket for them.
2. **Tax Avoidance.** For large prizes, the lottery is required to withhold a certain percentage for taxes and must report the winnings to the Internal Revenue Service. Individuals may be willing to net more money by selling their ticket to someone else than cashing it and paying the required taxes.
3. **Avoid Debt Off-set.** The lottery is required to withhold delinquent child support payments from prize awards. An individual who owes such payments may decide to have someone else cash their ticket to avoid having the offset payments withheld from their winnings.
4. **Lack of Tax Identification Number.** Some individuals may not have a tax identification number assigned or may not have their tax identification card. These individuals may choose to have someone else cash their tickets to avoid the need to get a tax identification number or a new tax identification card.
5. **Inconvenience.** Some individuals do not want the inconvenience of going to the Lottery Claims Processing Center or an AgentPlus location and having to complete the claim form and process necessary to get paid.

The next issue is determining why someone would be willing to cash someone else's ticket. Surrogate ticket cashers usually fall into one of four groups:

Surrogate Cashier	Motivation
Friends and Family	These individuals cash tickets as a favor to the winner. These individuals are no more likely to be high frequency winners than the player (unless they are cashing tickets for multiple friends or family members).

Surrogate Cashier	Motivation
Retailers	Retailers may cash tickets as a courtesy to valued customers. Retailers who choose to illegally reduce their taxes on the prizes claimed can collect non-winning tickets to be used to off-set “winnings.” These individuals are likely to cash tickets that were purchased primarily at their store.
Professional Cashiers	These individuals may build networks that allow them to identify winners willing to part with their tickets. These individuals need to make money on the transaction. The most likely way to do this is by paying the player something less than the full value of the prize but more than the amount the Lottery would pay after withholding. However, if the professional cashier is involved in money laundering, he may be willing to pay a small premium for the ticket. These individuals will likely cash tickets from multiple stores; however, it is not unusual for the stores to be concentrated in one area.
Table 2-6	

2.4.2.4 Retailers Who Are High Frequency Winners

Since the stories regarding retailers winning in Canada were published over eight years ago, it has become fashionable for journalists to request winner information from lotteries and create stories that identify high frequency winners who are retailers. An innuendo that typically accompanies the stories is that the retailer is cheating players by stealing their winning tickets. Unfortunately, there are documented cases of retailers cheating players; these usually result in criminal prosecutions and always result in the revocation of the retailer’s license or contract. Lotteries are aware that a very small percentage of their retailers may have at least one employee who would take advantage of a player who does not utilize the protections against retailer fraud provided by the lottery.

The DC Lottery, like many of its peers throughout the U.S., performs data analysis on winners in an attempt to identify anomalies in high frequency winners. The specific analyses performed are confidential so perpetrators cannot use the knowledge to thwart investigations.

It is important to recognize there is a huge difference between identifying a high frequency winner who is a retailer and identifying a high frequency winner who is a retailer and is committing fraud. The fact that people purchase more than \$200 million in DC Lottery products each year indicates that people enjoy DC Lottery games. Lottery retailers, who are exposed to the products and see winners every day, are often some of the Lottery’s best customers. This is neither surprising nor a crime. When retailers are identified as high frequency winners, the question is which category of high frequency winner are they? Are they lucky? Are they a heavy player? Are they cashing tickets for others? Or, are they stealing from players who did not take advantage of the protections provided by the DC Lottery?

We performed a sample analysis of the DC Lottery’s high frequency winners based on data from FY 2010 through FY 2015 and met with DC Lottery Security to confirm that they had identified

and investigated each of the winners we identified. Without exception, DC Lottery Security had identified and evaluated each of the winners. We are confident DC Lottery Security is aware of the confidential techniques available for distinguishing certain heavy players from winners who fall into one of the other categories. The DC Lottery also has a confidential program in place for surveying and investigating retailers to identify retailers who may be stealing tickets from players who did not take advantage of the other protections provided by the DC Lottery.

Although generating a list of high frequency winners who are retailers is easy, determining which category of high frequency winner they are can be extremely difficult. Lottery tickets are a cash business and the DC Lottery cannot monitor retailer locations. The DC Lottery cannot, and should not, accuse retailers who are high frequency winners of illegal activity without sufficient, credible evidence.

2.5 Customer Service Complaints

The primary objectives of the DC Lottery's Customer Service department are to adequately address customer issues and meet the Mayor's Customer Quality Assurance program requirements. The Customer Complaints system provides tracking of customer complaints by the Customer Service Department.

The Customer Service data was reviewed for March, 2015 through September, 2015. The database included forty-three entries. The following issues were identified:

- The database does not include a field for Agent ID.
- Every complaint had a complaint ID of AC2, which appears to be "Agent Responsibility." Reviewing the individual complaints indicated that other complaint IDs would have been more appropriate.
- Several cases did not have any comments to identify the problem
- One case had an initial comment that only indicated that DC09 was investigating.
- As of the end of September the following number of cases were still open:
 - Opened in March = 1 of 2
 - Opened in April = 0 of 2
 - Opened in May = 1 of 4
 - Opened in June = 7 of 12
 - Opened in July = 4 of 12
 - Opened in Aug = 0 of 3
 - Opened in Sep = 5 of 8

The Customer Service Summary report for March through July of 2015 indicates the DC Lottery Customer Service department receives approximately 2,000 phone calls and 60 in-person information requests per month. However, the Customer Service department is logging less than seven calls per month. Less than one-third of one percent of calls is being logged. Not all lotteries log customer service calls.

2.6 Highlights and Recommendations

2.6.1 Highlights

- The DC Lottery's automation of claims processing at the Lottery claims center is an industry best practice. The process reduces errors and significantly enhances the customer experience.
- The DC Lottery's aggressive monitoring of ticket cancellations is an industry best practice. This highly automated process reduces the ability for retailers to commit fraud against players.
- The DC Lottery's policy that the first person signing the back of the ticket is the owner is an industry best practice and is the single most important protection a lottery can give players.
- Of the twenty-one lottery industry best practices to protect players against retailers not paying prizes, twenty have been implemented and one is in process.
- The DC Lottery sets an example for industry best practice for employee safety.
- Having Customer Service Department handle customer service and claim center functions allows the DC Lottery to minimize staffing while still maintaining appropriate segregation of duties.
- AgentPlus program that allows specified retailers to cash tickets up to \$5,000 is an industry best practice. This program is very convenient for players and reduces the DC Lottery's claim center workload by almost 75%. Checks and balances, as well as appropriate monitoring, are in place. Recommendations for improvements to this program are listed below.

2.6.2 Recommendations

2.6.2.1 Resolution of Current Issues

The DC Lottery should require Intralot to upgrade control objectives and testing in the next annual SSAE 16 Type 2 audit as recommended in section 2.1.1 of this report.

2.6.2.2 Best Practice Enhancements to Existing Operations

No best practices were identified for this area.

2.6.2.3 Additional Recommendations

The DC Lottery should consider changing its policy of requiring winners to be photographed. Winners should be encouraged and incentivized to be photographed.

The DC Lottery should require all AgentPlus retailers to strictly adhere to quality control and security requirements. Retailers who fall short of the Lottery's requirements should be removed from the AgentPlus program. The DC Lottery should also consider passing along the additional costs it incurs for auditing and processing tax reporting requirements for prizes over \$5,000 cashed by AgentPlus retailers.

2.6.2.4 Recommendations in Progress

The DC Lottery is in the process of acquiring a new customer relationship management system that is available through an existing DC contract. This system should be used to capture and analyze business issues reported by players and retailers. The best practice would be to implement the system so data would be accessible by all departments and divisions that need to enter, update, view and analyze complaints. Appropriate restrictions should be put in place to limit the viewing of sensitive data to people with a need-to-know.

3. MISSION, VISION, AND VALUES

This section provides an evaluation of the DC Lottery's Mission, Vision and Values statements. The first section evaluates the DC Lottery's mission, vision and values statements and compares them to other lotteries. The second section compares DC Lottery's efforts to communicate these statements with the efforts of other lotteries. Given the importance of employee engagement in these statements, every employee was invited to complete a survey to demonstrate their level of knowledge regarding the mission, vision and value statements. The results of the survey are discussed in the third section. The final section provides recommendations and considerations to address challenges and/or opportunities that may exist as compared to best practices from comparison lotteries and other industry leaders.

3.1 Evaluation and Comparative Analysis

3.1.1 Mission Statement

The DC Lottery's mission statement was developed in 2014.

To provide revenue-generating entertainment through the sale of innovative lottery products and promotions that directly benefits the residents and the economic vitality of the District of Columbia.

Without exception the overwhelming core message of every lottery's mission statement was to generate funds to support the needs of their state. In fact, the purpose of generating funds for their respective states was the single point of the mission statement for seven of the ten lotteries surveyed.

The DC Lottery's mission statement goes a step beyond those of the other lotteries surveyed. Instead of only focusing on the objective of raising money, the DC Lottery's mission statement also focuses on the objective of providing entertainment.

3.1.2 Vision Statement

The DC Lottery's vision statement was developed in 2014.

To be the preferred lottery in the region by stimulating imagination and inspiring optimism through the delivery of an engaging gaming experience while offering consistently superior consumer interaction.

The overriding theme of other lotteries' vision statements was to be recognized as industry leaders in providing entertaining lottery games and utilizing best practices to protect the integrity of the lottery.

Beyond the vision statements of its peers, the DC Lottery's vision statement adds the twists of *stimulating imagination* and *inspiring optimism*. These additions help guide the product development and marketing efforts of the enterprise.

Unlike many of its peers, the DC Lottery does not include the protection of integrity in its vision statement. However, this is adequately addressed in the lottery's core values.

3.1.3 Core Values

The DC Lottery's core values were developed in 2014.

Integrity; Innovation; Passion; Excellence; Community

Only two lotteries surveyed offered value statements or a list of core values. In each case, they were similar to the DC Lottery's built around integrity; innovation; excellence; honesty; trust; commitment to their state/community.

3.2 Communications

The DC Lottery posts its mission, vision and core values throughout its workspace and in each employee's office. Employees are encouraged to commit these statements to memory and be able to recite them at any given time.

The statements are a regular topic of management and department staff meetings. Senior management is committed to the principles the statements represent and openly communicates that commitment to staff throughout daily activity.

The communication strategies and tactics used by other lotteries were similar. Common actions included:

1. Posting the statements on posters around the office
2. Posting them on their intranet
3. Posting the mission statements on web sites
4. Reiterating the statements at employee meetings

Two unique approaches included management explaining to each individual employee how their role can support their mission statement, and then making that part of the employee review process.

3.3 DC Lottery Employee Survey

Every employee was invited to complete a survey to demonstrate their level of knowledge regarding the mission, vision, and value statements. Approximately seventy percent of the employees receiving the survey responded.

The survey's primary goal was to gauge how well the employees understood the DC Lottery mission, vision and core values, and how they believed it could or should impact their role and interaction with the public.

3.3.1 Survey Results

With only one exception these statements seemed to be well embraced and accepted. More importantly, these statements appeared to figure into the employee's personal belief and vision on how they should approach their roles with the DC Lottery. In short, the respondents appear to fully understand the mission, vision and core values, and the importance of staying true to them.

When asked what about these statements are most important, the overwhelming responses were the concepts of integrity, striving for excellence, public trust and representing the fun and entertainment nature of the lottery and its games.

Most respondents agreed that hard work and consistency, open communications and community activity were vital elements of continuing to grow and represent the mission statement in their daily activity.

There were also very positive comments about the current leaderships efforts to make these statements more prominent and consistent throughout the lottery. The respondents believed that the statements were important to the new leadership staff, which in turn made them more real and important to the respondents. It appears that the new leadership staff is successfully driving home this message.

When asked to identify an inanimate object that represents the lottery, the favorite items were those that represented fun, entertainment, constantly changing to bring new ideas, and solid/consistent and trustworthy items. Sample answers are shown in Table 3-1.

Inanimate Object Representing Lottery Selected Samples	
Object	Reason
Television Set	Fun, entertaining, always something new
Jar of Candy	Something for everyone, fun, happy
Xbox	Entertaining, lots of games, innovation/technology
Seiko Watch	Always runs and you can count on it
Table 3-1	

3.3.2 Survey Analysis

Respondents had a clear and consistent view of the mission, vision, and values statement and their importance in how they represent the lottery. This in part is driven by the consistent communications of those statements throughout the lottery and the impression of their importance by senior management and their embracing of those values.

Whereas comparison lotteries mission statements are primarily centered on contributing funds for their state, the DC survey respondents consistently mentioned “generating fun and entertaining games for the public to enjoy” as being an important component of its mission statement.

3.4 SWOT Analysis – Strengths, Weaknesses, Opportunities, and Threats

All organizations have internal strengths and weaknesses that can impact their ability to meet their near and long-term goals. Organizations also have opportunities and threats to the achievement of their business goals that are outside of their control.

The major goals of the DC Lottery are:

1. Deliver maximum revenue to support vital city services and programs.
2. Implement the programs and processes necessary to align internal audiences and to project a new image that ultimately results in sales success.
3. Build a new internal culture based on an “employee owned” philosophy
4. Internalize the external brand of “fun and entertainment” and recapture player, retailer, and internal staff’s trust in this brand promise.
5. Breakdown silos to foster a more interactive level of communications and support among lottery departments
6. Encourage employees to be more interactive with the general public, reinforcing that each lottery staff member represents the overall image of the lottery
7. Encourage innovation in lottery operations – streamlining inter-department communications and support
8. Seek new innovation in product development and promotions
9. Get back to the community – create new ways to develop more public facings and interaction reinforcing the personality and brand image of the lottery
10. Improve the sales process and support new retailer recruitment efforts
11. Rebuild the trust among retailers
12. Build a stronger relationship among players, rebuilding confidence in lottery games
13. Develop a new and growing player base, expanding audience and sales opportunities
14. Develop innovative communications platforms and messages to attract new players and reinforce the fun and entertainment image among all players

Table 3-2 highlights DC Lottery’s strengths, weaknesses, opportunities, and threats.

DC Lottery SWOT Analysis	
Strengths <ul style="list-style-type: none"> • Core lottery staff is experienced, committed and engaged • Leadership is instilling employee ownership, organizational pride, and culture of more teamwork • Solid base of loyal players and positive overall image • Solid retailer base with very high performing core • Significant quantity of self-service devices available for high performance retail locations • Strong product portfolio • Marketing programs are strong • Strong emphasis on opportunities to reach out to communities • Marketing and Sales departments have integrated goals • Strong retailer integrity and anti-fraud programs • AgentPlus locations provide winners with convenient cashing locations 	Weaknesses <ul style="list-style-type: none"> • Federal restriction prohibiting sale of DC Lottery tickets on federal enclave • Negative media has generated a poor image of the lottery among some regional lottery players • Transient nature of DC population makes it more difficult to develop long term player loyalty • Retailer expansion is difficult • Maryland and Virginia lotteries have stronger brand image with some consumers • Urban nature of many retailers makes in-store merchandising difficult • Retailer distrust and confusion from various policy changes and the interruption of the supply of instant tickets • Rebuilding instant sales will take several years.
Opportunities <ul style="list-style-type: none"> • New games to expand player interest and attract new audiences • Partner with Maryland and Virginia to leverage their brand image and put the DC Lottery “on par” • Expand marketing and communications through new opportunities to reach and motivate a younger audience • Expand retailer base to reach new audiences • Identify new and more effective means to merchandise lottery games • Products that appeal to millennial generation • Enhance public relations to gain objectivity within media stories and generate positive press coverage • Expand social media presence and audience • Enhance digital presence 	Threats <ul style="list-style-type: none"> • DC 3 and DC 4 are following national trend of declining sales • Lottery is on a positive and measurable track and any unnecessary processes or interruptions could cause a loss of momentum and employee support • Long-term sales of Powerball and Mega Millions continue to decline • Lack of new game innovations within the lottery industry, creating stagnation in game options, new themes and prizes. • Loss of retailers and/or lack of growth will limit DC Lottery’s ability to grow into new areas and expand player base • Procurement process delays cause major impact on profits and lottery credibility • Lack of strong constituents

Table 3-2

3.5 Highlights and Recommendations

3.5.1 Highlights

The DC Lottery communicates and reinforces the core values, mission, and vision statement throughout the lottery at a very consistent and high level. Employees believe these statements are an important part of their role with the lottery and are important to senior management.

Based upon survey results it appears there is also a strong sense of responsibility to the general public to deliver an experience even beyond expectations.

The inclusions of the concept of *providing entertainment* in the DC Lottery's mission statement and concepts of *stimulating imagination* and *inspiring optimism* in the vision statement set a higher bar for the industry.

3.5.1 Recommendations

3.5.1.1 Resolution of Current Issues

No issues were identified.

3.5.1.2 Best Practice Enhancements to Existing Operations

There were no best practice enhancements noted for this area.

3.5.1.3 Additional Recommendations

There are no additional recommendations for this area.

3.5.1.4 Recommendations in Progress

There were no additional recommendations in progress for this area.

4. COMPETITIVE LANDSCAPE / SALES AND MARKETING PLAN

4.1 Competitive Landscape

4.1.1 General Overview

The DC Lottery is the only city lottery in the United States. The Washington D.C. metropolitan area is a unique market fed by counties from Maryland and Virginia; media and sports teams overlap the three jurisdictions. Casinos are providing additional competition.

4.1.2 Casinos

Recent research shows that casinos have a negative impact on lottery sales. As reported in the Akron Business Journal, the Ohio Lottery Commission's instant ticket games are producing less revenue now that the state's casinos and races are open for business.⁸ The scratch-off games, which are the commission's most-popular sellers, have seen their sales drop four percent, or \$59.6 million, through April compared with the previous twelve-month period. The Classic Lotto, Pick 3, and Pick 4 games have also seen declines.⁹

Maryland Lottery commission officials reported that traditional lottery sales have slightly decreased for a second consecutive year to \$1.72 billion and have pointed the finger at Maryland Live casino for helping to end the lottery's unprecedented sixteen-year run of annual sales increases.¹⁰ Previously, the lottery weathered the opening of other smaller casinos in more remote parts of the state, such as Berlin and Perryville. But now, with bigger casinos moving into more densely populated areas, lottery officials face the prospect that the downward slide has only just begun.

There was always an expectation there was going to be cannibalization by casinos and Maryland Lottery expected a big challenge with the opening of the Horseshoe [Baltimore] casino in 2013 and MGM [National Harbor] casino in June of 2016.

Doug Walker, an economist at the College of Charleston in South Carolina, who is involved in the Maryland lottery study, would not discuss the findings ahead of their release. However, he did say other studies have shown that opening more casinos generally has a negative effect on local lottery sales.¹¹

That dynamic has played out in Pennsylvania, which has twelve casinos and generates more gambling revenue than any other state except for Nevada.

⁸ http://www.bizjournals.com/profiles/company/us/oh/cleveland/the_ohio_lottery_commission/2258551

⁹ <http://www.bizjournals.com/columbus/news/2013/05/13/lottery-sees-60m-drop-in-sales-of.html>

¹⁰ https://www.washingtonpost.com/local/maryland-gambling-revenue-soars/2013/08/08/fc45e504-0067-11e3-8294-0ee5075b840d_story.html

¹¹ <http://walker.d.people.cofc.edu/pubs/2014/Maryland%209-19-14.pdf>

But starting around 2006, as casinos began to spread across the state, lottery sales leveled off and then declined. Hardest hit were the areas surrounding the new slot machine parlors. In a 2008 report, Pennsylvania state lottery officials noted that when a new casino opened, lottery ticket retailers within an hour's drive reported more frequent and higher percentage declines in weekly sales than retailers further away.¹²

The customer bases for lotteries and casinos also don't overlap as much as people might assume. "Most lottery tickets are bought on impulse when people go in to buy milk and gasoline." You have to plan to go to a casino.

4.1.3 Maryland and Virginia Lottery

DC Metro Area covers the following counties: Loudoun County (VA), Prince William County (VA), Fairfax County (VA), Arlington County (VA), Montgomery County (MD), Prince George County (MD) and the District of Columbia (DC) and an independent city of Falls Church, VA.¹³ Five of these counties are in the list of ten wealthiest counties in the U.S., which makes DC Metro Area a very expensive and unique area.¹⁴

Lottery Budget Comparisons FY 2014 DC, Maryland, and Virginia			
	DC	Virginia	Maryland
Sales (2014)	\$ 216,018,000	\$ 1,810,821,000	\$ 1,723,994,000
Population (2014)	658,000	8,326,000	5,970,000
Per Capita Sales (2014)	\$ 320	\$ 218	\$ 197
Advertising Budget	\$5,601,000	\$26,145,000	\$11,594,000
Table 4-1			

The DC Lottery needs to compete with the money the Maryland and Virginia lotteries are spending in the same Washington, DC metropolitan media market. See Table 4-1 above for advertising budgets.

According to March 2015 Nielsen research, the Washington Metro area was ranked the eighth most expensive media market in the United States.¹⁵ Table 4-2 emphasizes how expensive and difficult it is for the DC Lottery to reach its target audiences through advertising.

¹² https://www.washingtonpost.com/local/maryland-lottery-sales-slide-as-casino-revenue-surges/2014/08/11/47b0e6b4-1427-11e4-9285-4243a40ddc97_story.html

¹³ <http://www.bizjournals.com/washington/print-edition/2015/10/23/the-taxation-equation-its-simple-math-right.html>

¹⁴ U.S. Census Bureau Report for 2013, released December, 2014.

¹⁵ <http://www.newsgeneration.com/broadcast-resources/top-100-radio-markets/>

Ten Most Expensive Media Markets in U.S.		
Rank	City	Associated Lottery
1	New York	New York
2	Los Angeles	California
3	Chicago	Illinois
4	Philadelphia	Pennsylvania
5	Dallas	Texas
6	San Francisco	California
7	Boston	Massachusetts
8	Washington	District of Columbia
9	Atlanta	Georgia
10	Houston	Texas
Table 4-2		

4.1.4 Competition for Space in Retailer Locations

Competition for space in the majority of retailer spaces visited is extremely high. The DC Lottery sales representatives must work with the retailers to obtain appropriate space for lottery products and point-of-sale (POS) materials.

The lack of available space in some locations forces retailers to put the merchandise in unconventional spaces. The smaller the location the more likely it is to have issues with POS visibility. Not having space for POS can either result in the placement of POS on top of other POS or the POS not being placed at all. Many of the top-selling retailer locations visited either had ample space for lottery POS or had the POS in a quality location that was easily visible to the customer.

Lack of space often results in a retailer not having an official lottery play station. This results in play slips being stored in makeshift containers or thrown on available counter space, leaving the player with little space to play.

Of the retailers surveyed, competition for WinStation¹⁶ space was not an issue; ninety-five percent of the WinStations were readily visible and easy to identify.

4.2 Marketing and Sales Plan

4.2.1 General Overview

The DC Lottery implements a Product – Promotion – Planning (PPP) matrix for outlining annual marketing plans. This matrix outlines a calendar of product introductions and events projecting

¹⁶ WinStations are lottery-provided vending machines that dispense instant tickets and certain draw game tickets.

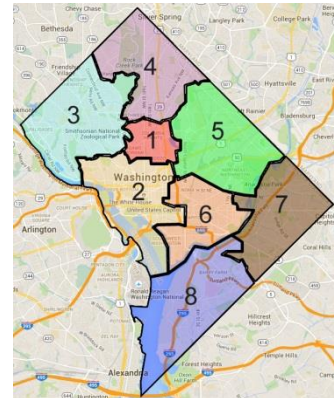
an overview of their activity for the year. This planning process provides the lottery a visual reference designed to:

1. Maximize sales –which is the established driver of the plan
2. Have flexibility to adjust the plan quarterly to react to market and player conditions
3. Identify market and player expansion opportunities
4. Use product/games as foundation for marketing efforts
5. Identify and plan cross promotional opportunities between games and partnerships
6. Leverage thematic opportunities – seasonal or sports related as an example
7. Ensure a well-designed mix of game themes, promotions, game price point, prize levels and promotional opportunities throughout the year
8. Keep everyone informed of the current and future events

4.2.2 Sales Overview by Region

Sales vary considerable by ward with Wards 5, 7 and 2 over-performing and Ward 3 significantly under-performing.

FY 2015 Sales by Ward			
Ward	Total Sales	Population	Sales per Capita
Ward 1	\$17,545,119	83,415	\$210.34
Ward 2	\$37,312,325	87,501	\$426.42
Ward 3	\$9,585,299	84,470	\$113.48
Ward 4	\$26,783,543	82,954	\$322.87
Ward 5	\$38,412,746	81,307	\$472.44
Ward 6	\$23,021,713	83,811	\$274.69
Ward 7	\$35,110,365	77,815	\$451.20
Ward 8	\$24,195,824	77,620	\$311.72
Table 4-3			



District of Columbia Map of Wards

4.2.4 Brand

The DC Lottery does a good job of promoting its brand. The DC Lottery positions its brand as entertainment. Logos placed on all merchandise are easily recognizable.

One brand element that is not available to the DC Lottery is the ability to share and promote how lottery proceeds contribute to the District of Columbia. The DC Lottery cannot promote cite specific projects or programs that were funded by lottery proceeds because the money goes into the General Fund. This places the DC lottery at a disadvantage especially with the potential consumers who value contributing to their community.

Of the top ten performing lotteries in the U.S., only Connecticut and DC allocate all lottery proceeds to general revenue. Lottery proceeds for five of the top ten lotteries are allocated to

education. Pennsylvania allocates lottery proceeds to senior citizen programs and Maryland allocates the majority of lottery proceeds to general revenue and education.

Lotteries that provide significant portions of the funding for popular programs enjoy strong advocates and are less likely to be the target of sensational news stories.

4.2.5 Marketing Plan

A review of the PPP programs for the last two years showed a consistent approach to marketing activity. On a quarterly basis, the Lottery leadership assesses progress, review the next quarter's product and sales plans, and makes necessary adjustments.

Product Marketing Approach

The game/product marketing strategy in the PPP approach is designed to:

- Introduce new themes throughout the year
- Leverage holiday and other event opportunities
- Leverage sports sponsorships and themes
- Ensure new game introductions that attract new audiences
- Ensure there is a variety of game play formats and prize structures to attract variety of players
- Promote draw game opportunities

The DC Lottery appears to maintain a well-balanced game introduction approach offering variety in themes and prize amounts, consistent with the general industry standards.

Corporate and Community Sponsorships

The DC Lottery has a clear and articulated goal to get more connected and involved with the community in order to reinforce the fun, entertainment and community benefits of the lottery brand. The DC Lottery has defined and implemented a community and corporate sponsorship program that extends their reach into the community and extends their appeal to a wider audience of potential players.

The PPP approach includes the planning and implementation of these promotional opportunities to ensure both product and game promotions are in sync with community activities. These sponsorships include:

- Sports sponsorships – partnerships with local sports franchises and game themes tied into those sports team such as the Wizards and Capitals
- Sponsorships with major partners that include:
 - Union Station - Union Station serves as a “flagship” store for the DC Lottery. The overall cost of this contract is \$1,050,000, including rent. Having a flagship location like Union Station serves to attract thousands of impressions a day and increases brand awareness to people traveling to and from DC.

- Verizon Center - The Verizon Center is a primary location for marketing for the DC Lottery as it houses the Capitals, Wizards, concerts and numerous other events. In 2015, \$409,500 was allocated for advertising and marketing at the Verizon Center.
- CBS Radio - CBS Radio is a partnership that includes performance space, digital deliverables, on-air draws and more. This partnership has been planned for at least the next four years. In 2015, \$541,800 dollars was budgeted for CBS Radio.
- Community and corporate sponsorships including Safeway BBQ Battle, The Wizards Money Machine Madness, and a variety of community events and in-store retailer promotions. The lottery currently allocates approximately \$60,000 per year to this category of promotions.
- Lucky Lottery Mobile community appearances – which goes to areas such as L’Enfant Plaza, Takoma Park, Georgetown, G Street, and all quadrants. However, it cannot park in the best locations because food trucks have DDOT parking priority and the Lucky Lottery Mobile does not.

This move to a more community and corporate sponsorship driven approach is consistent with both the DC Lottery objectives and the trend within the lottery industry. Through these efforts it appears the DC Lottery is reaching a wider audience, most importantly the younger audience, and reinforcing the entertainment value the games offer.

While actual sales at these individual events vary, they provide exposure and relationship building opportunities, an important long-term benefit and goal for the lottery.

Retailer Merchandising

The DC Lottery’s retailer merchandising efforts are integrated with its overall plan. In an attempt to maximize the effectiveness of its POS program the DC Lottery recently signed a contract for a company to enhance the DC Lottery retailer merchandising program.

Advertising

The current DC Lottery advertising and creative direction is consistent with the overall lottery vision and goals for the advertising. The DC Lottery advertising approach is trending towards a more brand and image creative in order to maintain consistency, maximize budget, reinforce lottery brand, and attempt to reach a younger audience. This is consistent with the industry trends in general as most lotteries face the same challenge – reaching and motivating the next generation of lottery player.

Based on available information, the DC Lottery appears to be getting below standard marketing prices in the Washington area. In FY 2015 the DC Lottery spent \$65,600 for 305 thirty-second air spots on a particular radio station. The estimated cost based on standard rates is \$144,875. This indicates that the DC Lottery received an estimated discount of 55.13%.

The DC Lottery advertising and media approach also appeared to be consistent with industry standards, providing extended media and creative support for new game introductions and promoting draw games when the jackpot grows and attracts greater player interest.

The DC Lottery is also implementing an integrated web and social media strategy with the overall advertising plans. The social media efforts appear to be in sync with the overall marketing and strategic initiatives of the lottery.

The DC Lottery appears to be doing little mobile advertising. It is noted that in the FY16 Planning Budgets, \$160,000 is set to be provided for “Digital Media Strategy for on-going support.” It is unclear what exactly that entails, but it signals that the DC Lottery understand the importance of digital media in advertising.

Expanding and Attracting New Audiences

The DC Lottery, much like the entire lottery industry, faces the challenge of attracting the new generation of players – namely the millennial generation. As experienced in other lottery jurisdictions, this group lacks interest and is generally not involved in lottery games.

The DC Lottery leadership is committed to this strategic initiative and is expanding their brand reach and relevance through a new approach with both traditional and social media advertising and promotional efforts. The marketing efforts are leaning towards a younger audience with new game introductions (e.g. Walking Dead) and tie-ins with popular sports franchises and arenas. These efforts are designed to maintain popularity with the core audience while expanding the brand message with new player base.

4.2.6 Marketing Communications

The DC Lottery issues press releases and news advisories announcing winners, new products and promotions, and new ad campaigns. The DC Lottery also uses social media the same purposes.

The lottery has multiple social media accounts including Facebook, Twitter and Instagram. These accounts are updated daily and help promote products to followers and encourage engagement. There are three main hashtags used, #WhenIWinDCLottery, #ItsFUNtoPlay and #lotsofpeopleWIN. More about the Lottery website and its social media can be found in section 11.2

4.3 Highlights and Recommendations

4.3.1 Highlights

The DC Lottery marketing approach is acknowledging the need to reach a younger audience. This is consistent with the industry trends as most lotteries face the challenge of reaching the next generation of lottery player.

The Lottery has a very strong presence at Union Station. This location does an excellent job exhibiting the DC Lottery brand.

DC Lottery is making efforts to try to reach a millennial audience through social media presence. Numerous contests and promotions encourage interaction and spread awareness about the lottery. Facebook has a large number of likes considering the small population of DC.

4.3.2 Recommendations

4.3.2.1 Resolution of Current Issues

No current issues were identified.

4.3.2.2 Best Practice Enhancements to Existing Operations

No best practices were identified that have not been implemented by the DC Lottery.

4.3.2.3 Additional Recommendations

No additional recommendations were identified.

4.3.2.4 Recommendations in Progress

The DC Lottery recently has signed a contract for enhancing merchandising at retailer locations.

5. LOTTERY PROCUREMENT PROCESS

The first section reviews and analyzes the DC Lottery procurement process. The second section provides information regarding the DC Lottery's adherence to the District's Certified Business Enterprise (CBE) requirements. The next section analyzes quantifiable time delays in the procurement process. The final section discusses the strength of current DC Lottery procurement process and provides recommendations and highlights.

5.1 DC Lottery Process for Major Procurements

Since October 1, 2009 when FY 2010 began, the DC Lottery has required thirteen major procurements. Each of these procurements was managed by the Office of Contracts, Office of the Chief Financial Officer (OCOCFO). These major procurements are listed in Table 5-1.

DC Lottery Major Procurements & Contract Awards FY 2010 – FY 2015			
Procurement	Procurement Number	Original Proposal Due Date	Contract Date
DCLB Lottery Services	CFOPD-09-R-013	2/26/2009	03/30/10
Lottery Advertising Services	CFOPD-11-C-019	10/29/2010	12/4/2010
DC Lottery Interactive Response System (Lot-Line)	CFOPD-11-C-020	Unknown	1/20/2011
Lottery Security Services	CFOPD-11-C-054	9/15/2011	9/28/2011
Instant Tickets and Related Services	CFOPD-13-R-003	10/22/2013	No award
Instant Ticket Games	CFOPD-14-I-023	5/12/2014	12/2/2014 12/23/2014
Lottery Website Design	CFOPD-14-027	8/26/2014	9/30/2014
Best Practices Review of DC Lottery	CFOPD-15-R-017	12/30/2014	8/7/2015
DCLB Warehouse Services	CFOPD-15-I-022	1/6/2015	3/24/2015
Lottery Draw Auditing Services	CFOPD-15-I-006	3/9/2015	3/17/2015
Lottery Retail Store Enhancement Services	CFOPD-15-R-027	4/30/2015	In process
Lottery Mobile Vendor Services RFP	CFOPD-15-R-024	5/19/2015	9/30/2015
Lottery Retail Recruitment Services RFP	CFOPD-15-R-025	5/19/2015	9/11/2015
Table 5-1			

When the DC Lottery has a need to make a major procurement, the DC Lottery creates a statement of work and submits the statement of work to a Contract Specialist employed within the Office of Contracts, Office of the Chief Financial Officer (OCOCFO). The DC Lottery also provides proof that funding is available to support the procurement. The OCOCFO Contract Specialist will review the scope of work and confer with the DC Lottery staff to make changes. Prior to releasing the procurement document the OCOCFO will ask the DC Lottery if it is aware of any potential vendors who may submit bids. The OCOCFO releases the procurement

document to all potential bidders supplied by the DC Lottery and also posts the procurement document on the OCFO's website, which is available to the general public.

All responses to the procurement document are submitted directly to the OCOCFO. After all responses are received, the OCOCFO requests the DC Lottery to recommend a three-person panel to review the responses. The only stipulation for the proposed panel is that none of the three people can report to one of the other two people. The OCOCFO accepts the lottery's panel recommendations unless it does not meet the reporting stipulation.

The Contract Specialist convenes a kick-off meeting with the three-person panel and has each panel member sign a statement that they will not disclose any information regarding the bidders, bids, or the process. The members also must sign a document attesting that they do not have any vested interest in any of the bidders. Each of the panel members is given a copy of each proposal and performs an independent analysis of the proposals and assigns scores for experience and technical offering. The scores are assigned for each factor on a scoring sheet created by the OCOCFO. The panelists also include their rationale for each score assigned. The factors are not weighted.

Approximately two to three weeks after the kick-off meeting, the panel meets with the Contract Specialist and reveals their scores for each proposal. Prior to this meeting, the panelists are not allowed to discuss their ratings or the proposals with one another. If the panelists all agree on which proposal is best, then a consensus will be considered as having been reached. If there is disagreement over which bidder scored the highest, the panel will discuss the issues and re-score the proposals if appropriate until a consensus is reached. The rationale for any changes in scoring must be documented.

The completed evaluation report is then processed by the OCOCFO. If the contract is over \$1,000,000 or if the contract is a multi-year term, the contract must be approved by the Council of the District of Columbia.

5.2 Certified Business Enterprise (CBE) Requirement

All contracts in excess of \$250,000, unless a waiver has been approved by the Director of the Department of Small and Local Business Development (DSLBD), are required to:

- Subcontract at least 35% of the dollar volume to small business enterprises, as defined in D.C. Code §2-218.32; provided, that the costs of materials, goods, and supplies shall not be counted towards the 35% subcontracting requirement unless such materials, goods, and supplies are purchased from small business enterprises; or
- If there are insufficient qualified small business enterprises to completely fulfill the requirement set forth in H.3.1(a), then the subcontracting requirement may be satisfied by subcontracting 35% of the dollar volume to any certified business enterprises, as defined in D.C. Code §2-218.31-39a; provided, that all reasonable efforts shall be made to ensure that

qualified small business enterprises are significant participants in the overall subcontracting work

The DC Lottery fully embraces supporting DC small businesses and certified business enterprises. Of the DC Lottery's thirteen Requests for Proposals/Invitations For Bid for major procurements, the DC Lottery requested a waiver on only one. That procurement did not result in a contract award.

DC Lottery Major Procurements & Request for Waivers FY 2009 – FY 2015				
Procurement	Procurement Number	Contract Value	Waiver Requested	Waiver Granted by DSLBD
DCLB Lottery Services	CFOPD-09-R-013	\$38 mil	No	No
Lottery Advertising Services	CFOPD-10-R-058	\$20 mil	No	No
Security Services	CFOPD-11-C-054	\$2.3 mil	No	No
DC Lottery Interactive Response System (Lot-Line)	CFOPD-11-C-020	\$208,000	No	No
Instant Tickets and Related Services	CFOPD-13-R-003	Not awarded	Yes	Yes
Instant Ticket Games	CFOPD-14-I-023	\$5 mil	No	No
Lottery Draw Auditing Services	CFOPD-15-I-006	\$1 mil	No	No
Lottery Website Design	CFOPD-14-C-027	\$1.5 mil	No	No
Best Practices Review of DC Lottery	CFOPD-15-R-017	\$180,000	No	No
DCLB Warehouse Services	CFOPD-15-I-022	\$1.4 mil	No	No
Lottery Mobile Vendor Services RFP	CFOPD-15-R-024	\$708,000	No	No
Lottery Retail Recruitment Services RFP	CFOPD-15-R-025	250,000	No	No
Lottery Retail Store Enhancement Services	CFOPD-15-R-027	\$2.3 mil	No	No
Table 5-2				

5.3 Procurement Intervals

The DC Lottery's objective is to generate revenue to benefit the citizens and economic vitality of the District. Hence, the Lottery strives to operate with the greatest efficiency possible. Many of its major procurements have direct or indirect impact on its ability to generate revenue for the District. Table 5-3 shows the time interval between the dates the proposals were received to the dates the contracts were awarded.

DC Lottery Major Procurements & Contract Awards FY 2010 – FY 2015				
Procurement	Proposal Date	Evaluations Completed	Contract Date	Days From Proposal to Contract
DCLB Lottery Services	Unknown	9/17/09	3/30/2010	n/a
Lottery Advertising Services	10/29/2010	12/4/10	12/4/2010	36
Security Services	9/15/2011	9/28/11	9/28/11	13
DC Lottery Interactive Response System (Lot-Line)	Unknown	1/20/11	1/20/11	n/a
Instant Tickets and Related Services	10/22/2013	12/2/14	No award	n/a
Instant Ticket Games	5/12/2014	12/2/14	12/2/2014 12/23/2014	204
Lottery Draw Auditing Services	3/9/2015	3/17/15	3/17/2015	8
Lottery Website Design	8/26/14	9/11/14	9/30/14	35
Best Practices Review of DC Lottery	1/7/2015	6/4/15	8/7/2015	212
DCLB Warehouse Services	1/6/2015	3/24/15	3/24/15	77
Lottery Mobile Vendor Services RFP	5/19/2015	7/30/15	9/30/15	134
Lottery Retail Recruitment Services RFP	4/30/15	6/30/2015	10/21/2015	113
Lottery Retail Store Enhancement Services	5/19/15	5/12/15	9/11/15	115
Table 5-3				

The average time interval between the receipt of the proposal and contract award is approximately three months. This is a reasonable time and consistent with the experience of other lotteries. Discussions with DC Lottery staff indicate the major delay in the procurement process seems to be the interval between the DC Lottery submitting the original scope of work to the OCOCFO to the release of the request for proposal. However, this interval has not been captured and cannot be analyzed. Competition with other District agencies for limited OCOCFO resources seems to be a significant issue.

5.4 Highlights and Recommendations

5.4.1 Highlights

The DC Lottery embraces and adheres to the District's Certified Business Enterprise requirements.

5.4.2 Recommendations

5.4.2.1. Resolution of Current Issues

No current issues were identified.

5.4.2.2 Best Practice Enhancements to Existing Operations

No lottery industry best practices were identified that could be adopted by the DC Lottery with its current legal restrictions and governance structure.

5.4.2.3 Additional Recommendations

The DC Lottery should request the OCFO to allow the OCOCFO to provide procurement services under the same model as legal services are provided. This would provide on-site procurement resources for the DC Lottery and would ensure the availability of resources that could be prioritized to meet the DC Lottery's needs.

Alternatives to the on-site model include:

- The DC Lottery and the OCOCFO should consider implementing a process to identify and quantify delays in the procurement process from the DC Lottery's initial contact with the OCOCFO through the award of a contract. The information captured should be specific and measured with the objective to provide actionable information that can address the root cause of the delay.
- The DC Lottery should develop and submit a procurement project plan for each major procurement that lists all tasks and dependencies and ask the OCOCFO to provide projected dates for the completion of each task.

5.4.2.4 Recommendations in Progress

There are not recommendations that are currently in progress.

6. IT OPERATIONS, SYSTEMS, AND STAFFING

The Lottery IT Department reports to the Office of the Chief Information Officer (OCIO) which is part of the Office of Financial Operations and Systems that reports to the Office of the Chief Financial Officer.

Prior to the third quarter of FY 2011, the DC Lottery IT Department reported directly to the DC Lottery and received certain network services from the Office of the Chief Technology Officer (OCTO). Since the DC Lottery moved to its current physical location, those network services migrated to OCIO. This additional layer of reporting has resulted in segments of the DC Lottery network connected to the OCTO no longer being *trusted*. Furthermore, OCIO does not provide network logging services the DC Lottery previously received when the DC Lottery IT Department received these services directly through the OCTO.

6.1 IT Processes & Staffing

The DC Lottery IT Department maintains an application and system inventory and has most requisite IT policies and processes in place. Two process areas were identified for improvement:

- **Requirements:** The department implemented a Lottery Requirements System that is currently being used internally by the Lottery IT Department and will be rolled out for use by internal Lottery customers in early 2016. Once this system is rolled out, a process for requesting, prioritizing, approving, and tracking IT requirements will be provided to the internal Lottery customers.
- **Help Desk:** The department provides help to various users throughout the lottery. However, a system does not exist for capturing information regarding the service requests and resolution.

The DC Lottery IT Department supports ten applications that are operating on Lottery IT systems and manages or oversees and additional seven applications that are provided or supported by one or more vendors.

The DC Lottery has eight full-time employees including one temporary employee. This staff is augmented by two part-time employees and one contract employee. The DC Lottery IT Department faces significant challenges in acquiring talent to replace staff or contract employees. The staff augmentation process is very difficult and the DC Lottery IT department has had difficulty getting contractors paid.

6.2 Lottery IT Department Systems

The Lottery IT Department provides software maintenance, development, and support for the ten systems listed in Table 6-1.

Lottery IT Department Systems		
Application	Service	End User(s)
Access Management	Means to manage on-boarding of new employees and track access to lottery specific systems such as the Internal Control System (ICS) and Back-Office System (BOS).	DC Lottery – HR Liaison IT and Security
Agent Management	Provides for the licensing of new lottery retailers. Manages lottery retailers equipment move, add, and change request.	DC Lottery Licensing
AgentPlus Compliance	Means to track and monitor AgentPlus retailers’ operations deficiencies and procedure compliance.	DC Lottery Customer Service
Automated Claims Processing (ACP)	Provides an automated scanning interface for driver’s licenses, social security cards, and claims validations for winner’s payment using a web service with the gaming system.	DC Lottery Customer Service
Background Data Transfer Processes	Provides for near real-time data interfaces of Keno and Race2Riches winning numbers, and progressive jackpot for the Lottery website. Provides for daily update of the Lottery retailer locations and Instants ticket remaining prizes available on the Lottery website.	Lottery players
Customer Complaints	Provides tracking of customer complaints for the Customer Service Department	DC Lottery Customer Service
Game Close	Means to transfer and validate draw game winning numbers and to initiate data transfer processes	DC Lottery IT
Lottery Requirements System	Means to track Lottery system bug reports and Lottery software customer change request. Being update to SQL system with Visual Basic and .Net front end to provide better workflow	DCLB IT
Sales Rollup	Provides for simplified retailer sales reporting by games and time periods. Provides for specialized Agent Summary reports for sales representatives.	DCLB Sales
Security Investigations	Provides tracking of investigations and case management for the Security Department.	DC Lottery Security
Table 6-1		

The most mission critical application from an availability standpoint is the Automated Claims Processing system. This system provides the only automated process for paying winners of \$5,000 or more. The DC Lottery IT Department's internal Lottery customers believe the IT Department is very responsive when issues threaten the availability of the Automated Claims Processing system.

6.3 Third-Party Systems

The DC Lottery has five information technology vendors who provide seven systems. A specific individual is assigned to serve as the Contract Officer's Technical Representative (COTR) for each contract associated with one or more of these technology solutions. The service level agreements for each technical solution is spelled out in the contract with the vendor.

Three systems are primarily responsible for the majority of the revenue generated by the DC Lottery. Intralot, the DC Lottery's primary gaming system contractor provides the DC Lottery with LOTOS (central gaming system that processes lottery transactions) and BOS (back office system that provides the ability manage such activities as input winning numbers and managing retailers). The third critical system is the Internal Control System (ICS) that was provided by a third-party contractor but is under the control and operation of the DC Lottery IT Department. The ICS system is critical for ensuring the integrity of the wagers and validations processed by the LOTOS system; these two systems are balanced prior to all drawings for games with large jackpots such as Powerball and Mega Millions.

Systems Provided by Third-Party			
Application	Service	Development /Support	End User(s)
Computer Gaming System - BOS	Provides for Back-Office system to interface with the LOTOS for winning numbers entry, promotions setup, retailer account, instant ticket games management, system monitoring, claims management and general reporting.	Intralot	DC Lottery
Computer Gaming System - iLook	Sales Rep Mobile application tool for retailer reporting on the selling and cashing transactions for geo analysis, trend analysis and predictive analysis.	Intralot	DC Lottery Sales Staff

Systems Provided by Third-Party			
Application	Service	Development /Support	End User(s)
Computer Gaming System - LOTOS	Lottery Operation System (LOTOS) provides for selling online, instant and rapid draw lottery products and paying winning claims through the retailer network of almost 500 locations throughout the District. Manages retailer locations invoices, commissions and status.	Intralot	DC Lottery DC Lottery Retailers
Draw (Automated Draw Machine and Animation Server) System	Used by the DC Lottery draw staff to draw random winning numbers and provide graphical representation of the DC Lottery draw games other than Race 2 Riches and Keno ¹⁷ .	Scientific Games	DC Lottery Draw Department
Internal Control System (ICS)	Validates all transactions from the gaming system through a near-real-time data interface with the Gaming System.	Elsym Consulting	DC Lottery
Lottery Interactive Response (IVR)	Provides lottery players the ability to check the winning numbers and jackpot information by in-coming phone calls. Provides winning number and jackpot alerts by outgoing SMS text messages. Provides winning numbers XML interface to the DC lottery website.	MS Technologies	Lottery players
Oracle General Ledger	Records accounting transactions for DC Lottery assets, liabilities, expenses and revenue, and transmits revenue and expense information to SOAR.	L3 Communications / Optimum Solutions Technology	DCLB Finance
Table 6-2			

6.4 Integrity and Security

The DC Lottery uses several strategies to ensure the security and integrity of its systems. As mentioned previously, the Internal Control System is implemented specifically to ensure the integrity and accuracy of the gaming system. Additionally, the DC Lottery requires its gaming system provider to have an external audit each year to provide reasonable assurance the system has appropriate controls in place and those controls are operating effectively.

¹⁷ Hot Lotto and Powerball are drawn by the Multi-State Lottery Association; Mega Millions is drawn for the Mega Millions group by the Georgia Lottery Corporation.

As a member of the Multi-State Lottery Association (MUSL), the DC Lottery must adhere to the MUSL security standards. MUSL periodically reviews the DC Lottery gaming system and ICS system to ensure its membership those systems are suitable to process Powerball transactions. The District of Columbia auditor obtains reasonable assurance that the General Ledger system has appropriate controls and those controls are operating effectively.

6.5 Lottery IT Department Efficiency

The Lottery IT Department develops its budget based on the DC Lottery internal user requirements and submits its budget to the DC Lottery Finance Department for review. The budget must be approved by the Office of the Chief Financial Officer and then by the Council of the District of Columbia.

6.6 Highlights and Recommendations

6.6.1 Highlights

The Lottery IT Department operates an Internal Control System (ICS) that ensures the integrity of every gaming transaction processed by the gaming system; the two systems are balanced prior to all drawings for games with large jackpots such as Powerball and Mega Millions. DC Lottery IT Department is very responsive when issues threaten the availability of the Automated Claims Processing system.

Although the DC Lottery IT Department does not report to the DC Lottery executive team, the department does submit its budget through the DC Lottery executive team for approval.

6.6.2 Recommendations

6.6.2.1 Resolution of Current Issues

No current issues were identified.

6.6.2.2. Best Practice Enhancements to Existing Operations

No industry best practices were identified that have not been implemented by the DC Lottery.

6.6.2.3 Additional Recommendations

The DC Lottery IT Department should consider implementing a helpdesk ticketing system for capturing information regarding IT service requests and resolution.

The DC Lottery should request a detailed, objective analysis to determine if the overall operation of the Office of the Chief Financial Officer is more efficient and effective with the DC Lottery IT Department reporting to the OCIO than if it were reporting to the DC Lottery. Although this *best practice study* identified a few drawbacks to the current reporting structure, determining

whether then OCFO obtained compensating operational efficiencies was beyond the scope of this study.

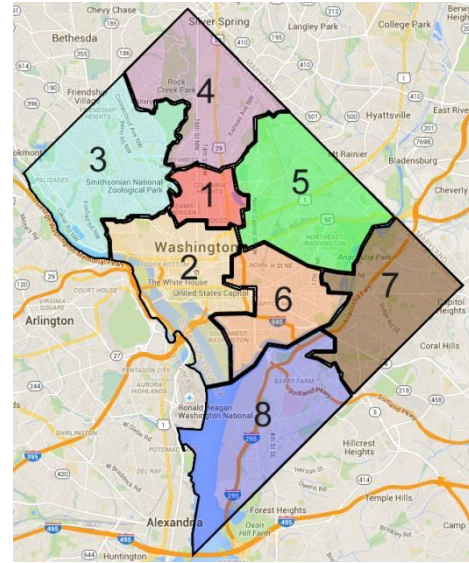
6.6.2.4 Recommendations in Progress

The DC Lottery IT Department is in the process of implementing a Lottery Requirements System. After Lottery stakeholders are trained on how to request IT services and the process is fully implemented, the DC Lottery and DC Lottery IT Department should use the system to gauge the effectiveness of the DC Lottery IT Department in assisting the DC Lottery to reach its profitability objectives.

7. RETAILERS SALES AND MERCHANDISING

7.1 Retailer Sales Performance

The District of Columbia is comprised of eight wards. Based on the July 2015 sales, the retailers in Ward 7 are outperforming the retailers in all other wards in the District of Columbia. Ward 7 has the highest average retailer sales in the District and is the home of the highest selling retailer in the entire District. Furthermore, the lowest selling retailer in Ward 7 has significantly higher sales than the lowest selling retailers in any of the other wards.



Retailer Sales Performance by Ward July, 2015					
Ward	# of Retailers	Total Sales in Ward	Highest Retailer Sales	Lowest Retailer Sales	Average Retailer Sales
Ward 1	52	\$1,503,545	\$182,853	\$625	\$28,914
Ward 2	74	\$3,188,337	\$232,115	\$584	\$43,085
Ward 3	26	\$944,112	\$255,441	\$995	\$36,312
Ward 4	67	\$2,290,657	\$311,151	\$225	\$34,188
Ward 5	89	\$3,263,707	\$291,612	\$1,567	\$36,670
Ward 6	53	\$2,012,111	\$135,253	\$387	\$37,964
Ward 7	51	\$3,008,708	\$383,852	\$2,507	\$58,994
Ward 8	54	\$1,998,549	\$174,795	\$349	\$37,010
Table 7-1					

7.2 Retailer Attitudes

7.2.1 General Overview

Forty-five retail locations were visited and evaluated by their use of lottery merchandise. The locations were chosen based on total sales of each site; a cross section of high selling and low selling retailers were included in the sample. The use of point-of-sale (POS) and how lottery merchandise was displayed were analyzed. Also, store managers were invited to express their

thoughts and concerns regarding the DC Lottery.¹⁸ Only four retailers declined to speak and refused to allow pictures to be taken.

7.2.2 Retailer Feedback Regarding Lottery Sales Representatives

When asked about the relationship with their sales representatives the response was overwhelmingly positive. Very few retailers felt the communication between the retailers and sales representatives was poor. On average, the retailers believe the lottery sales representatives come once a week.

Retailers raised issues regarding the processes for ordering tickets. Some retailers were displeased that they have to call Tel-Sell prior to ordering tickets through the terminal machine. They also did not like that they had to order instant tickets by 2 pm to receive tickets the next day.

7.2.3 Lottery-provided Communications

Retailers appear to use the materials provided to them by the Lottery. This is especially true for new game and promotion information. Terminal messages were generally helpful although sometimes creating confusion due to language barriers and the literal nature with which the messages were perceived. Several retailers said they rely on their lottery sales representatives to clarify the messages when they are confusing.

7.2.4 Equipment Reliability and Service

The DC Lottery's gaming system contractor provides retailers various pieces of equipment for merchandising and selling lottery products. Eighty-two percent of the retailers did not have any complaints regarding the lottery equipment. Thirteen percent of the retailers surveyed expressed frustration with lottery terminal screens freezing or going black and nine percent said that instant tickets would get stuck periodically in the WinStations when being dispensed.

7.3 Product and Point of Sale Material Placement

This section provides a summary regarding the placement of point of sale material used to attract and educate consumers. Retailers interviewed said most of their players were consistent, routine customers who understood how to play the game.

¹⁸ Retailer feedback regarding Lottery Sales Representatives, Tel-Sell and the Lottery in general is included in Section 11 Retailer Engagement.

7.3.1 General overview

Point of sale merchandise is a great way to let customers know about new promotions, games, and features offered by the DC Lottery. Quality POS can draw a customer into playing a game that they have never considered playing before. There are eight main merchandizing zones that make up a store. These zones can overlap and often times do. These zones are the outdoor zone, indoor zone, TAP-N-PLAY, play station zone, terminal zone, Keno zone, scratch game zone, and ITVM zone. Our survey was broken down into each zone.

No obvious correlation existed between the placement of POS and sales; however, there did appear to be a correlation between the quantity of POS and sales. Higher selling retailers tended to have significantly more POS than the retailers with low sales amounts.

Top Selling Retailers POS Quantity			
	Interior	Exterior	July 2015 Sales
1	13	7	\$311,151
2	12	6	\$255,441
3	7	1	\$232,155
4	17	5	\$208,721
5	7	2	\$182,853
Table 7-2			

Lower Selling Retailers POS Quantity			
	Interior	Exterior	July 2015 Sales
1	0	0	\$13,007
2	3	1	\$12,263
3	7	2	\$8,613
4	2	1	\$8,151
5	5	2	\$7,744
Table 7-3			

For example, store 1 in Table 7-2 had thirteen POS items inside the store and seven exterior signs—this store had sales in excess of \$300,000 in July 2015. It was very obvious this was a DC lottery retailer from the outside (window decals and a street talker). In contrast, store 1 in Table 7-3 did not have any POS inside the store and no signage outside. This lower selling retailer had sales of \$13,000 in July 2015.

POS, in and of itself, will not make a retailer successful. For example, store 5 in Table 7-2 and store 5 in Table 7-3 both had seven interior POS items and two exterior signs. However, stores with more POS and a higher commitment to the lottery generally have higher sales. The top selling retailers in Table 7-2 average 11.2 interior POS items, 4.2 exterior signs and \$238,000 in sales for July 2015. In contrast, the lower selling retailers in Table 7-3 average 3.4 interior POS items, 2.1 exterior signs and \$10,000 in sales for July 2015.

7.3.2 Outdoor Zone

The outdoor zone encompasses signage that is outdoors and can be seen by people passing by or entering the store. This includes window decals, jackpot neon signs, or street talkers.

Fifty-four percent of the retailers visited had big decals, signs, street talkers or ads visible from the exterior; an additional twenty-four percent had small door decals that were only readable when close to the door. At locations where the signage properly placed and in good repair, the signage was eye-catching and easy to spot from a distance.



Twenty-two percent of the retailers visited did not have exterior signage. This lack of exterior signage may not impact sales to repeat players who already know the store sells the lottery, but not attract new customers who do not know the retailer sells lottery tickets.

7.3.3 Point of Purchase Zone

The Point-of-Purchase Zone includes the area immediately surrounding the location where consumers pay for their merchandise. Within the context of the lottery industry, this zone will include such standard merchandising pieces as instant ticket dispensers, lottery machines used by retail clerks to generate draw game tickets, and LCD panels designed to provide players with dynamic information at the point of purchase.

7.3.3.1 Lottery Terminal Area

The Lottery terminals are operated by the retailers and are typically behind a counter and sometimes behind glass. However, the terminals were usually noticeable due to the bright blue call-out "PLAY HERE" stickers that were placed on the back. In a few instances the terminal was not visible because other materials or equipment had been placed in front of it.

The terminal area also includes an LCD panel that displays lottery information and advertising. These displays can present eye-catching graphics and dynamic messages. The LCD displays were usually placed in an area that was visible to customers. However, in seven percent of the locations visited, the displays were turned off.



The lottery terminal area also includes a small monochrome LED display that can provide limited information to the player.

The DC Lottery also offers self-service ticket checkers that players can use to check the winning status of their tickets. These devices usually are located very close to the lottery terminal.

7.3.3.2 Instant Ticket Dispensers

Retailers can use lottery-provided instant ticket dispensers for the dual purpose of displaying tickets and dispensing tickets. The dispensers are clear, plastic cases that hold twenty to twenty-five tickets. Ideally, the dispensers are placed on the counters where they are readily visible to customers. Cases tended to be stacked in a vertical orientation to maximize space. Each individual cube is numbered so customers can easily choose the ticket they want by its corresponding number. The numbers were either stickers or drawn with a marker.



Many instant ticket dispensers did not appear to follow a specific planogram. Over thirty percent of the locations visited had at least one empty cube in their dispensers; twenty-two percent had two or more empty cubes.

The DC Lottery lost the ability to introduce new instant games on a regular basis from July 2013 through January 2015. Considering these circumstances, the quantity and condition of the instant ticket dispensers in the retail stores are impressive.

7.3.4 Self-Service Zone

The DC Lottery has been very aggressive in providing its retailers self-service options. In addition to providing self-service ticket checkers for player convenience and to reduce the retailers' burden for checking tickets, the Lottery has also provided two different styles of self-service machines that dispense lottery tickets.

7.3.4.1 WinStations

WinStations can sell both instant and draw game tickets. Each machine holds up to twenty-five different scratch games at one time and also dispenses six different draw games via quick pick buttons. A play slip reader also gives players the ability to purchase any draw game ticket using a play slip.

Approximately sixty percent of stores had WinStations. In ninety-five percent of cases, the WinStations were placed in an easy to see area of the store such as to the right or left of the entrance door. In most cases the machine and its surrounding area were kept clean.

Forty-eight percent of the retailers with WinStations had at least two slots that were out of tickets.



7.3.4.2 MPs

MPs are touch-screen lottery ticket vending machines that sell TAP-N-PLAY and other draw game tickets. Tickets are generated by a printer in the MP. These machines were in approximately twenty percent of the retailers visited. The MPs tended to be co-located with WinStations. All machines appeared to be clean and in working order.

7.3.5 Play Station

The play station is an area designated for customers to obtain and fill out play-slips. In most cases, the play station consists of a plastic play-station provided by the lottery. These stations provide an area to store play-slips, paper, pencils and information on how to play. In lieu of the play-stations provided by the DC Lottery, some retailers had play-stations that were custom-built. Play stations provided by the lottery are either blue or a recently introduced black station. The black play station has two different areas to display lottery signs.



Over eighty-five percent of locations had a play station of some type. Thirty-four percent of the locations had makeshift play area due to lack of space for a lottery play station. Some play station areas were spacious; others were areas that were difficult to see and provided little room for the players to maneuver when filling out play slips.

With few exceptions, the play stations were out in the open and easily seen by customers in the store. The majority of the stations were fully stocked and had some type of supporting POS.

7.3.6 Keno and Race 2 Riches Display Zone

Larger LCD panels are provided to retailers who promote the Keno and Race 2 Riches games. These games are drawn every four minutes and players will typically sit and play several games during a session. Approximately twenty-five percent of stores visited had these larger LCD panels. The panels were located where they could be seen from the customer seating area or located close to the MP or WinStation machines. The panels were located in areas with partially obstructed viewing in approximately seventy-five percent of the locations. This was generally due to a lack of space.



7.4 Highlights and Recommendations

7.4.1 Highlights

The DC Lottery utilizes limited point of sale (POS) and appears to have strong retailer support. Lottery POS is prominently placed where possible, which is a challenge considering many retailers have very little space available.

Most POS was placed near the play station or the location of the lottery terminal area maximizing their visibility.

Signage identifying the retailer from street or parking lot usually consists of only the DC logo placed in windows or doors facing the outdoor traffic. The logo is highly recognized.

The areas where lottery tickets are sold were typically clean and visible in most locations. This included the areas around the lottery terminal, instant ticket dispensers, MPs, and WinStations. WinStations were in clean and usually fully stocked and consistent with the Lottery's plan-o-gram.

Retailers with "winning ticket sold here" signage seemed very proud of that message and prominently displayed the signage.

There were a few where space is limited and it is clear the lottery is fighting for space with other retail marketers

The DC Lottery lost the ability to introduce new instant games on a regular basis from July 2013 through January 2015. Considering these circumstances, the quantity and condition of the instant ticket dispensers in the retail stores are impressive.

7.4.2 Recommendations

7.4.2.1 Resolution of Current Issues

Tel-Sell and Sales should focus on reducing the out-of-stock conditions for ITVMs and instant ticket dispensers.

7.4.2.2 Best Practice Enhancements to Existing Operations

There were no best practices identified for this area.

7.4.2.3 Additional Recommendations

There were no best additional recommendations identified for this area.

7.4.2.4 Recommendations in Progress

The DC Lottery should consider sharing the following suggestions with the contractor performing the retailer makeover:

- Utilize signage that can be seen more easily from the street or parking lot. Using durable signs that can be placed on the exterior of windows or door can reduce the loss of brilliance caused by glare or tinted windows.
- Provide sales representatives with POS placement guidelines based upon impact on sales at more successful retailers.
- Create a DC Lottery space in retailer locations where one does not exist.
- Institute formal POS program and plan-o-gram for new retailer recruits to obtain commitment prior to licensing agreement.
- Create an in-store marketing advisory board consisting of retailers, sales staff, marketing staff and the lottery's advertising agency to identify and create new merchandising options that are efficient and effective.
- Consider more defined winner awareness merchandising solution for retailers – one that has definitive plans, budgets, and measurable success/impact to help sell to retailers.

8. EXPANSION OF DC LOTTERY NETWORK

As is the case in most industries, product availability is positively correlated to sales in the lottery industry.

8.1 Retailer Penetration

Product availability in the lottery industry is typically measured by retailer density, which is calculated by dividing the population of a specific area by the number of retailer locations selling lottery products in that area. Table 8-1 ranks the DC Lottery and the other top performing lotteries in the U.S based by retailer penetration. At the end of FY 2014, the DC Lottery had one retailer per 1,313 residents.

Lotteries Ranked by Retailer Penetration Top Ten Performing¹⁹ U.S. Lotteries FY 2014					
Lottery	Population	Retailers	Population Per Retailer	Retailers Per 10,000 people	Rank OIPC²⁰
Michigan	9,909,877	11,076	895	11.2	9
Massachusetts	6,745,408	7,400	912	11.0	1
New York	19,746,227	17,500	1,128	8.9	3
Georgia	10,097,343	8,637	1,169	8.6	4
Connecticut	3,596,677	3,000	1,199	8.3	5
Maryland	5,976,407	4,721	1,266	7.9	8
District of Columbia	658,893	502	1,313	7.6	7
Pennsylvania	12,787,209	9,130	1,401	7.1	6
Florida	19,893,297	13,270	1,499	6.7	10
New Jersey	8,938,175	5,900	1,515	6.6	2

Table 8-1

Table 8-1 indicates that the DC Lottery should be able to realize some level of increase in its retailer base. However, the level of potential increase cannot be determined with certainty and recruiting retailers solely for the sake of increasing the number of retailers can be fruitless if the new retailers do not result in a net increase in sales. The column to the far right shows that although there is a general trend for the lotteries with greater retailer penetration to have a higher rank in operating income per capita, Michigan and New Jersey are significant exceptions. New Jersey is ranked second in operating income per capita and tenth in retailer penetration for the top performing lotteries in the U.S.; Michigan is first in retailer penetration and ninth in operating income per capita.

¹⁹ Based on Operating Income Per Capita.

²⁰ Operating Income Per Capita

Table 7-1, Retailer Sales Performance by Ward July, 2015, provides some indication of which wards may have the best potential for increasing sales by increasing the number of retailers. The wards with higher average retailer sales may have greater potential than those with lower average sales.

8.2 Key Drivers - Retailer Network

Many lotteries set very aggressive retailer recruiting goals but fail to realize those goals. In many cases there are systemic reasons that make long-term achievement of those goals improbable, if not impossible.

The two most important determinants of whether the Lottery can expand its retailer base are:

1. Do additional retailers with trade-styles appropriate for selling lottery products exist?
2. If so, are those additional retailers qualified to sell lottery products—i.e. can they pass the background checks and other requirements of the DC Lottery?

The DC Lottery did not have readily available information to analyze the changing composition of retailers. A proper analysis would have been to review the quantity of retailers that were recruited, submitted applications, were granted licenses, were refused licenses, dropped out of the network, changed ownership, and had their licenses revoked. The lack of information made it difficult to estimate what drivers, if any, are impacting the lottery's ability to grow the retailer network. However, the following sections discuss drivers that typically impact the Lottery's ability to recruit and retain retailers.

8.2.1 Licensing Process

The licensing process is straightforward and can be completed in as few as fifteen days. After the potential retailer applies for a license, the Lottery submits a background check to its vendor in three to five days. The DC Lottery also performs a credit report and gets instant feedback.

The DC Lottery reviewed all retailer licenses in the fall of 2015 and has instituted a biennial license verification review for all retailers.

8.2.2 Retailer Costs

The DC Lottery does not require retailers to pay any money to become a retailer. Unlike many lotteries, the DC Lottery does not charge application or licensing fees. Additionally, the lottery does not charge retailer fees associated with the DC Lottery's equipment located in the retail locations or for the communication costs associated with connecting the lottery's equipment in the retail locations with the lottery's central computer systems.

Costs a retailer might incur include costs associated with meeting ADA requirements, upgrading or moving existing electrical circuits for lottery equipment.

8.2.3 Retailer Commissions and Incentive / Methods and Structures

Table 8-4 compares DC Lottery's retailer commission structure to the other top performing lotteries in the U.S. Including DC Lottery, six of the ten lotteries pay 5% commission on the sale of all lottery tickets; one lottery pays 5.5% and two pay 6%. Each of the lotteries except Georgia, Michigan, and New York provide bonus payments for selling certain winning tickets. With 4% for draw games and 3% for instant games, the DC Lottery provides the most generous cashing bonuses for retailers. Maryland pays 3% cashing bonus and Michigan pays 2%; three lotteries do not pay cashing bonuses. Some of the lotteries also have permanent or periodic incentive programs for retailers. The Total Commissions & Incentives as a % of Sales column on the far right provides the average overall percentage of sales the retailers received in compensation during FY 2014

Retailer Commission Structure Top Ten Performing²¹ U.S. Lotteries FY 2014			
Lottery	Sales Commission	Cashing Commission	Total Commissions & incentives as % of Sales
Connecticut	5% on all sales <i>Bonus for selling winning ticket (varies)</i>	1% all games	5.6%
District of Columbia	5% on all sales <i>1% for selling various six-figure prizes \$25,000 for selling Powerball or Mega Millions jackpot winner</i>	4% all instant tickets 3% all online tickets	7.2%
Florida	5% on all sales <i>Bonuses for selling winning tickets (varies)</i>	1% all games	5.6%
Georgia	6% on all sales	none	6.4%
Maryland	5.5% on all sales <i>Bonuses for selling winning tickets (varies)</i>	3% all tickets	7.1%
Massachusetts	5% all games <i>Bonuses for selling winning tickets</i>	1%	5.7%
Michigan	6% on all sales	2% all games	7.3%

²¹ Based on Operating Income Per Capita.

Retailer Commission Structure Top Ten Performing²¹ U.S. Lotteries FY 2014			
Lottery	Sales Commission	Cashing Commission	Total Commissions & incentives as % of Sales
New Jersey	5% on all sales <i>Bonuses for selling winning tickets (varies)</i>	1.25% all games	5.6%
New York	6% on all sales	none	6.0%
Pennsylvania	5% on all sales <i>Bonuses for selling winning tickets</i>	none	5.3%
Table 8-4			

The DC Lottery retailer compensation as a percentage of total sales was 7.2%, second only to Michigan who paid 7.3%. Half of the top performing lotteries paid retailers between 5.3% and 5.7% of total sales.

8.2.4 Retailer Lottery Profits

Although the payment per dollar sold is important to retailers, the better determinant of the retailers' success is the total income generated by lottery products. DC Lottery retailers make some of the highest profits in the U.S. Table 8-3 shows that in FY 2014 DC Lottery retailers averaged \$31,383 in retailer commissions and incentive payments. Within the top ten performing lotteries in the U.S., only Massachusetts paid a higher average.

The high lottery profits generated by DC Lottery retailers should assist the DC Lottery's recruiting efforts.

Retailer Commission and Incentive Payments Top Ten Performing²² U.S. Lotteries FY 2014 Ranked by Average Retailer Profits			
Lottery	Total	Quantity of Retailers	Average per Retailer
Massachusetts	\$ 277,792,000	7,400	\$ 37,539
District of Columbia	\$ 15,597,330	497	\$ 31,383
Georgia	\$ 239,322,000	8,637	\$ 27,709
New Jersey	\$ 162,107,574	5,900	\$ 27,476
Maryland	\$ 122,109,073	4,721	\$ 25,865
New York	\$ 439,311,000	17,500	\$ 25,103
Florida	\$ 298,651,000	13,270	\$ 22,506
Pennsylvania	\$ 202,369,523	9,130	\$ 22,165
Connecticut	\$ 62,077,000	3,000	\$ 20,692
Michigan	\$ 188,500,000	11,076	\$ 17,019
Table 8-2			

Ideally, an analysis of same store sales would be used to determine trends in retailer revenue. However, the interruption in instant game sales has rendered such analysis to be very difficult. The lack of instant sales not only reduced overall sales, but also impacted the sales of other products as consumers shifted their spending.

8.2.5 Retailer Support

Lottery Sales Representatives visit retailers once every two weeks to assist with merchandising, provide information, and answer questions. Retailers have phone numbers readily available for various DC Lottery departments including Customer Service, Finance, Security, and Tel-Sell. Retailers also have a phone number to call DC09 for hotline and field service support if they have trouble with lottery equipment in their stores.

The DC Lottery offers a wide variety of equipment to select retailers to assist in the merchandising and sale of lottery tickets. Self-service machines that dispense tickets directly to players can increase retailer sales without additional effort by the retailers.

²² Based on Operating Income Per Capita.

8.3 Retailer Recruiting

Recruiting new retailers is a difficult and time-consuming process. The DC Lottery has recently entered into a contract with a Certified Business Enterprise to recruit new retailers on behalf of the DC Lottery. The contract provides incentives for successfully recruiting retailers with trade-styles conducive to selling Keno and Race 2 Riches games.

8.4 Potential Retailers

Retailer distribution by trade-style for the top performing U.S. lotteries is shown in Table 8-2. The DC Lottery's retailer mix has a higher concentration of liquor stores and a lower concentration of convenience stores and convenience stores with gas. Social setting games such as Keno and Race 2 Riches tend to do much better in bars and restaurants than in traditional retail environments. The DC, Michigan, Maryland, Massachusetts, and New York lotteries all sell Keno. The DC Lottery has the lowest concentration of bars and restaurants.

Retailer Distribution By Trade-Style Top Ten Performing U.S. Lotteries FY 2014								
	Grocers	C-store	C-store with Gas	Bar/ Rest.	Drug store	Liquor Store	General Merch.	News / Smoke Shop
Connecticut	9.6%	31.3%	26.2%	1.2%	1.9%	21.6%	2.1%	4.9%
District of Columbia	22.1%	14.5%	11.3%	8.7%	3.2%	29.2%	1.2%	5.2%
Florida	14.5%	20.8%	49.5%	1.2%	1.2%	7.0%	2.2%	0.7%
Georgia	Data not available							
Maryland	8.2%	20.4%	24.5%	18.7%	1.7%	21.9%	1.1%	0.9%
Massachusetts	6.7%	34.9%	14.2%	16.6%	2.6%	14.5%	2.7%	1.1%
Michigan	7.1%	9.3%	33.5%	24.4%	3.1%	19.3%	0.3%	3.0%
New Jersey	20.5%	26.1%	14.4%	6.3%	4.6%	18.3%	4.2%	3.0%
New York	31.3%	26.9%	2.3%	11.0%	6.5%	4.9%	4.1%	4.3%
Pennsylvania	16.4%	9.6%	33.7%	8.0%	6.7%	6.2%	3.9%	7.1%

Table 8-3

The DC Lottery is also at an extreme disadvantage because it is not allowed to license retailers in the federal enclave to sell tickets. This makes it inconvenient for employees and visitors in this area to purchase tickets.

8.5 Changes of Ownership

Retailers changing ownership can impact DC Lottery sales and the resources required to service retailers. Information regarding the number of retailers changing ownership each year was not available.

8.6 Highlights and Recommendations

8.6.1 Highlights

The DC Lottery's retailer compensation, cost, and support policies provide greater incentives than many lotteries.

- The DC Lottery does not charge an application or processing fee for licenses.
- The DC Lottery does not charge the retailers weekly fees for telecommunications or other lottery-provided equipment.

The DC Lottery retailers are the second highest compensated retailers among the top ten performing lotteries in the U.S. in terms of percentage of sales and average lottery income per retailer.

The DC Lottery provides several self-service devices to retailers to reduce the effort required to handle lottery tickets. In addition to the self-service ticket checkers that allow players to check the winning status of their tickets themselves available to all lottery retailers, the DC Lottery also makes various self-service lottery vending machines available to select retailers.

8.6.2 Recommendations

8.6.2.1 Resolution of Current Issues

No current issues were identified for this section.

8.6.2.2 Best Practice Enhancements to Existing Operations

DC Lottery should optimize the placement of self-service sales devices and refrain from adding more MPs and WinStations until at least 90% of the existing devices are in locations that are profitable for the DC Lottery.

8.6.2.3 Additional Recommendations

There are no additional recommendations for this section.

8.6.2.4 Recommendations in Progress

The DC Lottery has entered into a contract with a third-party to recruit retailers and incentivized the contractor to recruit retailers who have desirable trade-styles. The DC Lottery should ensure activity that impacts the retailer base is tracked and quantified. The DC Lottery should review all retailer communications when assisting the contractor in developing its recruiting materials.

9. FINANCIAL REVIEW

9.1 Introduction

Government-sponsored lotteries in the U.S. exist to raise money for good causes. Hence, the most important objective measurement of a lottery's success is the income it generates for good causes. The amount of money a lottery transfers to good causes is determined by the revenues it generates and the costs it incurs. Section 10, Product Portfolio, provides an analysis of the DC Lottery's effectiveness to generate revenues. This section focuses on the DC Lottery's costs and profitability. Section 9.2 compares the DC Lottery's costs relative to a peer group of lotteries that have comparable sales to the DC Lottery. Section 9.3 evaluates the DC Lottery financial trends over the past five years. The final section provides a brief summary.

9.2 Comparison to Peer Group

Lottery costs can be grouped into four major categories based on relevance and cost drivers.

- Product and distribution costs
- Advertising and marketing investment
- Employee costs
- Other operating costs

The product and distribution costs are highly correlated to sales. As sales go up, the product and distribution costs go up. Advertising and marketing are similarly correlated except that when sales are falling, increasing advertising and marketing investment is usually a responsible response. Employee costs and other operating costs should be tightly managed.

Given the relationship between costs and sales, the most relevant peer group for comparing costs would include lotteries with similar sales levels. In 2014, the most recent fiscal year for which numbers are available for most lotteries, eight U.S. lotteries had sales between \$125 million and \$325 million. Cost data was not available for one state (Maine); the other six lotteries and the District of Columbia are shown in Table 9-1.

Sales FY 2014 (000s) DC Lottery and Peer Group	
Iowa	\$ 314,055
New Hampshire	\$ 275,611
District of Columbia	\$ 216,018
Idaho	\$ 208,893
Oklahoma	\$ 191,127
Nebraska	\$ 157,897
New Mexico	\$ 136,003
Table 9-1	

9.2.1 Sales and Profitability Performance Relative to Peers

Although Table 9-1 shows the quantity of sales each lottery has to spread its fixed costs over, the table does not provide any indication of efficiency of the money being spent to generate those sales. With the primary objective of generating profits that can be used for good causes, a lottery should be careful not to decrease spending in areas that may result in a decrease in profits. Additionally, it may be prudent to increase expenditures in areas that will increase profits. The

relative success each lottery has in generating sales and profits can only be determined by analyzing sales and income based on the population in the jurisdiction. Table 9-2 provides sales per capita and operating income per capita for each lottery in the peer group. The lotteries are sorted by operating income per capita.

FY 2014 Sales and Operating Income DC Lottery and Peer Group Sorted by Operating Income Per Capita				
	Sales (000s)	Sales Per Capita	Operating Income (000s)	Operating Income Per Capita
District of Columbia	\$216,018	\$327.85	\$55,102	\$83.63
New Hampshire	\$275,611	\$207.72	\$76,434	\$57.61
Idaho	\$208,893	\$127.80	\$43,892	\$26.85
Iowa	\$314,055	\$101.08	\$77,156	\$24.83
New Mexico	\$136,003	\$65.21	\$41,177	\$19.74
Nebraska	\$157,897	\$83.92	\$36,850	\$19.59
Oklahoma	\$191,127	\$49.28	\$68,810	\$17.74
Table 9-2				

As an income generating entity, the DC Lottery shows very strong performance relative to its peers. The DC Lottery has the highest operating income per capita in the peer group. DC's operating income per capita is 45% higher than its closest peer and 211% higher than the next closest peer.

9.2.2 Product and Distribution Costs

The DC Lottery and its peers currently sell their products through retailer networks in their jurisdictions. The retailer compensation varies by lottery. All lotteries pay the retailers a percentage of each sale. Additionally, some lotteries give incentive payments to retailers for selling certain winning tickets and for cashing certain winning tickets.

The lotteries sell pre-printed instant tickets and draw game tickets produced by terminals in the retailer stores. Gaming systems, services, and ticket costs include the costs of printing the instant tickets, providing and operating the gaming system, communications network, and retailer equipment required to deliver draw game tickets to retailers.

As shown in Table 9-3, FY 2014 Production and Distribution Costs DC Lottery and Peer Group, the retailer compensation is very similar within the peer group. Five of the lotteries, including DC Lottery, have retailer compensation that is between 6.4% and 6.7% of sales. New Hampshire and Nebraska are at 5.7% and 5.8%, respectively.

DC Lottery's gaming systems, services, and ticket costs for FY 2014 are artificially low because the DC Lottery had credits associated with ceasing instant ticket operations. The instant ticket sales disruption impacted costs and sales for FY 2014 and FY 2015. However, DC Lottery's

gaming systems, service, and ticket costs appear to be in appropriate considering its sales volume and the fact that it is operating solely within a city.

FY 2014 Production and Distribution Costs DC Lottery and Peer Group						
	Retailer Compensation (000s)	% of Sales	Gaming Systems, Services & Tickets (000s)	% of Sales	Total Product & Distribution Costs (000s)	% of Sales
New Mexico	\$8,783	6.5%	\$3,365	2.5%	\$12,148	8.9%
Idaho	\$12,140	5.8%	\$6,918	3.3%	\$19,058	9.1%
District of Columbia	\$14,177	6.6%	\$ 6,746	3.1%	\$20,923	9.7%
Iowa	\$20,131	6.4%	\$10,540	3.4%	\$30,671	9.8%
Oklahoma	\$12,648	6.6%	\$7,798	4.1%	\$20,446	10.7%
Nebraska	\$10,130	6.4%	\$10,621	6.7%	\$20,752	13.1%
New Hampshire	\$15,823	5.7%	n/a	n/a	n/a	n/a

Table 9-3

9.2.3 Advertising and Marketing Investment

Lotteries, like other commercial enterprises, must invest in advertising and marketing if they wish to be successful in selling their products. Table 9-4 ranks the peer group by the percentage of sales invested in advertising and marketing. The “Profitability Rank” is how each lottery was ranked in terms of operating income per capita (see Table 9-2).

Although the DC Lottery has the second highest percentage of investment in advertising and marketing, it also ranks first in profitability. However, the New Hampshire Lottery has the second lowest percentage of

FY 2014 Advertising & Marketing Investment DC Lottery and Peer Group				
	Sales (000s)	Advertising & Marketing Investment (000s)	% of Sales	Profitability Rank
Oklahoma	\$191,127	\$1,521	0.80%	7
New Hampshire	\$275,611	\$3,765	1.37%	2
Idaho	\$208,893	\$3,666	1.75%	3
New Mexico	\$136,025	\$2,489	1.83%	5
Iowa	\$314,055	\$6,937	2.21%	4
District of Columbia	\$216,018	\$5,601	2.59%	1
Nebraska	\$157,897	\$5,723	3.62%	6

Table 9-4

investment and ranks second in profitability. The key to evaluating the level of investment in advertising and marketing is to understand the advertising mix, local advertising costs and the advertising return on investment.

Advertising costs are primarily comprised of creative costs, production costs and placement costs. The placement costs for broadcast advertising, such as television and radio, is based primarily on the number of people expected to see the advertisement. Unfortunately, many lotteries have concentrated population areas that border other jurisdictions. Broadcast advertising in these areas will result in the lotteries paying to advertise to people who live outside their borders and may not be potential customers. The only dollars invested in broadcast

advertising that are perfectly efficient are those spent in concentrated population areas that are completely within the borders of the jurisdiction.

FY 2014 Advertising & Marketing Investment % of Population Reachable within Perfectly Efficient Metro Areas DC Lottery and Peer Group					
	Sales (000s)	Advertising & Marketing Investment (000s)	% of Sales	Profitability Rank	% of Population Reachable
District of Columbia	\$216,018	\$5,601	2.59%	1	0%
Nebraska	\$157,897	\$5,723	3.62%	6	21%
New Hampshire	\$275,611	\$3,765	1.37%	2	42%
Iowa	\$314,055	\$6,937	2.21%	4	45%
Oklahoma	\$191,127	\$1,521	0.80%	7	63%
Idaho	\$208,893	\$3,666	1.75%	3	63%
New Mexico	\$136,025	\$2,489	1.83%	5	67%
Table 9-5					

Table 9-5 shows the percentage of the population for each jurisdiction that lives in concentrated population areas that are completely contained within the jurisdiction's border. Some of the peer lotteries can more efficiently reach most of their population. For example, the four metro areas in New Mexico make up 67% percent of the state's population and are completely within the state's borders. By contrast, only six of Iowa's nine metro areas are completely within the state; the six metro areas include 45% of the state's population.

The DC Lottery faces a more significant challenge than any other lottery in the U.S. with regards to being able to efficiently spend its broadcast advertising. None of the District's population lives in an area that can be reached with perfectly efficient with broadcast advertising. In fact, the District of Columbia represents only 11% of the Washington-Arlington-Alexandria Metro Area.

9.2.4 Salaries, Wages, and Benefits

For most lotteries, employee salaries, wages and benefit costs are the largest category of costs after those mentioned above. However, comparing employee costs across jurisdictions is difficult primarily because of wage variance. Also, not all lotteries include a line item for salaries, wages, and benefits in their financial statements; hence, data is not available for Iowa and Nebraska.

The DC Lottery's salaries, wages, and benefits as a percentage of operating profits are significantly higher than the other lotteries in the peer group. However, wages in the District of Columbia are significantly higher than the cities where the peer lottery headquarters are located. As a comparison, the column on the far right shows the average annual manager's salary for the metropolitan area for each of the lottery headquarters.

FY 2014 Salaries, Wages, and Benefits DC Lottery and Peer Group				
	Operating Profits (000s)	Salaries, wages & benefits (000s)	% of Operating Profits	2014 Average Annual Salary for Management Occupations ²³
Oklahoma	\$ 68,810	\$2,346	3.4%	\$94,330
New Hampshire	\$ 76,434	\$3,703	4.8%	\$110,810
Idaho	\$ 43,892	\$2,679	6.1%	\$82,820
New Mexico	\$ 41,177	\$3,727	9.1%	\$97,080
District of Columbia	\$ 55,102	\$6,731	12.2%	\$134,960
Iowa	\$ 77,156	n/a	n/a	\$100,480
Nebraska	\$ 36,850	n/a	n/a	\$98,370
Table 9-6				

9.3 DC Lottery Trend Analysis

This Trend Analysis reviews DC Lottery's financial performance from FY 2011 through FY 2015. The analysis of the DC Lottery operating costs evaluates the three major cost categories as a percentage of revenue. These categories include:

- Product and distribution costs
- Advertising and marketing investment
- Employee costs

The first two categories are highly related to sales and, therefore, were evaluated as a percentage of Gross Sales. The second two categories are costs that should be tightly managed and should not grow faster than Net Gaming Revenue; these costs were evaluated as a percentage of Net Gaming Revenue.

9.3.1 Revenue Trend

The DC Lottery generates over 99.5% of its revenue from the sale of lottery tickets. Table 9-1 contains operating revenues by source for Fiscal Year 2011 to Fiscal Year 2015. Instant tickets sales increased by almost seven percent from 2011 to 2012 but then decreased over the next three years and finished FY 2015 forty-six percent below the 2012 level. The DC Lottery did not have a contract with an instant ticket supplier from July 20, 2013 until December, 2014. This impacted the DC Lottery's sales of instant tickets at the end of FY 2013, all of FY 2014, and the first half of FY 2015. Sales of instant tickets during the gap in contracts consisted of sales of existing inventory and sales from a few small games that could be procured under the procurement regulations.

²³ U.S. Department of Labor, Bureau of Labor Statistics, Occupational Employment Statistics, May 2014 Metropolitan and Nonmetropolitan Area Occupational Employment and Wage Estimates, <http://www.bls.gov/oes/current/oesrcma.htm>

DC Lottery Financial Trends (2011-2015)					
Operating Revenues					
	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Instant Game Sales	\$ 56,106	\$ 59,940	\$ 57,157	\$ 40,420	\$ 32,609
Draw Game Sales	\$ 175,352	\$ 189,692	\$ 185,273	\$ 175,598	\$ 179,740
Fees & other Operating Rev	\$ 24	\$ 24	\$ 18	\$ 22	\$ 98
Total Operating Revenues	\$ 231,481	\$ 249,657	\$ 242,448	\$ 216,040	\$ 212,447
Table 9-7					

FY 2015 revenue was 8% below FY 2011. The decrease in instant ticket sales accounted for all of the decrease in sales. With new contracts in place, the DC Lottery is making progress in recapturing some of its instant ticket sales. However, the experiences of other lotteries would indicate that instant ticket sales could take as much as four to five years to recover to their previous levels.

9.3.2 Product and Distribution Costs

Product and distribution costs are strongly related to sales. Retailer compensation includes selling and cashing commissions. Gaming system services and ticket costs include payments to the gaming system vendor for providing the system and services required to deliver tickets to the retail locations and include any special game fees. Table 9-8 contains the product and distribution cost trends for the DC Lottery from FY 2011 through FY 2015. Total retailer compensation has varied between 6.4% and 6.7% of sales.

DC Lottery Financial Trends (2011-2015)					
Product & Distribution Costs (in 000s)					
	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Retailer Compensation	\$ 14,769	\$ 16,404	\$ 15,597	\$ 14,177	\$ 13,778
% of Sales	6.4%	6.6%	6.4%	6.6%	-2.8%
Gaming Systems, Services & Tickets	\$ 9,590	\$ 10,464	\$ 9,873	\$ 6,746	\$8,021
% of Sales	4.1%	4.2%	4.1%	3.1%	3.8%
Total Product & Distribution Costs	\$ 24,359	\$ 26,868	\$ 25,471	\$ 20,923	\$21,799
% of Sales	10.5%	10.8%	10.5%	9.7%	10.2%
Table 9-8					

The majority of the gaming system services are determined by a long-term contract with the DC Lottery's gaming system provider. The base fee is 2.5999% of both instant and draw game sales with certain provisions for additional fees and credit. Additional fees of approximately \$105,000 per month are paid to Intralot for the provision of various devices located at retailer locations.

Instant games are purchased from all three ticket printers in North America. Ticket costs are determined primarily by the quantity of tickets; additional per game charges also apply.

Total product and distribution costs as a percentage of sales have decreased from 10.5% of sales in FY 2011 to 10.2% of sales in FY 2015.

9.3.3 Advertising and Marketing Investment

Advertising and marketing investments are highly related to Gross Sales. As shown in Table 9-9, the DC Lottery advertising and marketing costs vary from 2.3% of sales to 2.9% of sales.

DC Lottery Financial Trends (2011-2015)					
Advertising Costs (in 000s)					
	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Advertising	\$ 5,684	\$ 5,743	\$ 6,036	\$ 5,601	\$ 6,224
% of Sales	2.5%	2.3%	2.5%	2.6%	2.9%
Table 9-9					

Advertising and marketing investment as a percentage of sales increased from 2.5% of sales in FY 2011 to 2.9% of sales in FY 2015. Advertising increased in FY 2015 to support the reintroduction of instant tickets

9.3.4 Salaries, Wages, and Benefits

Employee costs are the DC Lottery's largest operating cost category aside from the revenue-related costs discussed above. Employee costs include salaries, wages, and employee benefits.

DC Lottery Employee Costs & Productivity					
2011-2015 (in 000s except employees)					
	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Operating Profits	\$ 61,995	\$ 66,472	\$68,315	\$ 55,102	\$55,685
Number of Employees	65	68	68	68	70
Operating Profits per Employee	\$ 953	\$ 978	\$ 1,005	\$ 810	\$ 796
Salaries, wages & benefits	\$ 7,008	\$ 6,939	\$ 6,657	\$ 6,731	\$ 7,009
% of Operating Profits	11.3%	10.4%	9.7%	12.2%	12.5%
Table 9-10					

Employee productivity is measured by the operating profits generated per DC Lottery employee. As the number of employees has increased from 65 in FY 2011 to 70 at the end of FY 2015, the productivity per employee has decreased from \$953,000 in FY 2010 to \$787,000 in FY 2015.

The DC Lottery's salaries, wages, and benefits were the same in FY 2015 as they were in FY 2011.

9.3.5 Operating Profits

Most organizations have areas where lower costs and greater efficiencies can be obtained. However, the DC Lottery, with its primary objective of generating profits that can be used to enhance the economic vitality of the District, should be careful not to decrease spending in areas that may result in a decrease in profits. Additionally, it may be prudent for the DC Lottery to increase expenditures in areas that will increase profits and funding available for the District.

DC Lottery Financial Trends (2011-2015)					
Operating Profits					
	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Operating Revenues	\$ 231,481	\$ 249,657	\$ 242,448	\$ 216,040	\$ 212,447
% change from previous year		7.9%	-2.9%	-10.9%	-1.7%
Operating Expenses	\$ 169,526	\$ 183,185	\$174,133	\$ 160,938	\$156,762
% change from previous year		8.1%	-4.9%	-7.6%	-2.6%
Operating Profits	\$ 61,955	\$ 66,472	\$ 68,315	\$ 55,102	\$55,685
% change from previous year		7.3%	2.8%	-19.3%	1.1%
Table 9-11					

As can be seen in Table 9-11, operating profits increased from 2011 through 2013 before dropping significantly in 2014. The decrease in operating profits was primarily caused by the end of the instant ticket contract in July of 2013. Instant ticket sales began to decrease as the existing inventory in the retail locations sold out. The DC Lottery was able to begin introducing new instant tickets in January, 2015.

The DC Lottery managed to reduce operating costs by almost eight percent from FY 2011 to FY 2015; however, the corresponding eight percent decrease in sales still resulted in a decrease in profitability. DC Lottery profits decreased by ten percent from FY 2011 to FY 2015.

9.4 Finance and Business Operations Summary

The DC Lottery is one of the ten most profitable lotteries in the U.S. as measured by operating profits per capita. Of the 44 lotteries operating in the U.S during FY 2014, the DC Lottery was the seventh most profitable.

Compared to the six state lotteries that had FY 2014 sales between \$125 million and \$325 million, the DC Lottery had the highest operating income per capita and the highest sales per capita. The DC Lottery provided its retailers the highest total compensation as a percentage of

sales and had the third lowest product and distribution costs as a percentage of sales. Located in one of the most expensive media markets in the U.S., the DC Lottery had the sixth highest advertising and marketing investment at 2.59% of sales. With its extremely expensive labor market, the DC Lottery has the highest labor costs within the peer group at 12.2% of operating profits.

The DC Lottery's revenues were trending upward in FY 2011 and FY 2012 but dipped when the instant ticket contract expired in July of FY 2013. The DC Lottery operating profits were on an upward trend through FY 2013, but the loss of instant ticket sales eventually caused a dramatic decrease in profits in FY 2014 and a smaller decrease in FY 2015. The DC Lottery increased its advertising investment in FY 2015 to relaunch its instant products. Although profits have begun increasing with the reintroduction of instant tickets, industry experience has shown it may take several years for the lottery to recover to its previous levels.

10. PRODUCT PORTFOLIO

The DC Lottery generates profits to benefit the residents of the District of Columbia through the sale of lottery products. The DC Lottery's product portfolio consists of games that fall into two broad categories. Instant scratch games are pre-printed games that players can scratch off and determine if they have won. Draw games are games that are printed on demand at retail locations. For draw games other than Fast Play and Tap-N-Play, players must wait for a drawing to take place before they know whether or not their draw game ticket is a winning ticket.

Top 10 U.S. Lotteries - FY 2014 Operating Income Per Capita		
Rank (of 45)	Lottery	Operating Income Per Capita
1	Massachusetts	\$144.49
2	New Jersey	\$107.03
3	New York	\$98.14
4	Georgia	\$92.76
5	Connecticut	\$92.33
6	Pennsylvania	\$84.43
7	District of Columbia	\$83.61
8	Maryland	\$81.90
9	Michigan	\$75.41
10	Florida	\$75.07

The DC Lottery ranks seventh of the forty-five U.S. lotteries in operating income per capita from traditional lottery games²⁴. Given that the DC Lottery is one of the top ten performing lotteries in the U.S., the top ten performing lotteries are an appropriate peer group for portfolio comparisons. The analyses throughout this section compare the DC Lottery to the top ten performing lotteries using FY 2014 data—the most recent publicly available data for all U.S.

In addition to being the top performers, these lotteries share other similar characteristics. All are mature lotteries that have been around more than twenty years; all have portfolios that include instant ticket, daily numbers, Powerball, and Mega Millions games. Six of the ten lotteries offer a frequent draw keno game that is drawn at least fifteen times an hour—Michigan offers both a frequent draw keno game and keno game that is drawn once a day. Table 10-2 on the following page provides a synopsis of the games offered by each of the ten top performing lotteries in the U.S.

²⁴ All sales and income data in this section use traditional lottery sales. Traditional lottery sales exclude sales from video lottery games and table games operated under a license or contract with a lottery. Nine U.S. lotteries, including Maryland and New York, generate sales and income from non-traditional sources.

Product Family Offerings Top Ten Performing U.S. Lotteries										
Lottery	MA	NJ	NY	GA	CT	PA	DC	MD	MI	FL
Performance Rank	1	2	3	4	5	6	7	8	9	10
Instant	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Pull Tabs, Insta Tabs	Pull-tabs					No	No		Pull-tab, Insta- Tabs	No
Daily Numbers	Yes	3,4	3,4	3 4,5	3,4	3,4,5	3,4,5	3,4	3,4	3,4
Multi-state Jackpot	Powerball Mega Millions	Powerball Mega Millions	Powerball Mega Millions	Powerball Mega Millions	Powerball Mega Millions	Powerball Mega Millions	Powerball Mega Millions	Powerball Mega Millions	Powerball Mega Millions	Powerball Mega Millions
Other Lotto, Jackpot	Mass Cash Megabucks Doubler, Lucky for Life,	Jersey Cash 5, Pick 6 Lotto, Cash 4 Life	Take 5, Lotto, Sweet Million, Pick10	Fantasy 5, Decade of Dollars, All or Nothing	Cash 5, Lotto, Lucky for Life, 5 Card Cash	Cash 5, Treasure Hunt	Hot Lotto, Lucky for Life	Bonus Match 5, Multi- Match, 5 Card Cash	Fantasy 5, Lotto 47, Keno, Poker Lotto	Fantasy 5, Florida Lotto, Lucky Money
Raffle					Super Draw	yes			yes	
Monitor	Keno, Jackpot Poker		Quick Draw	Keno			Keno, Race-2- Riches	Keno, Racetrax	Club Keno, The Jack	
Fast Play		Yes					Yes			
Tap n Play							Yes			
iLottery	No	Yes	No	Yes	No	No	No	No	Yes	No
Video Lottery			(9), 18,000							
Table 10-2										

The DC Lottery ranks fourth out of forty-five U.S. lotteries in sales per capita. The DC Lottery's sales per capita of \$327.88 is more than fifty percent higher than the industry average of \$214.38.

Traditional Lottery Game Per Capita Sales Top 10 U.S. Lotteries FY 2014			
Lottery	Population	Sales Per Capita	Rank in Industry
Massachusetts	6,745,408	\$719.55	1
Georgia	10,097,343	\$398.34	2
New York	19,746,227	\$370.41	3
District of Columbia	658,893	\$327.88	4
New Jersey	8,938,175	\$325.36	5
Connecticut	3,596,677	\$309.29	6
Pennsylvania	12,787,209	\$297.14	7
Maryland	5,976,407	\$288.47	8
Michigan	9,909,877	\$262.00	9
Florida	19,893,297	\$269.85	10
Industry	301,751,671	\$214.38	
Table 10-3			

The following three subsections review the DC Lottery's instant game, draw game and on-demand game portfolios.

10.1 Instant Game Portfolio

This section analyzes the Lottery's instant ticket portfolio and performance relative to peer lotteries. The analysis includes profit contribution for the entire portfolio and by price point. An evaluation of the business case process used to introduce the last set of games was conducted.

Among the top ten performing lottery jurisdictions DC ranked tenth in instant game sales for FY 2014; the DC Lottery ranked thirtieth among all U.S lotteries in instant game sales in FY 2014.

Instant tickets have been a growth area for U.S. lotteries for the last several years. Table 10-4 includes the ranking within the U.S. lottery industry for each of the top ten performing lotteries. Note that seven of the top ten lottery jurisdictions ranked in the top eight in instant game sales per capita. Michigan and Maryland join DC as the high performing lotteries that do not have particularly strong instant sales.

FY 2014 Instant Game Sales Top 10 Performing U.S. Lotteries			
Lottery	Population	Sales Per Capita	Per Capita Rank in Industry
Massachusetts	6,745,408	\$501.50	1
Georgia	10,097,343	\$242.16	2
Pennsylvania	12,787,209	\$192.06	3
New York	19,746,227	\$186.22	4
Connecticut	3,596,677	\$183.57	5
Florida	19,893,297	\$171.77	7
New Jersey	8,938,175	\$171.37	8
Michigan	9,909,877	\$92.15	22
Maryland	5,976,407	\$80.25	24
District of Columbia	658,893	\$61.35	30
Industry	301,751,671	\$128.38	
Table 10-4			

10.1.1 Instant Game Sales Performance

The overall trend in instant game sales for both the industry and the peer group has been upward. Over the six years studied (FY 2009-2014) eight of the ten top performing lotteries experienced lower compound annual growth rate (CAGR) in instant game per capita sales than the industry's 4.24% rate. This is not surprising because the high performances of these lotteries indicate their portfolios are already well-managed; underperforming lotteries are more likely to be able to make product and marketing adjustments that will yield significant percentage increases in sales.

Instant Game Annual Sales FY 2009-FY 2014 Ranked by 5-Year Compound Annual Growth Rate (CAGR) Top 10 Performing U.S. Lotteries							
Lottery	FY09	FY10	FY11	FY12	FY13	FY14	5-Year CAGR
FL	\$111.35	\$110.99	\$116.79	\$132.88	\$154.89	\$171.77	9.06%
PA	\$139.44	\$138.43	\$150.84	\$167.24	\$180.46	\$192.06	6.61%
MI	\$75.13	\$75.60	\$74.85	\$78.08	\$83.58	\$92.15	4.17%
NJ	\$145.91	\$149.03	\$154.69	\$159.92	\$165.66	\$171.37	3.27%
MA	\$465.50	\$454.77	\$456.63	\$489.23	\$499.45	\$501.50	1.50%
GA	\$228.27	\$217.55	\$220.21	\$232.88	\$235.63	\$242.16	1.19%
CT	\$173.38	\$168.24	\$170.52	\$181.96	\$185.55	\$183.57	1.15%
NY	\$187.61	\$184.45	\$182.19	\$182.88	\$189.52	\$186.22	-0.15%
MD	\$88.97	\$85.55	\$84.68	\$86.12	\$81.95	\$80.25	-2.04%
DC	\$75.46	\$81.84	\$90.79	\$94.79	\$88.42	\$61.35	-4.06%
Industry	\$104.32	\$104.77	\$110.13	\$118.75	\$124.10	\$128.38	4.24%

Table 10-5

10.1.2 Disruption in Instant Ticket Product

The DC Lottery's major contract for instant game tickets and services expired in July, 2013. The DC Lottery was not able to get a new contract in place until December, 2015. During the seventeen-month period between the expiration of the contract and the DC Lottery signing a contract to provide instant game tickets, the DC Lottery was not able to introduce new instant games on a regular schedule. As existing game inventory was depleted, instant game sales dropped significantly. By December, 2014, many retailers did not have any instant tickets to sell. After attaining a 7.9% compound annual growth rate from FY 2009 through FY 2012, the DC lottery experienced a decreases of 6.73% and 30.62% in FY 2013 and FY 2014, respectively.

Table 10-6 shows projections for instant ticket sales in FY13 and FY14 if sales had not been disrupted and estimates lost sales over that time period due to the disruption. Projections are provided under three scenarios:

- **Zero Growth (Constant Sales):** This most conservative model is based on maintaining the per capita sales from FY 12 with no growth. This scenario estimates a total loss of sales of \$26.2 million and FY 2014 per capita sales of \$94.79.
- **Constant Growth Rate:** This model assumes the FY 2009-2012 growth rate of instant sales in DC continues through FY 2013-2014. This scenario estimates a total loss of sales lost sales of \$41.3 million and FY 2014 per capita sales of \$110.36 for FY 2014.
- **Industry Growth Rate:** This model assumes industry average growth rate for FY 2013 and FY 2014. This scenario estimates a total loss of sales of \$34.0 million and FY 2014 per capita sales of \$102.48.

Projected Lost Sales from Disruption in Instant Ticket Contract					
Sales Based on:	FY 2012 Per Cap	FY 2013 Per Cap	FY 2014 Per Cap	Total Sales FY 13-14 (000's)	Estimated Lost Sales (000's)
Zero Growth		\$94.79	\$94.79	\$123,738	\$26,161
Constant DC Growth		\$102.28	\$110.36	\$138,837	\$41,260
Industry Growth		\$99.06	\$102.48	\$131,562	\$33,985
Actual	\$94.79	\$88.42	\$61.35	\$97,577	
Table 10-6					

DC's ranked 21st of 43 lotteries in instant game sales prior to the disruption; as shown in Table 10-2, DC had dropped to 30th for FY 2014. Industry history has shown that lotteries can take several years to recover from major decreases in sales caused by product issues.

10.1.3 Instant Game Price Points

The disruption in DC Lottery instant product availability made it impossible to perform a comprehensive analysis of the DC Lottery's instant game product offerings by price point.

FY 2014 Percentage of Sales by Price of Instant Ticket Top Performing U.S. Lotteries (excluding DC)							
Lottery	\$1	\$2	\$3/4	\$5/7	\$10/15	\$20+	Total Instant Game Sales
MA	4%	17%	0%	28%	24%	27%	\$500.19
GA	7%	15%	7%	20%	20%	30%	\$270.12
PA	5%	9%	7%	30%	20%	30%	\$191.20
NY	10%	18%	7%	24%	21%	19%	\$186.22
CT	5%	7%	11%	24%	31%	22%	\$185.23
FL	5%	13%	5%	21%	12%	44%	\$171.77
NJ	4%	23%	17%	26%	21%	9%	\$170.71
MI	6%	22%	7%	23%	17%	25%	\$92.15
MD	6%	9%	8%	40%	24%	13%	\$80.25
Industry	7%	14%	8%	27%	21%	23%	\$119.11
Table 10-7							

Table 10-7 provides the percentage of instant games sales each of the other top ten lotteries generate from each instant ticket price point. The most successful games tend to be those costing \$5 or more. However, lotteries are still successfully selling lower price games. Also, the experience can be significantly different depending on the jurisdiction. For example, Florida and

New Jersey both had approximately \$170 in instant ticket per capita sales in FY 2015. However, Florida generated 56% of its sales from tickets priced at \$10 or more and New Jersey generated only 30% of its sales from tickets priced at \$10 or more.

10.1.4 Instant Game Launch Schedules

The DC Lottery follows a defined launch schedule for instant games; introducing several games at a time and allowing new games to run for several weeks prior to introducing new games. The practice of concentrating game launches and making them predictable for retailers has been adopted by numerous lotteries; it is considered by some to be a lottery best practice. DC Lottery was one of the original lotteries to adopt this practice.

Assessing the number of games and the composition of game themes against industry best practices was not practicable during the review period. The DC Lottery began rebuilding its instant game portfolio in February, 2015 and has been introducing three to five games a month. The DC Lottery instant game product introduction plans are consistent with industry best practices.

10.2 Draw Games

The DC Lottery offers a broad portfolio of games that are determined by drawings. The DC Lottery ranks number one in the U.S. in draw game per capita sales. The DC Lottery per capita sales from draw games is more than three times the industry average.

Draw Games Per Capita Sales Top 10 U.S. Lotteries FY 2014			
Lottery	Population	Sales Per Capita	Rank in Industry
District of Columbia	658,893	\$266.54	1
Massachusetts	6,745,408	\$218.04	2
Maryland	5,976,407	\$208.21	3
New York	19,746,227	\$184.19	4
Michigan	9,909,877	\$169.86	5
Georgia	10,097,343	\$156.18	6
New Jersey	8,938,175	\$153.99	7
Connecticut	3,596,677	\$125.72	9
Pennsylvania	12,787,209	\$105.08	11
Florida	19,893,297	\$98.08	14
Industry	301,751,671	\$86.31	
Table 10-8			

In addition to the three daily number games, DC also offers two multi-state jackpot games, multiple smaller lotto-style games, two high-frequency draw games, and two families of games with the winning status determined at the time of purchase.

10.2.1 Daily Number Games

All of the top performing lotteries offer daily number games. These games offer a mid-day draw and an evening draw; wagers typically can be made for \$0.50 or \$1.00 with payout generally set at 50%. These games also offer a variety of wager types, allowing players to choose between prize amounts and win frequency. The DC Lottery, Georgia Lottery, and Pennsylvania Lottery offer daily 3, 4, and 5 games. Massachusetts Lottery holds two drawings a day for the Numbers Game—players can choose to play 1, 2, 3 and 4 numbers for on any play for the drawing—hence, the single drawing serves as the drawing for 1, 2, 3 and 4 digit games. The other six lotteries offer daily 3 and 4 games. As can be seen in Table 10-9, all of the top performing lotteries except Florida have per capita sales for the daily number games that exceed the industry average by more than fifty percent.

The U.S. lottery industry overall has experienced a slight decline in daily games over the past five years. While the industry has experienced a compound annual growth rate of -0.31% since FY 2009, the DC Lottery has experienced -5.37% compound annual growth rate over the same period. However, DC still has the highest per capita sales in number games at more than twice that of the next best performing jurisdiction.

Annual Per Capita Daily Number Games Sales Ranked by FY 2014 Per Capita Sales Top 10 Performing U.S. Lotteries							
Jurisdiction	FY09	FY10	FY11	FY12	FY13	FY14	5-Year CAGR
DC	\$239.55	\$223.34	\$213.00	\$211.55	\$193.86	\$181.78	-5.37%
NY	\$81.39	\$82.30	\$83.79	\$86.57	\$83.49	\$86.35	1.19%
MD	\$92.20	\$89.52	\$88.44	\$88.39	\$86.58	\$86.23	-1.33%
NJ	\$81.95	\$80.09	\$78.63	\$78.20	\$78.68	\$78.89	-0.76%
MI	\$68.90	\$70.81	\$69.42	\$68.92	\$67.93	\$69.97	0.31%
GA	\$72.58	\$71.47	\$68.98	\$68.06	\$69.67	\$69.67	-0.82%
CT	\$58.65	\$59.91	\$62.94	\$61.29	\$64.96	\$65.58	2.26%
MA	\$53.63	\$52.04	\$52.29	\$50.23	\$48.48	\$47.83	-2.26%
PA	\$54.95	\$54.02	\$52.90	\$50.63	\$49.42	\$47.81	-2.74%
FL	\$30.16	\$28.86	\$28.81	\$28.96	\$29.08	\$30.03	-0.09%
Industry	\$32.12	\$31.90	\$32.06	\$31.73	\$31.44	\$31.63	-0.31%

Table 10-9

3-Digit Daily Number Game

All of the top ten performing U.S. lotteries offer a 3-digit daily number game. The product attributes are virtually the same for each of the top performing lotteries.

- **Minimum Ticket Price:** \$0.50 (except MA and MD which offer \$0.25)
- **Draws per Day:** two every day (except GA which only draws once on Sunday)
- **Day Draw Time:** between noon and 1pm (except FL, PA, DC—1:30pm 2:15pm)
- **Evening Draw Time:** between 6:59pm and 7:58 pm (except DC—8:15pm and CT – 10:29pm)
- **Play Types:** straight, box, combos, and pairs; five lotteries offer “one-off”/ “close enough”)

Sales Performance

The DC Lottery has experienced a steady decline in per capita sales of daily number games over the past 5 years. DC-3 is the most popular of the daily number games, and the sales trend closely mirrors that of the entire category. The DC Lottery DC-3 sales have steadily declined at a compound annual growth rate of -7.3%; pick 3 games across the U.S. as a whole have experienced slower decline (-1.31% compound annual growth rate).

Annual Per Capita 3-Digit Game Sales Ranked by FY 2014 Per Capita Sales Top 10 Performing U.S. Lotteries (excluding MA and CT²⁵)							
Jurisdiction	FY09	FY10	FY11	FY12	FY13	FY14	5-Year CAGR
DC	\$101.44	\$92.30	\$86.38	\$83.93	\$75.97	\$70.07	-7.13%
NJ	\$51.47	\$49.84	\$49.35	\$48.67	\$48.77	\$48.86	-1.03%
GA	\$51.29	\$49.28	\$47.64	\$47.26	\$47.72	\$47.72	-1.43%
NY	\$43.51	\$43.18	\$43.90	\$44.99	\$43.11	\$44.25	0.34%
MD	\$48.49	\$46.53	\$44.75	\$43.26	\$41.41	\$40.92	-3.34%
MI	\$35.21	\$34.66	\$33.15	\$32.73	\$32.45	\$33.00	-1.29%
PA	\$31.66	\$30.69	\$29.79	\$28.20	\$27.02	\$25.78	-4.03%
FL	\$17.27	\$16.28	\$16.44	\$16.29	\$16.60	\$17.07	-0.23%
Industry	\$19.44	\$18.93	\$18.94	\$18.49	\$18.25	\$18.20	-1.31%
Table 10-10							

One-Off

Five of the top ten performing lotteries have introduced a “one-off” or “close enough” wager. If players choose to play “close enough,” the player wins by matching the numbers exactly or if they are only 1 off on any or all numbers. Typical prizes on a \$1.00 wager would be \$250 for

²⁵ Massachusetts does not have separate 3-digit and 4-digit games and Connecticut 3-digit and 4-digit sales were not reported separately.

matching all three exactly, \$24 if one digit is one-off, \$4 if two digits are one-off, and \$8 if three digits are one-off.

Lucky Sum

Some lotteries, including the New York Lottery, offer a “Lucky Sum” feature. This can be added as an additional wager for \$1 to the player’s base play. The player wins if the sum of the player’s numbers equals the sum of the numbers drawn by the lottery. Prizes can vary from \$6.50 to \$500 on a \$1 wager.

Instant Match or EZ Match

Some lotteries, including New Jersey and Michigan, offer an Instant Match feature. This can be added as an additional wager for \$1 to the player’s base play. The lottery terminal automatically picks a set of three Instant Match numbers when the player’s ticket is generated. If any of the numbers selected by the player matches any of the Instant Match numbers, the player instantly wins the amount associated with that Instant Match Number. In New Jersey, the prizes vary from \$2 to \$500.

4-Digit Daily Number

All of the top ten performing U.S. lotteries offer a 4-digit daily game. The product attributes for each lottery’s 4-digit game are the same as those for its 3-digit game. Lotteries that offer the One-Off, Lucky Sum, and Instant Match features for the 3-digit game offer the same feature for their 4-digit game.

Annual Per Capita 4-Digit Game Sales Ranked by FY 2014 Per Capita Sales Top 10 Performing U.S. Lotteries (excluding MA and CT²⁶)							
Jurisdiction	FY09	FY10	FY11	FY12	FY13	FY14	5-Year CAGR
DC	\$133.26	\$112.38	\$105.77	\$103.85	\$92.90	\$86.39	-8.30%
MD	\$43.72	\$42.99	\$43.69	\$45.13	\$45.17	\$45.32	0.72%
NY	\$37.88	\$39.12	\$39.90	\$41.58	\$40.38	\$42.09	2.13%
MI	\$33.69	\$36.15	\$36.27	\$36.19	\$35.47	\$36.97	1.87%
NJ	\$30.48	\$30.25	\$29.28	\$29.53	\$29.91	\$30.03	-0.30%
GA	\$21.29	\$22.19	\$19.51	\$19.73	\$20.95	\$21.05	-0.23%
PA	\$20.66	\$20.61	\$19.97	\$19.24	\$19.02	\$18.66	-2.02%
FL	\$12.89	\$12.58	\$12.37	\$12.67	\$12.49	\$12.96	0.10%
Industry	\$13.53	\$13.88	\$14.01	\$14.20	\$14.14	\$14.43	1.29%
Table 10-11							

The DC Lottery’s annual sales far surpass those of all other jurisdictions. The industry as a whole experienced a minimal compound annual growth rate in this category of 1.29% from FY 2009 to FY 2014. Four of the top ten performing lotteries experienced positive growth from FY 2009 through FY 2014. Also, with the exception of New Jersey, the only lotteries that

²⁶ Massachusetts and Connecticut 3-digit and 4-digit sales were not reported separately.

experienced decreased growth in their 4-digit games over the five years were the lotteries that introduced 5-digit games. All of the top ten performing lotteries other than DC had better performance over the five years in their 4-digit games than in their 3-digit games. The DC Lottery experienced a steady decline over the same time period.

5-Digit Daily Number

DC, Georgia, and Pennsylvania offer 5-digit daily games that play like the 3-digit and 4-digit except the player chooses 5 digits instead of 3 or 4. The DC Lottery's DC 5 game was introduced toward the end of FY 2010 and has experienced steady growth each year.

Pennsylvania Lottery's Quinto game was introduced in FY 2009 and increased over the past five years. The Georgia Lottery Corporation has experienced a steady decline each year since introducing the Georgia FIVE game in FY 2011.

DC 5 sales in FY 2010 were 8.4% of DC Lottery's total daily game sales; with steady growth in DC 5 sales and steady declines in DC 3 and DC 4 sales, DC 5 reached 13.9% of total daily sales by FY 2014.

Annual Per Capita 5-Digit Game Sales Ranked by FY 2014 Per Capita Sales						
Jurisdiction	FY09	FY10	FY11	FY12	FY13	FY14
DC	\$4.85	\$18.66	\$20.84	\$23.77	\$24.99	\$25.32
PA	\$2.63	\$2.72	\$3.14	\$3.19	\$3.38	\$3.38
GA			\$1.83	\$1.07	\$1.00	\$0.89
Table 10-12						

The growth in DC 5 sales is a positive development for this product category. However, it is not possible to definitively determine how much of the DC 5 sales are dollar-for-dollar substitutes for DC 4 or DC 3 sales and how much are new sales. Also, a player can also replicate straight bets for DC 3 and DC 4 using the DC 5 game. For example, a Front 4 or Back 4 bet in DC 5 is the same type of wager as a straight bet in DC 4 (payout \$5,000 on a \$1 bet with odds of 1:10,000). By purchasing a Front 4 bet in DC 5 and a straight bet in DC 4, a player can have the same wager placed on two different drawings—DC 5 and DC 4. Not surprisingly, sales of DC 5 are strongest at retail locations that have very strong DC 3 and DC 4 sales.

10.2.2 Powerball and Mega Millions

All of the U.S. lotteries sell Powerball and Mega Millions. The sales for these multi-state games are driven primarily by large jackpots. The DC Lottery combined sales for these two games ranks fourth in the industry and third within the peer group of top performing U.S. lotteries.

Powerball and Mega Million Combined Per Capita Sales Top 10 U.S. Lotteries FY 2014			
Lottery	Population	Sales Per Capita	Rank in Industry
New Jersey	8,938,175	\$49.17	1
New York	19,746,227	\$43.73	2
District of Columbia	658,893	\$38.30	4
Pennsylvania	12,787,209	\$34.98	7
Maryland	5,976,407	\$34.51	8
Connecticut	3,596,677	\$33.45	9
Florida	19,893,297	\$32.01	14
Massachusetts	6,745,408	\$29.04	15
Georgia	10,097,343	\$25.84	20
Michigan	9,909,877	\$24.69	24
Industry	301,751,671	\$26.68	
Table 10-13			

The DC Lottery was a charter member when the Multi-State Lottery Association (MUSL) was formed in 1987 by seven of the less populous lottery jurisdictions. The purpose of the organization was to get a large enough population base to operate a lotto-type game that could generate large jackpots. The inaugural drawing for MUSL's first game, LottoAmerica, was held on February 13, 1989. The population base of the original seven jurisdictions was approximately 16.7 million—which would have ranked it as the third largest lottery in the U.S. behind only California and New York. MUSL continued to add jurisdictions, regardless of population, and had twenty lotteries with a population base of approximately 56 million by September, 1996.

In August, 1996, the Big Game was introduced by six non-MUSL lotteries with a combined population base of 47.4 million. The lotteries from DC's border states, Virginia and Maryland, were charter members of the Big Game group.

By December of 2009, MUSL had expanded to thirty-two lotteries with a population base of 131 million people and Big Game had been changed to Mega Millions and was played in twelve lotteries with a population base of 162 million people.

The multi-state jackpot games underwent significant changes in January 2010 when lotteries were allowed to begin selling both games. Powerball, which is drawn on Wednesdays and Saturdays as opposed to Tuesday and Friday for Mega Millions, was the stronger of the two brands. As a result of the games being allowed to be sold by all lotteries, every one of the top ten lotteries except the DC Lottery experienced a significant increase in per capita sales from FY 2009 to FY 2010.

DC, which had the highest per capita sales in FY 2009, suffered a 25.7% decrease in per capita sales from FY 2009 to FY 2010. Virginia and Maryland consumers who had been purchasing Powerball tickets from the DC Lottery could purchase tickets in their home states. Table 10-14 ranks the top ten lotteries by compound annual growth rate from FY 2009 to FY 2014. The lotteries that were selling Mega Millions but not Powerball prior to January, 2010 are shaded. Each of the four lotteries that achieved better than ten percent annual growth were Mega Millions states. DC Lottery's growth rate for combined sales was almost a negative nine percent; whereas the sales of these games nationwide have increased slightly more than nine percent.

Powerball and Mega Million Combined Per Capita Sales Top 10 U.S. Lotteries Ranked by 5-Year Compound Annual Growth Rate (CAGR)							
Jurisdiction	FY09	FY10	FY11	FY12	FY13	FY14	5-Year CAGR
New York	\$23.66	\$30.11	\$33.71	\$38.55	\$36.61	\$43.73	13.07%
Massachusetts	\$17.69	\$23.33	\$24.57	\$27.34	\$30.55	\$29.04	10.43%
Maryland	\$21.08	\$25.79	\$26.66	\$32.41	\$33.86	\$34.51	10.37%
New Jersey	\$31.61	\$42.33	\$40.66	\$47.22	\$48.92	\$49.17	9.24%
Pennsylvania	\$24.33	\$27.71	\$26.62	\$33.54	\$37.90	\$34.98	7.54%
Connecticut	\$25.62	\$26.83	\$25.99	\$31.95	\$36.45	\$33.45	5.48%
Georgia	\$20.38	\$24.32	\$22.37	\$26.74	\$26.85	\$25.84	4.86%
Michigan	\$22.47	\$24.01	\$25.61	\$28.89	\$29.10	\$24.69	1.90%
District of Columbia	\$50.09	\$37.17	\$34.28	\$42.14	\$40.65	\$31.46	-8.88%
Florida	\$11.73	\$21.82	\$19.75	\$25.32	\$33.73	\$32.01	N/M ²⁷
Industry	\$17.25	\$20.88	\$20.97	\$25.40	\$26.64	\$26.68	9.12%

Table 10-14

Powerball

Table 10-15 contains sales for only Powerball. Powerball sales in the District of Columbia decreased almost forty percent from FY 2009 to FY 2010 when Maryland and Virginia entered the game—and Maryland and Virginia were only selling Powerball for the second half of FY 2010. Each of the Mega Millions states that began selling Powerball in FY 2010 experienced significant increases in Powerball sales from FY 2010 to FY 2011; conversely, all of the original Powerball states experienced decreases in Powerball sales from FY 2010 to FY 2011.

²⁷ The Florida Lottery introduced Powerball midway through FY 2009. Therefore, growth comparisons to FY 2009 are not meaningful.

Annual Per Capita Powerball Sales Top 10 U.S. Lotteries						
Jurisdiction	FY09	FY10	FY11	FY12	FY13	FY14
Florida	\$23.55	\$43.80	\$39.65	\$50.83	\$66.02	\$47.36
New York		\$2.84	\$15.85	\$23.19	\$36.63	\$36.21
Connecticut	\$25.62	\$23.71	\$16.76	\$20.65	\$29.86	\$23.00
Georgia		\$7.12	\$13.04	\$18.57	\$29.74	\$22.17
District of Columbia	\$50.09	\$30.62	\$21.10	\$26.01	\$31.25	\$17.98
Pennsylvania	\$15.64	\$15.76	\$10.77	\$13.96	\$20.15	\$15.15
Massachusetts		\$3.97	\$6.81	\$9.28	\$16.85	\$12.65
New Jersey		\$3.61	\$6.72	\$9.31	\$15.21	\$11.83
Maryland		\$4.28	\$8.56	\$12.28	\$19.47	\$10.47
Michigan		\$6.38	\$8.51	\$11.84	\$18.50	\$10.30
Industry	\$10.76	\$10.67	\$10.27	\$13.06	\$19.51	\$15.96
Table 10-15						

The fluctuations from year-to-year since FY 2011 reflect the impact of jackpots. Despite the relatively negative changes in per capita sales, DC still ranks above average for the industry.

Mega Millions

As with Powerball, the fluctuations in Mega Millions sales from year-to-year since FY 2011 reflect the impact of jackpots. In FY 2011, its first full year of Mega Millions sales, the DC Lottery attained per capita sales of \$13.18—well above the industry average of \$10.72.

Like Powerball, the Mega Millions game is a very unstable source of sales and profits because of sales are so dependent on large jackpots. Analyzing yearly changes in sales from FY 2011 to FY 2014 clearly shows the impact. Sale went up 22% in FY 2012; down 42% in FY 2013; and up 43% in FY 2014.

DC ranked fifth among the top performing lotteries and seventh of the forty-four jurisdictions offering Mega Millions in per capita sales for FY 2014.

Annual Per Capita Mega Millions Sales Top 10 U.S. Lotteries Ranked by FY 2014 Per Capita Sales						
Jurisdiction	FY09	FY10	FY11	FY12	FY13	FY14
New Jersey	\$31.61	\$34.36	\$25.80	\$26.65	\$15.31	\$23.03
New York	\$23.66	\$28.27	\$23.45	\$23.53	\$12.89	\$20.28
Maryland	\$21.08	\$20.96	\$17.00	\$18.55	\$11.88	\$16.81
Michigan	\$22.47	\$17.50	\$16.94	\$16.83	\$10.25	\$14.20
District of Columbia		\$6.55	\$13.18	\$16.13	\$9.40	\$13.48
Georgia	\$20.38	\$20.10	\$14.65	\$15.75	\$9.24	\$12.72
Massachusetts	\$17.69	\$18.07	\$15.55	\$15.04	\$8.23	\$12.28
Pennsylvania		\$3.19	\$9.87	\$11.83	\$6.55	\$11.41
Connecticut		\$3.12	\$9.23	\$11.30	\$6.60	\$10.45
Florida					\$0.84	\$8.42
Industry	\$9.99	\$10.93	\$11.45	\$13.21	\$7.13	\$10.72
Table 10-16						

10.2.3 Other Lotto-type Games

Lotteries offer a variety of lotto-type games with various prize structures and odds. Lotteries are limited in the games they can offer by their population and potential sales base for each game. The potential sales for a game must be high enough to ensure the game is winnable and the jackpot prizes are fully funded.

Other Lotto-Type Games Six Least Populous Lotteries in Top Performing U.S. Lotteries				
Lottery	Game	Matrix	Top Prize	Odds of Winning Top Prize
DC (14 other lotteries)	Hot Lotto	5 of 47 plus 1 of 19	\$1,000,000 (min)	1 in 29,144,841
CT, DC, MA, MI (13 other lotteries)	Lucky for Life	5 of 48 plus 1 of 18	\$1,000 / day for life	1 in 30,821,472
Massachusetts (pop. 6,745,408)	Megabucks Doubler	6 of 49	\$500,000	1 in 13,983,816
	Mass Cash	5 of 35	\$100,000	1 in 324,632
New Jersey (pop. 8,938,175)	Pick 6 Xtra	6 of 49	\$2,000,000 (min)	1 in 13,983,816
	Jersey Cash 5	5 of 43	\$40,000 +	1 in 962,598
	Cash 4 Life	5 of 60 plus 1 of 4	\$1,000 / day for life	1 in 21,846,048

Georgia (pop. 10,097,343)	Fantasy 5	5 of 42	\$125,000	1 in 850,000
	All or Nothing	12 of 24	\$250,000	1 in 1,352,078
	Jumbo Bucks Lotto	6 of 47	\$1,000,000 (min)	1 in 10,737,573
Connecticut (pop. 3,596,677)	Cash 5	5 of 35	\$100,000	1 in 324,632
	lotto!	6 of 44	\$1,000,000 (min)	1 in 7,059,052
	Luck Links™	7 lines in tic-tac-toe type board	\$50,000	1 in 319,770
Maryland (pop. 5,976,407)	Bonus Match 5	5 of 39 plus bonus ball	\$50,000	1 in 575,757 (\$1) 1 in 191,919 (\$2)
	5 Card Cash	5 of 52 and instant win	\$100,000 \$10,000	1 in 2,598,960 1 in 649,740
	Multi-Match®	6 of 43 with 3 sets of 6	\$500,000 (min)	1 in 2,032,151
Table 10-17				

The DC Lottery participates in two lotto-type games other than Powerball and Mega Millions. Hot Lotto has a minimum jackpot prize of \$1 million and odds of 1 in 29 million; Lucky for Life® offers a top prize of \$1,000 per day for life with odds of 1 in 31 million. Both of these games are managed by MUSL and have more than a dozen participating lotteries.

Cash Lotto

Thirty-eight lotteries including all of the top performing U.S. lotteries except DC offered a cash lotto game that is sold only in the jurisdiction. Seven of the top U.S. lotteries were also in the top eight lotteries in cash lotto per capita sales. Michigan ranked twelve and Maryland ranked twenty-third of the thirty-eight lotteries that offered cash lotto games.

Annual Per Capita Cash Lotto Sales Top 10 U.S. Lotteries (except DC) Ranked by FY 2014 Per Capita Sales								
Lottery	FY09	FY10	FY11	FY12	FY13	FY14	5-Year CAGR	Industry Ranking (of 38)
Massachusetts	\$18.28	\$18.10	\$16.42	\$20.30	\$20.23	\$19.03	0.81%	1
New Jersey	\$15.96	\$16.49	\$16.59	\$16.04	\$16.23	\$16.58	0.77%	2
Florida	\$15.50	\$15.36	\$13.56	\$13.79	\$13.22	\$13.11	-3.29%	3
New York	\$16.81	\$15.65	\$14.55	\$14.50	\$13.54	\$12.97	-5.06%	4
Pennsylvania	\$14.86	\$14.28	\$13.52	\$12.52	\$13.11	\$11.85	-4.42%	5
Georgia	\$9.30	\$11.36	\$9.92	\$9.57	\$9.51	\$9.77	1.00%	7
Connecticut	\$11.49	\$9.94	\$9.56	\$9.41	\$9.06	\$8.99	-4.80%	8
Michigan	\$5.15	\$5.64	\$5.43	\$5.25	\$5.38	\$6.06	3.32%	12
Maryland	\$4.12	\$3.62	\$3.67	\$3.72	\$3.56	\$3.59	-2.71%	23
Table 10-18								

10.2.3 Keno and Other Monitor Games with Frequent Drawings

Six of the ten top performing lotteries offer a keno game that is drawn approximately every four minutes. Only fourteen of the forty-five lotteries in the U.S. offer keno games with frequent drawings. Select retailers in each of these lotteries have large LCD monitors that display the results of the drawings every few minutes. The industry-wide FY 2014 Keno sales per capita for FY 2014 was \$26.68 but the range varies considerably. Massachusetts, Rhode Island, Michigan and Maryland all have per capita sales that exceed \$50 per capita; whereas West Virginia, California, Kansas and Kentucky all have per capita sales that are less than \$7 per capita. The DC Lottery's Keno sales per capita for FY 2014 were \$17.59

The following sections provide a summary of the DC Lottery offering and the offerings for the four lotteries with the best performing Keno offerings in the U.S. The DC Lottery, Massachusetts Lottery, Rhode Island Lottery, and Maryland Lottery offer additional games that are frequently drawn and displayed on the LCD monitors. These games are included in the summaries.

District of Columbia

The DC Lottery offers D. C. Keno where players can choose 1 to 10 spots. The game offers an extension called Keno Spin that allows players to increase their keno winnings by 2, 3, 4, 5 or 10 times. Players to purchase up to 20 consecutive drawings at any lottery retailer. Keno is drawn approximately every four minutes seven days a week. Keno drawings are shown on LCD panels at select retailers and can be obtained from the lottery's website.

FY 2014 Per Capita Keno Sales All U.S. Lotteries Selling Frequently Drawn Keno			
Jurisdiction	Population	Per Capita Sales	Industry Rank
Massachusetts	6,745,408	\$120.70	1
Rhode Island	1,055,173	\$74.11	2
Michigan	9,909,877	\$55.61	3
Maryland	5,976,407	\$51.55	4
New York	19,746,227	\$33.13	5
Ohio	11,594,163	\$25.71	6
Oregon	3,970,239	\$23.27	7
Georgia	10,097,343	\$19.13	8
D.C.	658,893	\$17.59	9
Missouri	6,063,589	\$9.91	10
Kentucky	4,413,457	\$6.66	11
Kansas	2,904,021	\$6.57	12
California	38,802,500	\$4.86	13
West Virginia	1,850,326	\$2.73	14
Industry	123,787,623	\$26.68	

Table 10-18

The DC Lottery also offers Race2Riches® which simulates horse racing. Players can choose to bet on a single horse to win, place, or show or can choose more exotic wagers such as Quinella and Trifecta. Prizes on a \$1 bet can range from \$1.20 to \$31,456 depending on which horse(s) and bet-type are chosen. Race2Riches® Crown Bonus® doubles a player's base wager and provides the player with a chance to multiply winnings by up to 10. Races begin approximately every four minutes from 6:00 am to 2:00 am, seven days a week.

Massachusetts Lottery

The Massachusetts Lottery offers Keno where players can choose 1 to 12 spots. The game offers an extension called Keno Bonus that allows players to increase their keno winnings by 3, 4, 5 or 10 times. Keno-to-Go allows players to purchase up to 30 consecutive drawings at any lottery retailer. Keno is drawn approximately every four minutes seven days a week. Drawings are from 5:04 am to 1:00 am Monday through Saturday and 10:00 am to 1:00 am on Sunday. Keno drawings are shown on LCD panels at select retailers, can be obtained from the lottery's website and can be obtained from a phone or tablet.

The Massachusetts Lottery also offers Jackpot Poker where players choose five numbers from fifty-two. Players can win \$2 to \$25,000. For an additional \$1, players can play the progressive jackpot which pays a minimum of \$100,000. Jackpot Poker is drawn approximately every four minutes during similar times as Keno.

Rhode Island Lottery

The Rhode Island Lottery offers Keno where players can choose from 1 to 10 spots. The game offers an extension called Multi Chance Keno which allows players to double their base wager for a chance to win free games and higher prizes. Keno Plus is an additional extension that can be purchased for the same amount as the base amount; a wheel spins to determine whether prizes will be multiplied by 2, 3 4, 5, or 10. Keno On The Go allows players to purchase up to 15 consecutive drawings at any lottery retailer. Drawings are held approximately every four minutes. Keno drawings are shown on LCD panels at select retailers and can be obtained from the lottery's website. The Rhode Island Lottery also offers Keno Nights. Keno Night is a promotion held at a Keno retailer. The promotion typically runs two hours and includes free plays, increased prizes on certain wagers, and other prizes.

Rhode Island also offers Bingo. Players receive randomly generated boards and then try to match one of eight traditional bingo patterns from the thirty balls drawn by the lottery. Prizes range from \$1 to \$10,000. The game is drawn approximately every four minutes and the results are displayed on LCD monitors in select retailers and are available on the lottery's website.

Michigan Lottery

The Michigan Lottery offers Club Keno where players can choose to play 1 to 10 spots. The game also offers two extensions. The Jack which costs an additional dollar and generates 8 Easy Pick numbers and enters the player into a progressive jackpot that starts at \$10,000. Kicker allows players to multiply their winnings by 2, 3, 4 ,5 or 10. Club Keno is drawn approximately every four minutes seven days a week from 6am to 2am. Club Keno drawings are shown on LCD panels at select retailers and can also be viewed live on the Internet. Club Keno tickets can be purchased for up to sixty consecutive draws.

Maryland Lottery

Maryland Lottery offers Keno where players can choose to play 1 to 10 spots with prizes ranging from \$1 to \$100,000. The game offers two extensions. Bonus doubles the player's base Keno wager for a chance to multiply their winnings by up to 10; Super Bonus triples the player's base Keno wager for a chance to multiply their winnings by up to 20. Keno is drawn approximately every four minutes. Club Keno drawings are shown on LCD panels at select retailers and can also be viewed live on the Internet. Michigan also provides apps for iPhones and Androids that can be used to view drawings, search game results, see hot and cold numbers, view payouts, and learn about promotions.

Maryland also offers a unique feature called Packaged Keno To Go (PKTG). This allows players to purchase a ticket good for 20, 40, 50, 80, or 100 consecutive games. The most unique feature of PKTG is that the price per game is only \$0.25. This decreases all the prizes to one-fourth that paid for a \$1 ticket but allows the player to play 100 consecutive games for only \$25.

Maryland Lottery also offers RaceTrax® which simulates horse racing. Players can choose to bet on a single horse to win, place, or show or can choose more exotic wagers such as Exacta or Superfecta. Prizes on a \$1 bet can range from \$1.20 to \$650,000 depending on which horse(s) and bet-type are chosen. RaceTrax Bonus doubles a player's base wager and provides the player with a chance to multiply winnings by up to 10. Races begin approximately every five minutes.

10.2.4 Instant Draw Games

Fast Play

The DC Lottery introduced Fast Play in the middle of FY 2011. Fast Play tickets are generated and the winner is determined at the time the ticket is purchased. The New Jersey Lottery, New Hampshire Lottery, Arkansas Scholarship Lottery and Hoosier Lottery offer Fast Play games. Other lotteries offer the same type of product under other names: Ohio Lottery and Montana Lottery offer EZPLAY® and Minnesota offers Print-N-Play. However, few of these lotteries provided sales data for their on-demand games for FY 2014.

The DC Lottery used the WinStations to market and sell Fast Play tickets during the period when the DC Lottery did not have a full complement of instant tickets. This strategy paid significant dividends by not only giving the retailers a reason to keep the machines in place even though there were no instant tickets to sell, but also increasing consumer awareness of the Fast Play games.

DC Lottery's recent Fast Play sales history does not provide insight into how this product line will perform when not being sold through WinStations and when competing against instant tickets. Additionally, with so few lotteries selling this product line and without competitive sales data, it is not possible to identify high performance lotteries and best practices at this time.

One significant distinction between the product offerings of the various lotteries was the number of games offered. In comparison to the New Jersey Lottery's fourteen games, the DC Lottery had offered twenty-two Fast Play games; however, DC's offering was similar to Ohio's twenty-four. Minnesota's only offered only three games.

Tap-N-Play

The DC Lottery introduced TAP-N-PLAY® in FY 2013. These games produced approximately \$5 per capita in sales in FY 2015. DC TAP-N-PLAY™ games are lottery games that are played on MP Terminal Machines in select retail locations. The player can tap the screen and locate games on the screen that he or she wishes to play. Tickets are printed and winning status is determined when purchased. These games are designed so they can also be played on mobile devices such as smartphones or tablets.

These games are not offered in any of the other top performing U.S. lotteries.

10.3 Quantity of Product Families and Products

The DC Lottery offers all the traditional lottery product lines that are offered by the other top performing lotteries. DC does not offer video lottery games or casino table games that are offered in a few of the top performing lotteries. The only product that is not offered by the DC Lottery that is offered by all of the other top performing lotteries in the U.S. is a cash lotto game. DC has run a cash lotto game in the past.

DC does offer an instant draw game (Fast Play) product line. Similar product lines are only offered by one of the other top performing lotteries and five other lotteries in the U.S. The DC Lottery is the only lottery in the U.S. offering Tap-N-Play games.

The following observations are provided for each of the DC Lottery product lines:

- The DC Lottery is rebuilding its instant game portfolio. The instant game product plan is consistent with standard industry practices. These games provided 15% of DC Lottery's sales in FY 2015.
- The DC Lottery offers three daily number games. It is one of only three of the top performing lotteries to include offer a 5-digit game in addition to the 3-digit and 4-digit game. The growth in the 5-digit game demonstrates that the game is appealing to consumers. These games provided 55% of DC Lottery's sales in FY 2015.
- Powerball and Mega Millions sales appeal to the same players. The success of these games is dependent on their jackpots. The DC Lottery has no control over these product offering and should expect a long-term downward sales trend. However, with good profit margins and significant sales, the DC Lottery should keep these games in its portfolio for the foreseeable future. These games provided 8% of DC Lottery's sales in FY 2015.
- Hot Lotto and Lucky for Life have very similar odds for the top prizes. The introduction of Lucky for Life appears to have cannibalized some of Hot Lotto's sales, but the net

impact appears to be positive. These games provided 3% of DC Lottery's sales in FY 2015.

- Keno and Race2Riches appeal to very similar consumers. Keno sales are marginally higher than Race2Riches sales. These games tend to do very well in establishments where consumers congregate and spend time in a social atmosphere—such as, sports bars and restaurants. These games provided 9% of DC Lottery's sales in FY 2015.
- Fast Play appears to have its own customer base but also served as a substitute of instant scratch tickets. As the instant scratch game product line was re-established during FY 2015, Fast Play sales declined. Fast Play sales were \$5 million in the first quarter but only \$17 million for the year. Fast Play accounted for 8% of DC Lottery's sales in FY 2015.
- TAP-N-PLAY® appears to have its own customer base and showed significant increases in sales for the first three quarters of FY 2015 before dropping off in the fourth quarter. These games provided less than 2% of the DC Lottery's sales in FY 2015.

DC and Peer Group Product Portfolio Offering										
Game	MA	NJ	NY	GA	CT	PA	DC	MD	MI	FL
Instant/Scratch	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
3 – Digit	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
4 – Digit	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
5 – Digit				✓		✓	✓			
Powerball	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mega Millions	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Lucky/Cash for Life	✓	✓	✓		✓	✓	✓		✓	
Cash lotto	✓	✓	✓	✓	✓	✓		✓	✓	✓
Other lotto game	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Fast draw keno	✓		✓	✓			✓	✓	✓	
2nd fast draw game	✓						✓	✓		
Instant draw games		✓					✓			
Table 10-19										

10.4 Highlights and Recommendations

10.4.1 Highlights

- DC Lottery ranks fourth in the U.S. lottery industry in sales per capita.
- DC Lottery ranks first in draw game sales per capita in the U.S.
- DC Lottery ranks first in daily number games sales per capita in the U.S.
- DC Lottery ranks fourth in the combined Powerball and Mega Millions sales per capita in the U.S.

10.4.2 Recommendations

10.4.2.1 Resolution of Current Issues

No current issues were identified.

10.4.2.2 Best Practice Enhancements to Existing Operations

No best practices were identified that have not been implemented by the DC Lottery.

10.4.2.3 Additional Recommendations

The DC Lottery should consider experimenting with cross-selling DC-5 with DC 3 and DC 4 in limited, select retail locations.

The DC Lottery should consider experimenting with promoting specific easier-to-win bet-types, such as Front Pair and Back Pair, for DC 3 in limited, select locations.

10.4.2.4 Recommendations in Progress

No current issues were identified.

11. RETAILER ENGAGEMENT

11.1 General

The DC Lottery has approximately 460 retailers to service and keep informed. One of the challenges the DC Lottery faces is that for the majority of its retailers, English is not their primary language. Based on a survey the Lottery conducted in 2013, English was the primary language for only 43% of the retailers. Korean and Amharic²⁸ were the primary languages for 26% and 17% of the retailers, respectively.

The DC Lottery engages the retailers through various channels and a number of vehicles. The next two sections provide feedback from the retailers and the lottery sales representatives regarding their perspectives on the effectiveness of DC Lottery's communication with the retailers. The fourth section provides an analysis of the current communication vehicles in use by the DC Lottery. The final section provides highlights and recommendations for enhancing retailer communications.

11.2 Retailer Perspective

General communications and relationships with the lottery sales representatives appear to be consistent and positive. Most retailers believe they see their lottery sales representatives regularly. The retailers said lottery sales representatives are able to answer questions, provide information on new games, and provide training when needed.

Although the retailer attitudes toward DC Lottery sales representatives are consistently positive, their attitudes toward the overall Lottery are not as consistently positive. Some of the less than positive feelings stem from a loss of credibility associated with the interruption of instant game sales for an extended period of time. However, a more frequent complaint was what the retailers perceive as constant changes in policies and programs that put unwanted stress on their operations. Many retailers claim that these changes happen without warning or explanation. Retailers also feel the purpose or nature of the changes is difficult to understand. Additionally, when changes are implemented or unexpected messages are delivered via the terminal, the retailers are not sure how to get clarification other than asking their sales representative when he or she comes in. The frustration can be compounded if their sales representatives are unaware that the message was sent or the change was made.

Most retailers were aware of *The Agent*, Lottery's retailer newsletter, but have little interest in it. The newsletter is of greater interest when there are big winners to announce but otherwise didn't seem to be critical to the retailer. Many were not sure when or how often it came out with some believing it had been suspended for some time now and some believing they still get it regularly.

²⁸ Primary language in Ethiopia.

Terminal messages are a quick way to communicate with all retailer but can be confusing. Retailers felt the messages tend to be written in “lottery-speak” that retailers do not always understand. For example, a message may say an instant game is *ending*. Although that logically could be interpreted as meaning the retailer can no longer sell the game, the actual message the lottery is trying to convey is that retailers can no longer order tickets.

The language barrier presents an additional challenge for terminal messages. The “lottery-speak” does not always translate to the retailers’ native languages, and therefore may not result in the retailer taking appropriate action. The retailers often rely on the lottery sales representatives to explain messages.

Retailers believe the product sales guides are very helpful and easy to understand. Two reasons the retailers may particularly like these guides are that the format is very consistent and they are delivered by sales representatives who can clearly explain the contents.

Additionally, change can be difficult and the DC Lottery has gone through a variety of changes over the past year. Retailers fear that in addition to immediate changes made to existing operations and policies, more change is eminent. Alleviating these concerns through advanced and open dialogue with retailers will be important going forward.

Retailers sometimes receive conflicting information from the tel-sell staff and the lottery sales staff. The lottery sales representatives will encourage the retailers to carry more tickets of a specific game but the tel-sell representatives recommend the same or fewer tickets based on inventory reports. Retailers are unclear about the correct quantities to order and generally accept the tel-sell staff’s direction when ordering tickets. If the retailers run out of instant ticket inventory, most retailers will wait until the following ordering cycle for additional tickets. However, some retailers will call the Lottery to order more ticket.

11.3 Sales Representative Perspective

The sales representatives believe they have good relationships with retailers; this is consistent with what the retailers conveyed. In general, the sales representatives believe they are provided sufficient information to provide the retailers on new games and promotional activities.

The sales representatives believe that retailers are somewhat ambivalent about the newsletters. The sales representatives claim they often do not know the contents of the newsletter prior to delivery to retailers. And similar to the retailer interviews some sales representatives believed the newsletter had been suspended while others believed it was still being distributed. There was significant confusion and none of the sales representatives were sure when the next issue is coming out or of potential contents.

11.4 Current Communication Channels

The DC Lottery has six primary channels available to communicate with retailers.

- **Sales Representatives:** Sales representatives visit each retailer approximately once every two weeks, which is pretty consistent with other lottery practices.
- **Tel-Sell Representatives:** The Tel-Sell representatives, who work for a Certified Business Enterprise, call each retailer once a week to assist the retailer with ordering instant tickets. They review history, inventory levels and recommend the games and number of books. The warehouse then packages the order and arranges shipping.
- **Product and Promotion Sales Guide:** A four-page, color pamphlet that introduces new games and provides information on promotions when appropriate. The sales guide is delivered by sales representatives and used as a training guide.
- **Terminal Messages:** The Lottery can send the retailers messages through the retailer terminals.
- **Retailer Terminal Surveys:** Lottery can offer surveys to the retailers through the lottery terminals to obtain retailers' opinions about various issues.
- **In-bound Telephone:** The Lottery terminals in the store have a button the retailers' can push to get a list of lottery contacts and phone numbers. The contacts include numbers for the DC Lottery Finance Department, Sales Department, Tel-sell Department, Security, and DC Lottery main number.

11.5 Highlights and Recommendations

11.5.1 Highlights

Lottery has recognized and quantified the number of retailers for whom English is not primary language. The DC Lottery has taken the additional step of hiring staff and engaging contractors to provide the language skills necessary to communicate with most retailers in their native language. This is an industry best practice.

The DC Lottery appears to be invested in successfully using the communications tools at their disposal. These tools are the same or similar to those commonly utilized by other lotteries in the U.S.

Based on the feedback provided by retailers, the DC Lottery sales representatives enjoy strong relationships with the retailers. Retailers believe sales representatives are knowledgeable and invested in the retailers' success.

Every DC Lottery employee interviewed who is involved in retailer engagement efforts acknowledged the DC Lottery has made significant progress in sharing between departments. This has provided a better flow of information to the sales representatives and the retailers.

11.5.2 Recommendations

11.5.2.1 Resolution of Current Issues

No current issues were identified.

11.5.2.2 Best Practice Enhancements to Existing Operations

No best practices were identified that are not currently employed by the DC Lottery.

11.5.2.3 Additional Recommendations

No additional issues have been identified.

11.5.2.4 Recommendations in Progress

The DC Lottery is developing a retailer advisory committee that can be used by DC Lottery leadership, sales staff and marketing staff to solicit feedback and capture new ideas from retailers.

12. PLAYER ENGAGEMENT

Similar to industry practices, the DC Lottery has conducted research studies to identify player habits and develop player segmentation groups. These player segments offer insight into player motivations – for both play and non-play habits – and can be used to guide lottery game development and communications efforts.

Section 12.1 provides the results of the most recent player segmentation research. The following sections identify current activity and promotional efforts to engage players and the final section provides highlights and recommendations.

12.1 Existing Research Findings

The DC Lottery has used a third party research firm for these studies. The research studies have appeared to be consistent with other industry efforts, supplying a cross section of player information and habits. Through this research the DC Lottery appears to have a good base of knowledge and information to develop future plans for growth and expansion. In addition, the research study offers good insight to drive the development of marketing and communications plans.

The research identified four player and non-player segments:

- Faithful Dreamers – 56% of all players, skews female
- Passive Dabblers – 36% of lottery players
- Working Gamers – 14 % of lottery players and the least confident in winnability of lottery games
- Couch Potatoes – generally non-players with little consideration or thought to the lottery, skews younger but also more affluent

The research from 2014 outlines game and play motivations, demographic and psychographic influences, impact of retailer experiences, and variety of impressions regarding the DC Lottery.

It appears the DC Lottery's primary areas of opportunity are to continue to grow loyalty and expand game preferences among the Faithful Dreamers, and to increase play activity among the Passive Dabblers.

The Working Gamers and Couch Potatoes skew the youngest and make up the least play activity – which is a common trend among lotteries throughout the US. The younger, millennial generation has a very passive relationship with the lottery. Members of this group typically get bored quickly and generally do not trust the odds and opportunity to win a prize of any significance. Couch Potatoes are the least active; the few who do play, skew female, have higher income and more than sixty percent are college educated.

Retailer convenience and the retailer experience have a strong influence on overall lottery experience and the impulse nature of games purchased with all four of these groups.

12.2 Player Engagement Efforts

12.2.1 Promotional Events and Games

The DC Lottery has an extensive community event and promotional strategy to engage players and build momentum. The Lottery's commitment to make the lottery more visible and more involved in the community appears to be a very smart strategic and tactical move that should have long-term benefits. The communications and promotional staff seem committed to presenting a positive image of the lottery.

Although the DC Lottery does not design engagement strategies specifically and solely to address specific segments, many of the DC Lottery's current player engagement activities are influenced by the research's conclusions and recommendations. These player engagement efforts include:

1. Introduction of The Walking Dead game and promotional activity
2. Increased use of Lucky Lottery Mobile – a “food-truck inspired” promotional vehicle designed to reach out to the community through lottery-specific promotions and District of Columbia events
3. In-store promotional events designed for DC Lottery Sales Representatives to engage and interact with consumers and reinforce the fun entertainment and winnability of lottery games
4. Corporate Sponsorships designed to leverage positive brand image and relationships
5. Sports sponsorships and promotions to engage with sports fans and the younger male target audience. These have included engagements with the Capitals, Wizards, Nationals and DC United
6. Leveraging media buys and sponsorships to gain added value exposure among the younger target audience
7. Union Station promotional events
8. Verizon Center promotional events

In addition to the player engagement effort listed above, the lottery identifies new game ideas and accompanying promotional activities designed specifically to attract a broader player base. Examples of these efforts include The Walking Dead, Betty Boop and The Racing Presidents game and promotion.

The Lucky Lottery Mobile is a promotional vehicle that helps the lottery get involved in community activities; reinforcing the brand image and attracting player interest.

These efforts individually and collectively are designed to create a stronger and more trusting relationship between the lottery and each of the player segments, generating a greater level of loyalty and motivation to play lottery games.

12.2.2 Public Relations

Engaging and communicating through public relations can be difficult when news media is driven primarily by controversial or bad news. The DC Lottery's public relations efforts during FY 2015 included thirty-two news releases/advisories.

DC Lottery FY 2015 Press Releases/News Advisories		
Topic	Quantity	Run by Local Media
Winner	10	80%
New Game	6	17%
Information	4	100%
Events	4	0%
Payouts/Numbers	5	0%
Ad Campaign	2	50%
Jackpot	1	100%
Table 12-1		

Almost thirty percent of the lottery's releases were about winners; these were frequently carried by the local media. Releases and news advisories regarding DC Lottery events and payouts were never broadcast.

12.2.3 Advertising

The DC Lottery's advertising approach is consistent with the strategies used by other lotteries. The Lottery's approach includes building a more powerful branded position, employing a more youthful approach with messages and delivery options, and, if not product specific, tagging the brand spots with a specific game promotion. Given the expensive and competitive nature of the DC market this approach would appear to be a strategic way to leverage and maximize advertising budget while expanding audience relevance. The challenge however is the limited use of traditional media by the younger generation and an expensive and competitive media market.

12.2.4 Web Site

A website is an important tool for attracting and educating customers. The DC Lottery website receives more than 25,000 visits per day. These visits are split between the desktop version of the DC Lottery's website and the mobile version.

The desktop version of the DC Lottery website has an average of 15,626 sessions a day; this is a good average considering DC's population. Almost fifty-five percent of the visitors to the desktop version of DC Lottery website were directed to the website via listings on search engine results pages that appeared because of their relevance to the search queries. More than forty-percent of the visitors to the desktop version of the DC Lottery website in October 2015 reached the website directly by typing in the URL address. This indicates a significant number of users are returning visitors.

Less than one percent of the desktop version of the website is directed there from social media sources. This is interesting because millennials frequently access social media through their mobile devices. This percentage can be improved by better targeting millennials on social media.

DC Lottery's mobile version of the website averages 9,941 sessions per day. Approximately forty-percent of the sessions on both the mobile version and desktop version of the website are from direct access and approximately fifty to fifty-five percent are derived from search engine results. Website sessions accessed from social media are very low—65 per day for the desktop version and 5 per day for the mobile version.

The DC Lottery's website has a user-friendly interface and good usability. It is easy to navigate through the website using only one or two clicks. With this in mind, there are a few usability design characteristics that could be improved.

While the importance of the winning number panel is obvious, it pops up in an area that covers significant content. Having the panel oriented vertically and coming from the left side of the screen may be a better option.

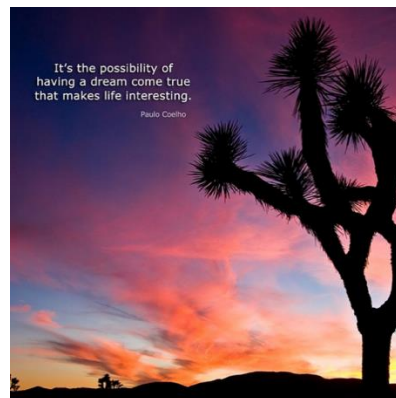
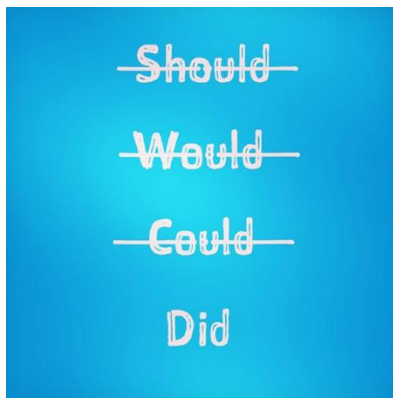
The DC Lottery posts videos of its drawings online. However, users must install a plugin called "SilverLight", which is not a cross-platform compatible plugin. Without this plugin, the user is not allowed to watch the drawings. The majority of the lotteries that post drawing videos use YouTube; several of the top-ten performing lotteries including Massachusetts, Connecticut, Maryland, Michigan, and Pennsylvania use YouTube to share drawing videos with the public.

12.2.5 Social Media

Social media integration is important when promoting products to existing players. It is especially imperative when trying to reach a younger audience. The DC Lottery has four main social media accounts that reach out to players. These are Facebook (25,919 likes), Twitter (3,038 followers), Instagram (550 followers) and YouTube (242 subscriptions). Currently social media is posted daily on Facebook and Twitter, approximately every two days on Instagram, and monthly on YouTube. When trying to get the general population to buy a product it desirable to engage with players every day, multiple times a day.

Three main hashtags are used to keep up engagement with followers on social media. They are #WhenIWinDCLottery, #ItsFUNtoPlay and #lotsofpeopleWIN. Content that is posted tends to vary slightly depending on the platform, but posts are mainly promotions of new lottery products.

Other lotteries tend to post a wider variety of content on social media. For example, California lottery will post inspirational quotes that do not directly pertain to the lottery, but still inspire people to play.



Other lotteries have successfully used Facebook advertising. Boosting a post or placing an ad increases the number of people who see the ad and may increase social media interest.

12.2.6 Mobile

The DC Lottery does not have a mobile application for smartphones or tablets. However, the DC Lottery has recently signed a contract for the development of mobile applications.

A number of lotteries have implemented mobile applications. For example, Colorado Lottery has two apps. One app gives users notifications about latest winning numbers and the other allows players to scan scratch tickets to determine if they are a winner and to enter into second chance drawings. User reviews for this app are overwhelmingly positive.

12.3 Highlights and Recommendations

12.3.1 Highlights

The DC Lottery has conducted several research studies on players, motivations and opportunities and appears to have very good base of information from this research.

The DC Lottery is taking definitive and positive steps to reengage the current player base and reach new players. These steps include:

- A community outreach program to directly engage consumers.
- A concentrated effort to reestablish fun, entertainment and the opportunity to win.
- Delivering consistency in retail merchandising to support the scratch games.
- Utilizing Lucky Lottery Mobile to build greater community presence.

12.3.2 Recommendations

12.3.2.1 Resolution of Current Issues

No current issues were identified.

12.3.2.2 Best Practice Enhancements to Existing Operations

Use YouTube platform for drawings after new drawing system is implemented. Upload the videos to YouTube.com and then embed the videos on the website.

12.3.2.3 Additional Recommendations

Include links to the DC Lottery website in social media posts. This may increase the number of sessions to both desktop and mobile versions of the website, creating another outlet for people to visit the website.

Capitalize on media's willingness to run winner stories. Try to find human interest angles that will make stories regarding smaller winners more news worthy.

Use a variety of topics for social media posts including some topics that are only tangentially related to the Lottery. This can create more consumer interaction, especially on Instagram, and may appeal to a younger audience.

Leverage one social media to promote others. For example, share an Instagram post to Facebook and Twitter and vice versa.

12.3.2.4 Recommendations in Progress

Continue to develop and implement specific efforts focused on new player development among younger audiences. These efforts could include:

- Shifting media spending towards millennial-specific promotional opportunities.
- Investing in community support opportunities focused on younger audiences.
- Deploy mobile applications.

13. Draw Operations

13.1 Draw Operations

Lottery draw shows can play a role in helping to establish the lottery's image and brand positioning. However, producing live drawings and having the drawings aired on television can be prohibitively expensive in many markets. Consistent with the trend for most lotteries, especially small to medium size lotteries, the DC Lottery stopped producing live drawing shows in 2004. The DC Lottery has been using a random number generator to draw the numbers and a system to generate a digital graphic representation of the drawing results that can be uploaded to the Lottery's website. The DC Lottery is currently paying approximately \$120,000 per year to have the winning numbers scrolled across the bottom the screen on News Channel 8 and News Channel 7.

The DC Lottery offers players a number of ways to obtain winning numbers. The numbers are displayed on LCD screens at retail locations and the retailers can print winning numbers for the players. The numbers are also available on the DC Lottery website –both in numeric form and via watching the graphic representation of the drawing.

The DC Lottery has decided not to renew the contract with the existing provider of the random number generator and graphics system and released a request for proposal to obtain a new system that will do both.

13.2 Highlights and Recommendations

13.2.1 Highlights

- The DC Lottery's decision to augment its random number generator system with a graphics system that will simulate a drawing is a best practice for lotteries that choose to use random number generators. An animated drawing provides the lotteries an opportunity to provide numbers in a more engaging format.
- The DC Lottery's use of random number generator systems to generate the drawing results is the most economical method of conducting drawings.
- The DC Lottery's decision to not televise drawings results in considerable savings for the DC Lottery with no apparent impact on sales.

13.2.2 Recommendations

13.2.2.1 Resolution of Current Issues

No current issues were identified.

13.2.2 Best Practice Enhancements to Existing Operations

No best practices were identified that are not being used by the DC Lottery.²⁹

13.2.3 Additional Recommendations

After the DC Lottery has procured its new drawing animations package, the Lottery should consider soliciting a drawing package from the local television stations to see if they can get the drawings or the winning numbers broadcast at specific time by one of the stations. The DC Lottery could offer guaranteed publicity to a station that agrees to broadcast the numbers at a certain time. The publicity could include inclusion on point of sale at 450+ retail locations, a tag on paid media advertising, and inclusion in community events.

13.2.4 Recommendations in Progress

The DC Lottery is in the process of acquiring a new random number generator drawing system with a compatible drawing animation system.

²⁹ See Section 12.3.2.2 regarding the use of YouTube platform for drawings.

SUMMARY

This summary is intended to provide a very condensed synopsis of the contents of the full report. It is comprised of seven parts:

- **Summary of Findings by Section**—brief statements regarding the results of our analysis for each of the thirteen sections.
- **Best Practices**—best practices that were identified as having been implemented by the DC Lottery
- **Highlights**—processes or practices which are of an exceptional nature and worthy of being highlighted
- **Resolution of Current Issues**--recommendations that coincide with a finding that we believe represent an operational deficiency that will be corrected by adopting the recommendation.
- **Best Practice Enhancements to Existing Operations**—recommendations that are recognized industry best practices that have not been fully adopted by the DC Lottery.
- **Additional Recommendations**—other recommendations that have the potential to improve existing operations.
- **Recommendations in Progress**-- areas where the Lottery had determined improvements were desired and the lottery had started an initiative prior to the beginning of our engagement.

Summary of Findings by Section

1. Organization Structure and Staffing

- a. **Governance Structure:** The DC Lottery is one of six lotteries that operate as part of another government agency and do not have a board or commission. This governance structure appears to facilitate high performance as measured by sales per capita.
- b. **Organization Structure:** The DC Lottery's organization structure does not contain any reporting relationships that would reduce efficiency.
- c. **Staffing Level:** The DC Lottery is appropriately staffed.

2. Internal Operations

- a. **Gaming System Operations:** The gaming system operations provided by the DC Lottery's gaming system vendor and its subcontractor have acceptable controls and are operating at an acceptable level.
- b. **Claim Center Processing:** The DC Lottery claim processing adheres to industry best practices and has the most automated claims processing system in the U.S.
- c. **Drawings:** The DC Lottery drawings are performed with adequate segregation of duties and secure processes.
- d. **Risk of Fraud Associated with Non-Payment of Player's Winnings:** The DC Lottery has implemented most of the industry best practices and is in the process of enhancing the remaining one.

- e. **Customer Service Complaints:** The DC Lottery's Customer Service Department processes player and public complaints. The DC Lottery has scheduled the implementation of a customer relationship management system to track complaints.

3. Mission, Vision and Values

- a. **Content:** The DC Lottery's mission and vision statements go beyond those of the other lotteries by including *providing entertainment, stimulating imagination, and inspiring optimism*. The DC Lottery is one of the few lotteries that are known to publish core values. The core values include integrity, innovation, passion, excellence, and community.
- b. **Communication:** The DC Lottery posts its mission, vision and core values throughout its workspace and in each employee's office.

4. Competitive Landscape / Sales and Marketing Plan

- a. **Competitive Landscape:** The DC Lottery is the only city lottery in the U.S. and operates in the unique Washington D.C. media market with competition from the Maryland Lottery and Virginia Lottery. The continuing addition of casinos in the metro area is increasing competition for entertainment and gaming dollars.
- b. **Marketing and Sales Plan:** The DC Lottery has a defined planning process for developing product, marketing and promotion plans. A well-balanced game introduction approach offers a variety of themes and prize amounts that are consistent with industry standards. The lottery also is very focused on using community events and corporate sponsorships to connect with the community and players. The DC Lottery's advertising and media approach are consistent with lottery industry practices and the lottery is committed to expanding its player base.

5. Procurement Process

- a. **Process for Major Procurements:** The DC Lottery must have all major procurements managed by the Office of the Chief Financial Officer, Office of Contracts.
- b. **Certified Business Enterprise (CBE) Requirement:** Large contracts are required to subcontract at least 35% of the dollar volume to small business enterprises unless a waiver is obtained. The DC Lottery fully embraces supporting the DC CBE program and requested only one waiver for the thirteen major procurements between FY 2009 and FY 2015.
- c. **Procurement Intervals:** Although the interval between receiving proposals and awarding contracts is a respectable three months, the major delays in procuring goods and services are the intervals between the DC Lottery starting the process and the release of the request for proposals. These delays are the result of staffing levels at the Office of the Chief Financial Officer, Office of Contracts.

6. IT Operations, Systems and Staffing

- a. **IT Processes & Staffing:** The Lottery IT Department has requisite IT policies and processes in place but needs to fully implement its Requirements Process. Hiring and augmenting staff is very difficult.

- b. **Systems:** The Lottery IT Department provides software maintenance, development, and support for ten systems. In addition, the department oversees seven systems provided by five information technology vendors.
- c. **Integrity and Security:** The DC Lottery uses several strategies to ensure the security and integrity of its systems. These strategies include an Internal Control System, external audits, and implementation of security standards.

7. Retailer Sales and Merchandising

- a. **Average Retailer Performance:** Average retailer sales vary by ward. In July 2015, the retailers in Ward 7 had average sales of \$58,994 and the retailers in Ward 1 had average sales of \$28,914; these were the highest and lowest, respectively, for the eight wards.
- b. **Retailer Attitudes:** Forty-five retailers were visited and forty-one of the retailers provided feedback regarding the lottery. The retailers' attitudes toward their lottery sales representatives were overwhelmingly positive. Retailers raised issues regarding the processes for ordering tickets. Eighty-two percent of the retailers did not have any complaints regarding the lottery equipment.
- c. **Product and Point of Sale Material Placement:** Higher selling retailers tended to have significantly more POS than the retailers with low sales amounts.

8. Expansion of DC Lottery Network:

- a. **Retailer Penetration:** The DC Lottery retailer network is not inconsistent with the other top ten performing lotteries in the U.S. The data does indicate that the DC Lottery should be able to realize some level of increased sales by expanding its retailer network.
- b. **Key Drivers:** Compared to the other top performing lotteries in the U.S., the DC Lottery provides ample incentives and very low barriers for retailers to join the DC Lottery retailer network and sell lottery tickets:
 - i. **Licensing Process:** Process is straightforward and can be completed in as few as fifteen days.
 - ii. **Retailer Costs:** Lottery does not charge an application fee and does not charge retailers fees for equipment or communications network.
 - iii. **Retailer Compensation:** The DC Lottery retailer compensation as a percentage of total sales was 7.2% in FY 2014; compared to the top ten performing lotteries this was second only to Michigan who paid 7.3%.
 - iv. **Retailer Lottery Profits:** DC Lottery retailers make some of the highest profits from the sale of lottery products in the U.S. The average lottery profits for DC Lottery retailers in FY 2014 were \$31,383; compared to the top ten performing lotteries this was second only to Massachusetts' \$37,539.
- c. **Retailer Support:** DC Lottery Sales Representatives visit each retailer on a regular basis and the Lottery provides a variety of equipment to select retailers to assist in the merchandising and sale of lottery tickets.
- d. **Retailer Recruiting:** The DC Lottery has recently entered into a contract with a Certified Business Enterprise to recruit retailers.

- e. **Potential Retailers:** The DC Lottery has a low concentration of bars and restaurants. The DC Lottery is at an extreme disadvantage because it is not allowed to license retailers in the federal enclave.

9. Financial Review

- a. **Comparison to Peer Group:** The DC Lottery was compared to other U.S. lotteries with annual sales between \$125 million and \$325 million.
 - i. **Sales and Profitability Performance:** DC Lottery had the highest sales per capita and the highest operating income per capita within the peer group of seven lotteries.
 - ii. **Production and Distribution Costs:** The DC Lottery's product and distribution costs as a percentage of sales were the third lowest in the group. These costs include retailer compensation, gaming systems, gaming services, and ticket costs.
 - iii. **Advertising and Marketing Investment:** The DC Lottery's advertising and marketing costs as a percentage of sales were the second highest in the group, however, the DC Lottery operates in the most expensive media market. It is not possible for the DC Lottery to purchase media that only reaches DC residents.
 - iv. **Salaries, Wages, and Benefits:** The DC Lottery's personnel costs as a percentage of operating profits are significantly higher than the other lotteries in the peer group. However, wages in the District of Columbia are significantly higher than the cities where the peer lottery headquarters are located.
- b. **Trend Analysis:** DC Lottery's financial performance was analyzed from FY 2011 to FY 2015.
 - i. **Revenue Trend:** FY 2015 revenue was 8% below FY 2011. The DC Lottery did not have a contract with an instant ticket supplier from July 20, 2013 until December 2014. The resulting decrease in instant ticket sales accounted for all of the decrease in sales. The experiences of other lotteries would indicate that instant ticket sales could take as much as four to five years to recover to their previous levels.
 - ii. **Production and Distribution Costs:** Total product and distribution costs as a percentage of sales have decreased from 10.5% of sales in FY 2011 to 10.2% of sales in FY 2015.
 - iii. **Advertising and Marketing Investment:** Advertising and marketing investment as a percentage of sales increased from 2.5% of sales in FY 2011 to 2.9% of sales in FY 2015. Advertising increased in FY 2015 to support the reintroduction of instant tickets
 - iv. **Salaries, Wages, and Benefits:** The DC Lottery's salaries, wages, and benefits were the same in FY 2015 as they were in FY 2011.
 - v. **Operating Profits:** The DC Lottery managed to reduce operating costs by almost eight percent from FY 2011 to FY 2015; however, the corresponding eight percent decrease in sales still resulted in a decrease in

profitability. DC Lottery profits decreased by ten percent from FY 2011 to FY 2015.

10. Product Portfolio

- a. **General:** The DC Lottery offers a full portfolio of traditional lottery games. The lottery ranks seventh in per capita income and fourth in total sales per capita.
- b. **Instant Game Portfolio:** The DC Lottery's instant product portfolio was interrupted for more than a year. Per capita instant sales decreased by an annual rate of 4% from FY 2009 through FY 2014. Sales are beginning to recover but it will likely be several years before they return to previous levels.
- c. **Draw Games:** The DC Lottery offers a broad portfolio of games that are determined by drawings. The DC Lottery ranks number one in the U.S. in draw game per capita sales. The DC Lottery per capita sales from draw games is more than three times the industry average.

11. Retailer Engagement

- a. **General:** The DC Lottery has approximately 460 retailers to service and keep informed. English is the primary language for only forty-three percent of the retailers.
- b. **Retailer Perspective:** General communications and relationships with the lottery sales representatives appear to be consistent and positive. Some of the less than positive feelings toward the DC Lottery in general stem from a loss of credibility associated with the interruption of instant game sales for an extended period of time.
- c. **Lottery Sales Representative Perspective:** The lottery sales representatives believe they have good relationships with retailers.
- d. **Communication Channels:** The DC Lottery has six primary channels for communicating with the retailers. These include Lottery Sales Representatives, Tel-Sell Representatives, Product and Promotion Sales Guide, Terminal Messages, Retailer Terminal Surveys, and in-bound calls from retailers.

12. Player Engagement

- a. **Existing Research Findings:** The DC Lottery has used a third-party to perform market research.
- b. **Player Engagement Efforts:** The DC Lottery uses several methods for engaging players.
 - i. **Promotional Events and Games:** The DC Lottery has an extensive community event and promotional strategy to engage players and build momentum. This strategy includes game promotions, Lucky Lottery Mobile, in-store promotional events, corporate sponsorships, and promotional events at venues such as Union Station and the Verizon Center.
 - ii. **Public Relations:** The DC Lottery provides news releases and news advisories to the media.
 - iii. **Advertising:** The DC Lottery's advertising approach is consistent with the strategies used by other lotteries.

- iv. **Web Site:** The DC Lottery website receives more than 25,000 visits per day.
- v. **Social Media:** The DC Lottery has four main social media accounts including Facebook, Twitter, Instagram, and YouTube.
- vi. **Mobile:** The DC Lottery does not have a mobile application for smartphones or tablets. However, the DC Lottery has recently signed a contract for the development of mobile applications.

13. Draw Operations

- a. The DC Lottery uses a random number generator to draw the numbers and a system to generate a digital graphic representation of the drawing results that can be uploaded to the Lottery's website.
- b. The DC Lottery offers players a number of ways to obtain winning numbers including LCD screens at retail locations, and the DC Lottery website.

Best Practices

1. The DC Lottery's automation of claims processing at the Lottery claims center is an industry best practice. The process reduces errors and significantly enhances the customer experience.
2. AgentPlus program which allows specified retailers to cash tickets up to \$5,000 is an industry best practice. This program is very convenient for players and reduces the DC Lottery's claim center workload by almost 75%. Checks and balances, as well as appropriate monitoring, are in place. Recommendations for improvements to this program are listed in the "Additional Recommendations" section below.
3. The DC Lottery's aggressive monitoring of ticket cancellations is an industry best practice. This highly automated process reduces the likelihood that retailers fraud against players would go undetected.
4. The DC Lottery's policy that the first person signing the back of the ticket is the owner is an industry best practice and is the single most important protection a lottery can give players.
5. Of the twenty-one lottery industry best practices to protect players against retailers not paying prizes, twenty have been implemented and one is in process.
6. The DC Lottery sets an example for industry best practice for employee safety.
7. The inclusions of the concept of *providing entertainment* in the DC Lottery's mission statement and concepts of *stimulating imagination* and *inspiring optimism* in the vision statement set a higher bar for the industry.
8. The Lottery IT Department operates an Internal Control System (ICS) that ensures the integrity of every gaming transaction processed by the gaming system; the two systems are balanced prior to all drawings for games with large jackpots such as Powerball and Mega Millions.
9. Lottery has recognized and quantified the number of retailers for whom English is not primary language. The DC Lottery has taken the additional step of hiring staff and

engaging contractors to provide the language skills necessary to communicate with most retailers in their native language.

10. The DC Lottery's decision to augment its random number generator system with a graphics system that will simulate a drawing is a best practice for lotteries that choose to use random number generators. An animated drawing provides the lotteries an opportunity to provide numbers in a more engaging format.

Highlights

1. The DC Lottery has done a nice job of combining some functions and having employees work across functions to increase efficiency while maintaining necessary segregation of duties. Examples include:
 - a. The DC Lottery conducts multiple drawings per day, 365 days a week with only two full-time draw staff. This is possible because the Lottery has three individuals who work for other departments and are willing to work part-time performing drawings
 - b. The DC Lottery has combined the customer service function with the claims and payment function. This provides enough people to perform both functions during peak demand and reduce the slack time
 - c. The DC Lottery assigns Contract Officer Technical Representative (COTR) tasks to individuals who have domain knowledge of each contract. This is a much more efficient method than having a designated COTR who is required to manage contracts without intimate knowledge of the contract domain.
2. The DC Lottery communicates and reinforces the core values, mission and vision statement throughout the lottery at a very consistent and high level. Employees believe these statements are an important part of their role with the lottery and are important to senior management.
3. Based upon survey results it appears there is also a strong sense of responsibility to the general public to deliver an experience beyond expectations.
4. The DC Lottery marketing approach is acknowledging the need to reach a younger audience. This is consistent with the industry trends as most lotteries face the challenge of reaching the next generation of lottery player.
5. The Lottery has a very strong presence at Union Station. This location does an excellent job promoting the DC Lottery brand.
6. DC Lottery is making efforts to try to reach a millennial audience through social media presence. Numerous contests and promotions encourage interaction and spread awareness about the lottery. Facebook has a large number of likes considering the small population of DC.
7. The DC Lottery embraces and adheres to the District's Certified Business Enterprise requirements.
8. DC Lottery IT Department is very responsive when issues threaten the availability of the Automated Claims Processing system.

9. Although the DC Lottery IT Department does not report to the DC Lottery executive team, the department does submit its budget through the DC Lottery executive team for approval.
10. The DC Lottery utilizes limited point of sale (POS) and appears to have strong retailer support. Lottery POS is prominently placed where possible, which is a challenge considering many retailers have very little space available.
11. Most POS was placed near the play station or the location of the lottery terminal area maximizing their visibility.
12. Signage identifying the retailer from street or parking lot usually consists of only the DC logo placed in windows or doors facing the outdoor traffic. The logo is highly recognized.
13. The areas where lottery tickets are sold were typically clean and visible in most locations. This included the areas around the lottery terminal, instant ticket dispensers, MPs, and WinStations. WinStations were clean, usually fully stocked, and consistent with the Lottery's plan-o-gram.
14. Retailers with "winning ticket sold here" signage seemed very proud of that message and prominently displayed the signage.
15. There were a few retailers where space is limited and it is clear the lottery is fighting for space with other marketers
16. The DC Lottery lost the ability to introduce new instant games on a regular basis from July 2013 through January 2015. Considering these circumstances, the quantity and condition of the instant ticket dispensers in the retail stores are impressive.
17. The DC Lottery's retailer compensation, cost, and support policies provide greater incentives to retailers than many lotteries.
18. The DC Lottery retailers are the second highest compensated retailers among the top ten performing lotteries in the U.S. in terms of percentage of sales and average lottery income per retailer.
19. The DC Lottery provides several self-service devices to retailers to reduce the effort required to handle lottery tickets. In addition to the self-service tickets checkers that allow players to check the winning status of their tickets themselves available to all lottery retailers, the DC Lottery also makes various self-service lottery vending machines available to select retailers.
20. DC Lottery ranks fourth in the U.S. lottery industry in sales per capita.
21. DC Lottery ranks first in draw game sales per capita in the U.S.
22. DC Lottery ranks first in daily number games sales per capita in the U.S.
23. DC Lottery ranks fourth in combined Powerball and Mega Millions sales per capita in the U.S.
24. The DC Lottery appears to be invested in successfully using the communications tools at their disposal. These tools are the same or similar to those commonly utilized by other lotteries in the U.S.
25. Based on the feedback provided by retailers, the DC Lottery sales representatives enjoy strong relationships with the retailers. Retailers believe sales representatives are knowledgeable and invested in the retailers' success.

26. Every DC Lottery employee interviewed who is involved in retailer engagement efforts acknowledged the DC Lottery has made significant progress in sharing between departments. This has provided a better flow of information to the sales representatives and the retailers.
27. The DC Lottery has conducted several research studies on players, motivations, and opportunities and it appears to have very good base of information from this research.
28. The DC Lottery is taking definitive and positive steps to reengage the current player base and reach new players. These steps include:
 - a. A community outreach program to directly engage consumers.
 - b. A concentrated effort to reestablish fun, entertainment and the opportunity to win.
 - c. Delivering consistency in retail merchandising to support the scratch games.
 - d. Utilizing Lucky Lottery Mobile to build greater community presence.
29. The DC Lottery's use of random number generator systems to generate the drawing results is the most economical method of conducting drawings.
30. The DC Lottery's decision to not televise drawings results in considerable savings for the DC Lottery with no apparent impact on sales.

Resolution of Current Issues

1. The DC Lottery should add a staff position to oversee the tel-sell function.
2. The DC Lottery should require Intralot to upgrade control objectives and testing in the next annual SSAE 16 Type 2 audit as recommended in section 2.1.1 of this report.
3. Tel-sell and Sales staff should focus on reducing the out-of-stock conditions for WinStations and instant ticket dispensers.

Best Practice Enhancements

1. The DC Lottery should consider consolidating Security and Licensing and Charitable Games into a single division. This would give the appropriate level of supervision and would ensure the integrity of the retailer review, licensing, and adjudication processes. This unit should be led by a director with a law enforcement and investigative background—with a strong preference for some fraud investigation experience. Having this combined unit as a major operating division will send a strong message to internal and external audiences regarding what is important to the Lottery. As the lottery industry modernizes and implements more technology, it is imperative that lotteries have security functions that are capable of meeting the new challenges being presented.
2. DC Lottery should optimize the placement of self-service sales devices and refrain from adding more MPs and WinStations until at least 90% of the existing devices are in locations that are profitable for the DC Lottery.
3. Use YouTube platform for drawings after new drawing system is implemented. Upload the videos to YouTube.com and then embed the videos on the website.

Additional Recommendations

1. The DC Lottery should consider changing its policy of requiring winners to be photographed. Winners should be encouraged and incentivized to be photographed.
2. The DC Lottery should require all AgentPlus retailers to strictly adhere to quality control and security requirements. Retailers that fall short of the Lottery's requirements should be removed from the AgentPlus program. The DC Lottery should also consider passing along the additional costs it incurs for auditing and processing tax reporting requirements for prizes over \$5,000 cashed by AgentPlus retailers.
3. The DC Lottery should request the OCFO to allow the OCOCFO to provide procurement services under the same model as legal services are provided. This would provide on-site procurement resources for the DC Lottery and would ensure the availability of resources that could be prioritized to meet the DC Lottery's needs. Alternatives to the on-site model include:
 - a. The DC Lottery and the OCOCFO should consider implementing a process to identify and quantify delays in the procurement process from the DC Lottery's initial contact with the OCOCFO through the award of a contract. The information captured should be specific and measured with the objective to provide actionable information that can address the root cause of the delay. The DC Lottery should develop and submit a procurement project plan for each major procurement that lists all tasks and dependencies and ask the OCOCFO to provide projected dates for the completion of each task.
 - b. The DC Lottery should develop and submit a procurement project plan for each major procurement that lists all tasks and dependencies and ask the OCOCFO to provide projected dates for the completion of each task.
4. The DC Lottery IT Department should consider implementing a helpdesk ticketing system for capturing information regarding IT service requests and resolution.
5. The DC Lottery should request a detailed, objective analysis to determine if the overall operation of the Office of the Chief Financial Officer is more efficient and effective with the DC Lottery IT Department reporting to the OCIO than if it were reporting to the DC Lottery.
6. The DC Lottery should consider experimenting with cross-selling DC-5 with DC 3 and DC 4 in limited, select retail locations.
7. The DC Lottery should consider experimenting with promoting specific easier-to-win bet-types, such as Front Pair and Back Pair, for DC 3 in limited, select locations.
8. Include links to the DC Lottery website in social media posts. This may increase the number of sessions to both desktop and mobile versions of the website, creating another outlet for people to visit the website.
9. Capitalize on media's willingness to run winner stories. Try to find human interest angles that will make stories regarding smaller winners more news worthy.
10. Use a variety of topics for social media posts including some topics that are only tangentially related to the Lottery. This can create more consumer interaction, especially on Instagram, and may appeal to a younger audience.

11. Leverage one social media to promote others. For example, share an Instagram post to Facebook and Twitter and vice versa.
12. After the DC Lottery has procured its new drawing animations package, the Lottery should consider soliciting a drawing package from the local television stations to see if they can get the drawings or the winning numbers broadcast at specific time by one of the stations. The DC Lottery could offer guaranteed publicity to a station that agrees to broadcast the numbers at a certain time. The publicity could include inclusion on point of sale at 450+ retail locations, a tag on paid media advertising, and inclusion in community events.

Recommendations in Progress

1. The DC Lottery has begun an effort to enhance the capability of the tel-sell function to support the sales efforts of the DC Lottery. Policies and systems will be designed to manage inventory issues at retail locations.
2. The DC Lottery is in the process of acquiring a new customer relationship management system which is available through an existing DC contract. This system should be used to capture and analyze business issues reported by players and retailers.
3. The DC Lottery recently signed a contract for enhancing merchandising at retailer locations.
4. The DC Lottery IT Department is in the process of implementing a Lottery Requirements System. After Lottery stakeholders are trained on how to request IT services and the process is fully implemented, the DC Lottery and DC Lottery IT Department should use the system to gauge the effectiveness of the DC Lottery IT Department in assisting the DC Lottery to reach its profitability objectives.
5. The DC Lottery should consider sharing the following suggestions with the contractor performing the retailer makeover:
 - a. Utilize signage that can be seen more easily from the street or parking lot. Using durable signs that can be placed on the exterior of windows or door can reduce the loss of brilliance caused by glare or tinted windows.
 - b. Provide sales representatives with POS placement guidelines based upon sales impact at more successful retailers.
 - c. Create a DC Lottery space in retailer locations where one does not exist.
 - d. Institute formal POS program and plan-o-gram for new retailer recruits to obtain commitment prior to licensing agreement.
 - e. Create an in-store marketing advisory board consisting of retailers, sales staff, marketing staff and the lottery's advertising agency to identify and create new merchandising options that are efficient and effective.
 - f. Consider more defined winner awareness merchandising solution for retailers – one that has definitive plans, budgets and measurable success/impact to help sell to retailers.
6. The DC Lottery has entered into a contract with a third-party to recruit retailers and incentivized the contractor to recruit retailers who have desirable trade-styles. The DC Lottery should ensure activity that impacts the retailer base is tracked and quantified.

The DC Lottery should review all retailer communications when assisting the contractor in developing its recruiting materials.

7. The DC Lottery is developing a retailer advisory committee that can be used by DC Lottery leadership, sales staff and marketing staff to solicit feedback and capture new ideas from retailers
8. Continue to develop and implement specific efforts focused on new player development among younger audiences. These efforts could include:
 - a. Shifting media spending towards millennial-specific promotional opportunities.
 - b. Investing in community support opportunities focused on younger audiences.
 - c. Deploy mobile applications.
9. The DC Lottery is in the process of acquiring a new random number generator drawing system with a compatible drawing animation system.

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