

OPEGA Recommendation for Project Direction

Maine State Lottery

Background

This topic was originally put on OPEGA's 2007-2008 work plan as a possible area of savings from a survey of other states done by OPEGA, but a review was not initiated at that time. On February 22, 2013 the GOC voted to place this topic back on OPEGA's work plan and OPEGA began preliminary research in August of 2013. As part of the preliminary research phase OPEGA has:

- solicited perspectives from legislators, including members of the Legislature's Joint Standing Committees on Veteran's and Legal Affairs and Appropriations and Financial Affairs, and the Government Oversight Committee;
- reviewed statutes, rules, and policies related to the Maine State Lottery (MSL);
- reviewed publicly available reports and plans produced by MSL, including the Government Evaluation Act report and annual financial reports;
- analyzed MSL's expenditure data;
- reviewed audit reports from the Maine Department of Audit and other audits of lottery operations;
- reviewed historical committee information obtained from the legislative Office of Policy and Legal Analysis and Office of Fiscal and Program Review;
- gathered information from reviews of lottery operations in other states;
- reviewed publicly available information describing MSL's mission;
- reviewed MSL's organizational chart;
- obtained and reviewed significant MSL contracts; and
- gained a general understanding of MSL's operations.

Summary of Preliminary Research and Analysis

The state lottery was established by the Legislature and approved by public referendum in 1973 for the purpose of generating additional revenues for the State's General Fund. Maine State Lottery Operations (MSL) is part of the Bureau of Alcoholic Beverages and Lottery Operations (BABLO) in the Department of Administrative and Financial Services (DAFS), and is also overseen by the State Liquor and Lottery Commission. The Bureau's Director is considered the Director of the Maine State Lottery. The MSL is also involved in regional and national lottery operations such as the Tri-State Lottery Commission and the Multi-State Lottery.

The stated mission of BABLO "is to provide exceptional service while managing the state's enterprises of Liquor and Lottery through dynamic product development and sales in order to be a consistent revenue producer to the State." According to BABLO, it meets its stated goal to transfer the maximum profit to the General Fund from lottery operations by investigating and implementing new, innovative lottery games that are fun and entertaining for players, and providing Lottery retail agent partners with guidance on the best ways to maximize the sale of lottery games.

The Lottery operates as an enterprise account, meaning it is operated like a business and all expenses are covered by revenue generated. Net income is split between the State General Fund and Other Special Revenue (Maine Outdoor Heritage Fund). MSL has had annual sales of approximately \$215-\$225 million over the past five years and has contributed approximately \$50 million to the General Fund in each of those five years.

Lottery sales, expenses and transfers FY08-FY12

Fiscal Year	Gross Sales	Lottery Expenses (less transfers)	Transfer to General Fund	Transfer to Outdoor Heritage Fund	Total Transfer All Funds
2012	\$228,353,561	\$176,771,307	\$53,785,567	\$530,622	\$54,316,189
2011	\$216,426,254	\$167,794,046	\$49,547,800	\$645,824	\$50,193,624
2010	\$217,032,573	\$166,768,827	\$52,201,531	\$669,789	\$52,871,320
2009	\$210,670,171	\$162,808,284	\$49,839,434	\$734,120	\$50,573,554
2008	\$228,518,771	\$179,020,211	\$49,491,086	\$811,844	\$50,302,930

There are approximately 1300 licensed retail agents who sell lottery tickets throughout the state. These agents are paid a commission on ticket sales and a bonus on redemption of winning tickets of over \$1000. MSL reports that its largest expenditure is payouts of prizes, which was approximately \$143 Million in fiscal year 2012, or about 62% of sales revenue.

Significant expense lines in FY12 include:

- Prize payouts, \$143 million;
- General Fund and Heritage Fund transfers, \$54.3 million
- Agent commissions, \$14.9 million; and
- Vendor fees, \$10.5 million.

BABLO has a significant contract with a vendor to provide for the implementation of a “Lottery Gaming System”, which includes instant ticket printing and validation, associated gaming products, primary and backup computer systems and facilities, network communications between support systems and to user sites, retailer communications network, operations services and support services. This vendor is paid a percentage of lottery ticket sales, which has equated to approximately \$8.5 million annually over the past five years. A Request for Proposal process for selecting a vendor and creating a new contract for this service was recently completed with the incumbent being selected. The new contract is expected to take effect in April, 2014. This vendor is currently converting MSL to a new, state of the art lottery gaming system with new point of sale equipment under their previous contract. BABLO also has another significant contract with a different vendor to provide advertising and marketing services, costing about \$1.4 million annually over the past five years.

The Maine Department of Audit conducts an annual audit of MSL’s financial position as part of the state Single Audit. For the past three Single Audits there has been the same single finding regarding the lottery, involving the inability of the service provider to provide detailed reports to support the accounts receivable balance. The BABLO response is that the report will be a requirement of the new service provider contract. A private auditing firm conducts an annual audit of Controls at a Service Organization (SSAE No. 16) on the lottery games system vendor that is provided to BABLO. There were no reported deficiencies in the past two audit reports OPEGA reviewed.

Legislators responding to OPEGA's request for input expressed interest in the transparency of the enterprise account, particularly expenses. OPEGA understands that the Veteran's and Legal Affairs Committee does not often request BABLO to appear before them on MSL fiscal or programmatic matters, and because MSL utilizes an enterprise account they are not required, or asked, to go before the Appropriations and Financial Affairs Committee so long as the revenue transfer to the General Fund is increasing or consistent.

OPEGA's Recommendation

Based on our preliminary research, OPEGA recommends continuing this review with a focus on the following questions:

- What are the expenses of the Maine State Lottery? Are they adequately controlled and minimized to the extent possible in order to maximize transfers to the State General Fund?
- How does the Maine State Lottery monitor and ensure that key provisions of the Lottery Gaming System contract are met?
- What entities have a role in governing and overseeing the Maine State Lottery? Is there sufficient governance and oversight of MSL key decisions impacting revenues, expenses and operations?