DC Lottery Best Practices

Agenda

- Qualifications
- Objectives
- Challenges
- Overall Performance
- Recommendations to Resolve Findings
- Best Practices Identified
- Best Practice Enhancements
- Other
- Summary

Qualifications
Delehanty Consulting LLC

- 12 years – focus on enhancing lottery security, integrity and performance

- Principal – Herb Delehanty
  - Project manager and lead consultant on DC Best Practices Review
  - 30 years of lottery industry experience
  - Worked with more than 40 lotteries on 4 continents
  - MS Economics, BS Business, Grad Cert in Information Security, CISSP
  - Author of *The Lottery Industry: Cases, Problems and Preventable Incidents*

- Delehanty DC Lottery engagement team has more than 45 years lottery experience and 50 years in marketing and advertising

- Delehanty Consulting LLC is independent of lottery vendors; only provide services to government-sponsored lotteries and their regulators

Objective of Review

- <u>Independent</u> best practices review requested by the Office of the Chief Financial Officer

- Review best practices in the U.S. lottery industry

- Develop recommendations the DC Lottery could implement within the statutory and legal structure in which the DC Lottery operates.

DC Lottery Challenges

- Only city lottery in the United States
- Federal restrictions prevent selling in certain areas that have the highest day-time population
- Eighth most expensive media market in the U.S.
- Market includes counties in Maryland and Virginia, with media and sports teams overlapping the three jurisdictions.
- Revenue does not fund identifiable programs such as education or senior programs—this limits the DC Lottery's natural constituencies.

DC Lottery Overall Performance Relative to U.S. Lottery Industry

Single most important metric – Operating Income Per Capita
DC Lottery ranks number 7 out of 44!

Lotteries Ranked by Operating Income Per Capita U.S. Lotteries FY 2014		
Rank (x of 44)	**Lottery**	**Operating Income Per Cap**
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

There are 44 state lotteries plus DC in the U.S. Wyoming, which began in 2014, was excluded

DC Lottery Overall Performance
Relative to U.S. Lottery Industry

- **Ranks # 7** in the U.S. in the most important financial measure of a traditional lottery's success—operating income per capita
- **Ranks #1** in the U.S. in draw game sales per capita
- **Ranks #1** in the U.S. in daily number games sales per capita
- **Ranks #4** in the U.S. in combined Powerball and Mega Millions sales per capita
- Lottery is in the process of implementing the one remaining best practice which is using mobile technology to protect players. This process has been implemented in only a limited number of lotteries. All other player protection best practices are in place.
- 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**

Recommendations to Resolve Findings

1. Require gaming system provider 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. Add a staff position to oversee the tel-sell function.

3. Tel-sell and Sales staff should focus on reducing the out-of-stock conditions for WinStations and instant ticket dispensers

DC Lottery
Industry Best Practices

1. Exceptional automation of claims processing by Lottery—reduces errors and enhances customer experience

2. AgentPlus program is convenient for players and reduces the DC Lottery's claim center workload by almost 75%.

3. Aggressive monitoring of cancelled tickets part of overall anti-fraud campaign—reduces retailer ability to commit fraud against players

4. Signed ticket as bearer instrument policy provides best fraud protection

5. Of the 21 industry best practices to protect players against retailers not paying prizes, the DC Lottery has implemented 20 (and in process of implementing the remaining one).

DC Lottery
Industry Best Practices

6. DC Lottery sets a higher bar for employee safety

7. Inclusion of *providing entertainment* in mission statement and *stimulating imagination* and *inspiring optimism* in vision statement sets a higher bar for the industry

8. Internal Control System ensures the integrity of every gaming transaction prior to drawings for large jackpot games

9. Lottery has quantified number of retailers for whom English is not primary language and engaged resources with language skills to communicate with most retailers in their native language

10. Automated system for selecting winning numbers includes animation to provide winning numbers in more engaging format

Best Practice Enhancements

1. Consolidate Security and Licensing and Charitable Games into a single division. This will give appropriate level of supervision and ensure the integrity of the retailer review, licensing, and adjudication processes and send strong internal and external message regarding importance of security. Unit head should have law enforcement and investigative background.

2. Optimize placement of self-service devices and refrain from adding more self-service devices until profitability threshold is met

3. Use YouTube to show drawings after new drawing system is implemented

Other

- Report includes 31 processes or systems that are exemplary
- Report includes 12 recommendations for enhancing current operations
- Report notes 9 recommendations that are in progress

Summary

- DC Lottery is one of the most successful lotteries in the U.S. It ranks 7th of 44 lotteries in the most important performance metric—operating income per capita
- Lottery's retailer integrity program is consistent with industry best practices
- Evaluation of more than 50 processes, practices, and systems resulted in:
  - Identification of 3 minor issues that should be resolved
  - 3 recommendations to bring current operations inline with best practices
  - 12 additional recommendations to improve operations
  - 9 recommendations already in progress when engagement began
  - Identification of 10 DC lottery practices that set the bar as industry bests
  - 31 additional processes or system were determined to be exemplary