

Minnesota State Lottery

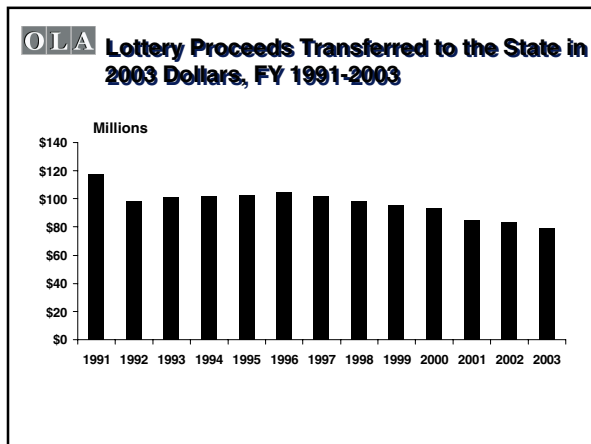
OLA Office of the Legislative Auditor
State of Minnesota



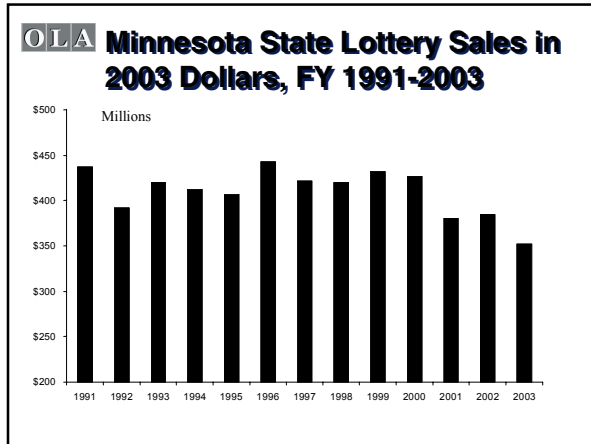
Minnesota State Lottery
February 18, 2004

OLA Evaluation Questions

- Trends in sales and profits
- Comparisons of expenses and profits
- Efficiency of operations
- Effectiveness of advertising and promotion efforts
- Oversight

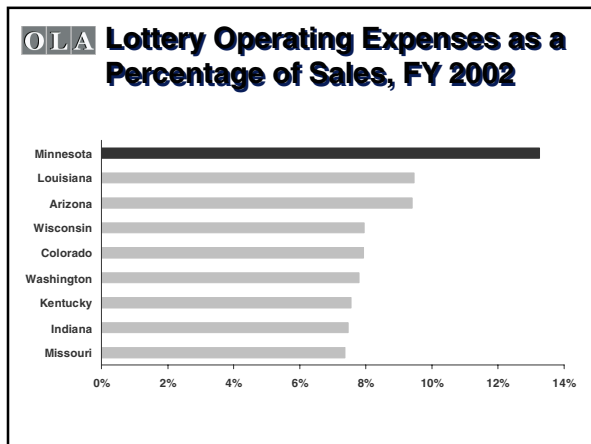


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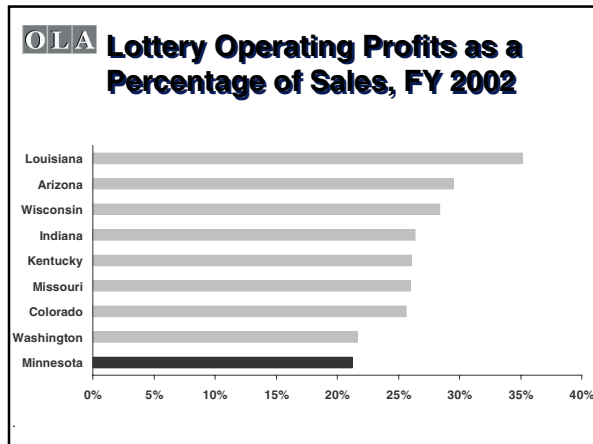


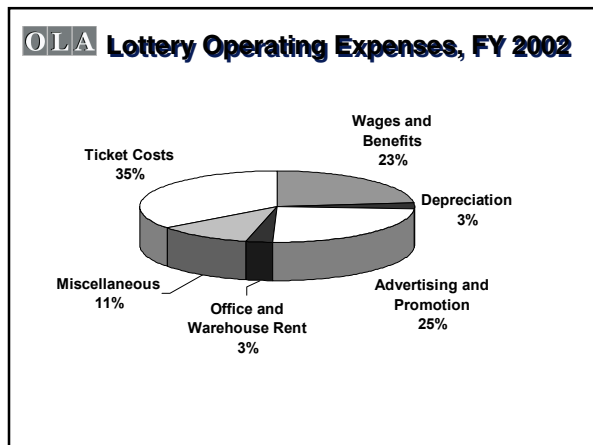
OLA Lottery Expenses as a Percentage of Sales for Minnesota and Comparison States, FY 2002

	Minnesota	Comparison States
Direct Costs	66%	65%
Operating Expenses	<u>13</u>	<u>8</u>
Total Expenses	79%	73%
Operating Profits	21%	27%



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OLA Percentage Difference in Expenses Between Minnesota and Comparison States, FY 2002

Scratch Tickets	39%
Online Tickets	65
Advertising	23
Promotion	505
Wages and Benefits	77
Office and Warehouse Rent	278
Travel	-30
Depreciation	106
Miscellaneous	63
Total	63%

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OLA Advertising Expenses

- Generally effective in increasing sales for most businesses
- No measurement of effectiveness of Lottery advertising since 1997
- Declining sales, particularly for scratch tickets
- Reassessment of strategy needed

OLA Promotional Expenses

- Significantly higher spending than similar lotteries
- Need for objective assessment of benefits and costs
- Inappropriate business relationship with Media Rare

OLA Minnesota Pro/Am Bass Tour

- Expenses of more than \$400,000 in 2003
- Significant staff time
- Conflicts of interest

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OLA Environmental Journal Television Program

- Annual expenses of \$1.2 million
- Questionable value for the Lottery
- Cost increases of 68 percent in three years
- No competitive bidding
- Overpayments of \$76,000

OLA Radio Programs

- Annual expenses of \$400,000
- Unclear value for Lottery sales
- Significant past cost increases for one of the two programs
- No reduction in cost when program length was cut
- No competitive bidding

OLA Environmental Experience Vehicle

- Expenses of \$1.4 million over five years
- Questionable value
- Poor planning and inadequate cost controls
- Overpayments to Media Rare
- Unfavorable lease agreement

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OLA Business Relationship with Media Rare

- Violations of legal requirements for bidding process
- Questionable business deals
- Inadequate contracts
- Accounting problems

OLA Other Promotional Issues

- Inadequate controls on merchandise
- Distribution of free tickets
- Effectiveness of retail promotions

OLA Other Issues

- Unclaimed prize money
- Ticket costs
- Amount of leased space
- Staffing levels
- Vehicle usage
- Travel advances and reimbursements

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OLA Other Issues (continued)

- Cell phones and pagers
- "Special" expenses
- Department head expenses
- Free coffee
- Plant rental
- Gifts
- Accounting changes
- Assets reserved for annuity prize winners

OLA Key Recommendations for Legislature

- Review the Lottery's operating and capital budgets every two years
- Require the Lottery director to serve at the Governor's pleasure
- Broaden or eliminate the experience requirements for a Lottery director
- Consider alternatives for improving oversight
- Review Lottery procurement statutes
- Transfer unclaimed prize money to the State Treasury

OLA

The *Minnesota State Lottery* report is available at:

www.auditor.leg.state.mn.us
