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PERFORMANCE UPDATE

LOTTERY COMMISSION

AUDIT OVERVIEW

The Lottery Should Re-Evaluate Its Advertising Budget in Light of Evidence That Suggests Advertising Is High and Does Not Correlate With Traditional Lottery Sales (*October 2011 Issue 1 title*)

Statistical Evidence Suggests That West Virginia's Instant Ticket Prize Payout Rate Is Above the Optimal Level and Should Be Lowered a Few Percentage Points to Maximize Net Revenue to the State (*October 2011 Issue 2 title*)

Although the Lottery Promotes Accountability by Providing a Large Volume of Information on Its Operations, There Are Important Areas in Which Accountability Can Be Improved (*October 2011 Issue 3 title*)

Although the Lottery Has Established Goals and Good Performance Measures as Stated in the Operating Details of the State Budget, There Are Other Important Performance Measures That Should Be Listed (*October 2011 Issue 4 title*)

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Note: On Monday, February 6, 2017, the Legislative Manager/Legislative Auditor's wife, Elizabeth Summit, began employment as the Governor's Deputy Chief Counsel. Most or all the actions discussed and work performed in this report occurred after this date. However, the Governor's Deputy Chief Counsel was not involved in the subject matter of this report, nor did the audit team have any communications with her regarding the report. As Deputy Chief Counsel, the Legislative Auditor's wife is not in a policy making position within the Executive Branch. Therefore, the Performance Evaluation and Research Division does not believe there are any threats to independence with regard to this report as defined in A3.06.a and A3. 06.b of the Generally Accepted Government Auditing Standards. Furthermore, the Legislative Auditor has instructed the Director of Performance Evaluation and Research Division to document and discuss any issues he believes are a threat to the division's independence with the President of the Senate and the Speaker of the House due to Ms. Summit's position.

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EXECUTIVE SUMMARY

The Performance Evaluation and Research Division (PERD) within the Office of the Legislative Auditor conducted this follow-up review of its October 2011 report on the Lottery Commission within the Department of Revenue (Revenue) as authorized by W. Va. Code §4-10-8(b)(2). The objectives of this follow-up is to determine the extent to which Revenue has responded to the recommendations made in an October 2011 report, and to assess the agency's overall financial condition as of fiscal year 2017.

Frequently Used Acronyms in This Report

PERD: Performance Evaluation and Research Division

CAFR: Comprehensive Annual Financial Report

Report Highlights

Issue 1: The Lottery Should Re-evaluate Its Advertising Budget in Light of Evidence That Suggests Advertising Is High and Does Not Correlate With Traditional Lottery Sales. *(October 2011 Issue 1 title)*

- The Lottery reduced its advertising expenditures from over $7.3 million in FY 2010 to $4.2 million in FY 2017.
- The Lottery's advertising is over $1.48 million higher than similar sized lottery states.

Issue 2: Statistical Evidence Suggests That West Virginia's Instant Ticket Prize Payout Rate Is Above the Optimal Level and Should Be Lowered a Few Percentage Points to Maximize Net Revenue to the State. *(October 2011 Issue 2 title)*

- Statistically, the instant prize payout rate of 65.7 percent is potentially at or near the optimal payout percentage.

Issue 3: Although the Lottery Promotes Accountability by Providing a Large Volume of Information on Its Operations, There Are Important Areas in Which Accountability Can Be Improved. *(October 2011 Issue 3 title)*

- The Lottery administers several different types of lotteries so it should consider providing more disaggregated data by lottery type, including actual administrative expenses, allowable administrative costs, and gross profit after actual administrative expenses.

Issue 4: Although the Lottery Has Established Goals and Good Performance Measures as Stated in the Operating Details of the State Budget, There Are Other Important Performance Measures That Should Be Listed. ***(October 2011 Issue 4 title)***

- The Lottery should consider adding to its listed performance measures the amounts for total gross lottery profit after administrative expenses, and the total amount distributed to the State.

- Performance measures should also be developed for each major lottery type.

PERD's Evaluation of the Agency's Written Response

PERD received a written response to the update from the Lottery Commission on May 15, 2018. The Lottery Commission generally agreed with the report stating it will review the report findings and work toward achieving the report objectives. The Lottery Commission's response can be found in Appendix D.

UPDATE ISSUE 1

The Lottery Should Re-evaluate Its Advertising Budget in Light of Evidence That Suggests Advertising Is High and Does Not Correlate With Traditional Lottery Sales. *(October 2011 Issue 1 title)*

Recommendation 1 (2011)

The Lottery should re-evaluate its current level of advertising to determine if it is at an appropriate level. This should include determining if there are any indicators that would justify its current advertising levels compared to similar size lottery states.

The Lottery reduced its advertising expenditures from over $7.3 million in FY 2010 to $4.2 million in FY 2017.

Level of Compliance: Partial Compliance

The Lottery reduced its advertising expenditures from over $7.3 million in FY 2010 to $4.2 million in FY 2017. West Virginia's advertising expenses were 2.5 percent of traditional revenue during FY 2017. This is a notable decrease from FY 2010 when advertising expenses were 4.06 percent of total traditional revenue. Figure 1 shows the total amount of expenditures the Lottery reports as advertisement expenses from FY 1986 through FY 2017. The graph indicates that advertising expenses have been on a downward trend since FY 2011. PERD finds that despite this downward trend, the Lottery needs to continue evaluating whether there is room for further reductions in advertising.

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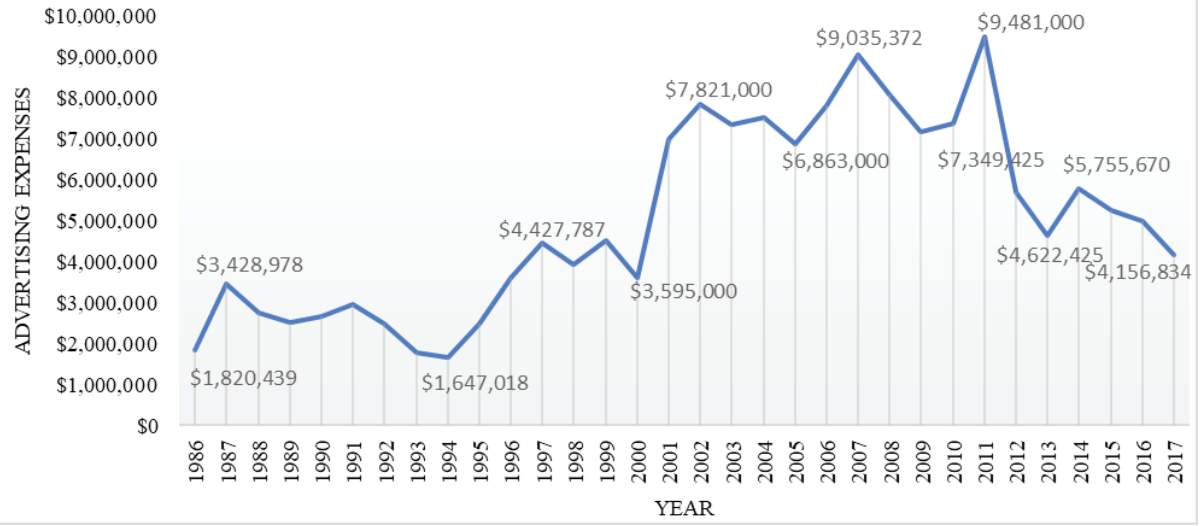
Figure 1
Lottery Commission Advertising Expenditures
FY 1986 through FY 2017



Source: Lottery Commission's Comprehensive Annual Financial Reports 1986 through 2017.

While the Lottery decreased its advertising expenditures by more than $3 million since 2010, it was not until FY 2017 it took steps to determine the appropriate level of advertising expenditures necessary to maximize net revenues to the State. According to the Lottery, in November 2017 it contracted with American Research, Inc. to perform a study to determine the return-on-investment for advertising placement and strategy. The Lottery states that it plans to use the findings from the study to assess the appropriate level for advertising expenditures in order to maximize revenues to the State. In addition, as stated in the 2011 report, the Lottery indicated that it would move to a percentage-based cost structure for its advertising contract rather than an hourly-based cost structure. However, the Lottery has yet to make this transition.

While the Lottery decreased its advertising expenditures by more than $3 million since 2010, it was not until FY 2017 it took steps to determine the appropriate level of advertising expenditures necessary to maximize net revenues to the State.

The Lottery has been one of the largest revenue providers in the State, generating over $500 million annually. However, in recent years, lottery distributions to the State have been in decline, which the Lottery estimates will continue. Advertising expenses that are not at optimal levels will reduce net income to the State. Table 1 shows a breakdown of the sales for each lottery type by year and the total sales and distributions to the State for FY 2012 through FY 2017.

Table 1
Total Lottery Sales and Distributions to the State
FY 2012 through FY 2017
(in thousands)

Lotteries	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Traditional Games	$201,289	$195,621	$188,631	$180,000	$188,202	**$166,479**
Racetrack Video	$764,898	$655,676	$590,918	$557,803	$537,729	**$521,318**
Limited Video	$406,108	$399,224	$377,222	$373,221	$360,814	**$347,555**
Table Games	$78,121	$70,259	$50,465	$46,928	$43,545	**$38,958**
Historic Resort	$7,114	$7,597	$7,048	$6,052	$6,436	**$5,207**
Total Sales	$1,457,530	$1,328,377	$1,214,284	$1,164,004	$1,136,636	**$1,079,517**
Distributions to the State	$662,982	$545,204	$498,365	$508,329	$501,302	$477,053

Source: Lottery Commission's Comprehensive Annual Financial Report for fiscal years 2012 through 2017.

The Lottery's Advertising Expenditures Remain Above Those of Comparable State Lotteries

Table 2 shows the 2010 and 2017 percentile of West Virginia's total traditional lottery sales, state population, lottery advertising expenditures,

and advertising-to-sales ratio in comparison to similarly sized lotteries (lotteries under $300 million in sales). In the October 2011 report, PERD found that the Lottery's advertising expenditures were $4.4 million above average total advertising expenditures of the states with similarly sized lotteries, in terms of total sales. With West Virginia's advertising at the 98 percentile in 2010, the probability of advertising expenditures being equal to or greater than West Virginia was 2 percent. Seven fiscal years after the 2011 audit, West Virginia's advertising expenditures have come down, but they are more than $1.48 million above the average total advertising expenditures for similarly sized lotteries. With West Virginia's FY 2017 advertising at the 79 percentile, there is a 21 percent probability of advertising expenditures being equal to or exceeding West Virginia's advertising expenditures. See Appendix C for all states with traditional lotteries. **Given that there may still be room for further reductions in advertising, the Lottery has not moved to a percentage-based cost structure for its advertising contract, and a study of the agency's return on advertising has recently been contracted, PERD concludes that the Lottery is in partial compliance with recommendation 1.**

Seven fiscal years after the 2011 audit, West Virginia's advertising expenditures have come down, but they are more than $1.48 million above the average total advertising expenditures for similarly sized lotteries.

Table 2
West Virginia Versus Lottery States With Sales Under $300 million
FY 2010 as Compared to FY 2017

	West Virginia		Average for Lotteries Under $300 million		Percentile for West Virginia	
	2010	2017	2010	2017	2010	2017
Traditional Lottery Sales	$181,224,000	$166,479,421	$154,885,800	$162,381,030	63	52
State Population (estimated)	1,852,994	1,815,857	1,644,463	1,910,955	59	48
Advertising Expenses	$7,349,000	$4,157,000	$2,948,430	$2,673,360	98	79
Advertising as a Percentage of Sales	4.06%	2.50%	1.93%	1.82%	98	75

Source: Analysis by the Office of the Legislative Auditor using other state's lottery financial data from Comprehensive Annual Financial Reports and US Census Bureau information.

Recommendation 2 (2011)

The Lottery's evaluation of its advertising should also include an assessment of the advertising contract and the decisions of the advertising agency.

Level of Compliance: Non-Compliance

Although the Lottery has reduced its advertising expenditures since 2010, it has not provided documentation indicating that it assessed its current advertising contract and the decisions of its advertising agency.

Although the Lottery has reduced its advertising expenditures since 2010, it has not provided documentation indicating that it assessed its current advertising contract and the decisions of its advertising agency. In the 2011 report, the Lottery stated that it would be changing to a percentage-based cost structure for its advertising contract and was quoted as saying:

> *During the course of our existing contract agreement, we have worked to monitor and evaluate both cost and service and have worked with other jurisdictions to acquire their RFPs and cost structures in hopes that we may end up with a more favorable cost structure than we currently operate under. As a result of our evaluation and research, we will be moving to a percentage-based cost structure under a new RFQ (versus a RFP) in early 2012, upon contract expiration. Therefore, we expect to see a reduction in overall advertising expenses with a more controlled approach to doing business with an outside agency.*

The Lottery did not contract for a study to determine the return-on-investment for advertising placement and strategy until 2017.

The Lottery indicated to PERD that it has reviewed a RFQ (request for quotation) from North Carolina (North Carolina Education Lottery) and used it as a model for drafts which were submitted to the West Virginia Purchasing Division (Purchasing). The Lottery further claimed that the RFQ was rejected by Purchasing due to it not permitting the percentage based cost structure and requiring revision to the procurement specifications proposed by the Lottery. Nevertheless, the Lottery has awarded two advertising contracts since the 2011 report. However, the Lottery did not contract for a study to determine the return-on-investment for advertising placement and strategy until 2017. As a result, the Legislative Auditor concludes that the Lottery is in non-compliance with the recommendation.

Recommendation 3 (2011)

The Lottery should consider developing a formal study of the effectiveness and rate of return on its advertising.

Level of Compliance: In Compliance

The Lottery indicates that it has taken steps to develop a formal study of the effectiveness of its advertising; however, the study has not been completed. On November 20, 2017, the Lottery contracted a research program to provide it with ". . . actionable, timely information for decision-making on marketing, communications, new games, game enhancements, and providing an overall enhanced player experience." The contracted company is to correlate the 2017 return-on-investment sales analysis using 2017 Lottery advertising and promotions investments and impression data. The contracted company is expected to conduct parts of its research program in FY 2019 following a Lottery game system conversion in mid to late 2018. The Legislative Auditor concludes that the Lottery has complied with the recommendation because it has contracted for the study even though it is uncertain of when the study will be completed.

The Legislative Auditor concludes that the Lottery has complied with the recommendation because it has contracted for the study even though it is uncertain of when the study will be completed.

Recommendation 4 (2011)

Consideration should be given by the Lottery to gradual reductions in its advertising expenditures while assessing if any adverse effects are identified through proper sales benchmarking.

Level of Compliance: In Compliance

The Lottery has reduced its advertising expenditures since the 2011 report in compliance with recommendation 4. The Lottery states it assessed its advertising expenditures and made significant reductions since FY 2009; with advertising expenditures declining from over $7.6 million in FY 2009 to $4.5 million in FY 2017. Table 3 shows a breakdown of the Lottery's advertising and promotion expenditures for FY 2009 and FY 2017. In addition to reducing its advertising and promotion expenditures, the Lottery advertises on social media because it is less expensive. According to the Lottery, digital advertising is cheaper than other forms of advertising and has helped cut overall advertising costs while continuing to provide information and incentives to players through a different channel of communication.

Table 3
Lottery Advertising and Promotion Expenditures
FY 2009 compared to FY 2017

Advertising Categories	2009	2017
Account Services	**$143,313**	**$153,550**
Agency Markup (7%)	**$455,840**	**-**
Research	**-**	**$197,376**
Winner Awareness/Jackpot Winner Press Conference	**$138,377**	**$14,986**
Sponsorships	**$677,060**	**$736,265**
Radio	**$872,734**	**$444,114**
Television	**$2,146,915**	**$868,127**
Newspaper*	**$1,114,289**	**$359,921**
Outdoor Ads	**$271,197**	**$720,993**
Social Media (Digital Ads)	**-**	**$165,030**
Studio/Admix Production	**$279,538**	**-**
Cinemedia	**-**	**$11,266**
Marketing Supplies & Promotional Items	**$815,165**	**$364,265**
Website Design/Maintenance	**-**	**$90,816**
Production	**$202,451**	**$353,212**
Other Advertising Expenditures	**$531,353**	**$31,596**
Total Advertising Expenditures	**$7,648,232**	**$4,514,505**

Source: 2009 figures from the 2011 PERD report. 2017 – provided by the Lottery Commission for this review. Unaudited.
**Digital Ads on Newspaper Websites*

The Lottery indicated to PERD that its sales have declined since it cut its advertising budget. However, it is not clear that the drop in sales is the result of lower advertising or economic factors. The Lottery should continue reducing advertising expenditures with appropriate assessments of any adverse effects. The Lottery has taken measures to gradually reduce its advertising expenses since the 2011 report; therefore, the Legislative Auditor determines that the Lottery has complied with recommendation 4.

The Lottery indicated to PERD that its sales have declined since it cut its advertising budget. However, it is not clear that the drop in sales is the result of lower advertising or economic factors.

Recommendation 5 (2011)

The Lottery should examine its monthly advertising data set to determine if it contains inconsistencies that preclude it from explaining monthly traditional lottery sales.

Level of Compliance: In Compliance

PERD met with Lottery employees to discuss monthly advertising expenditures and the lack of correlation with monthly traditional lottery sales. The Lottery estimates advertising expenses each month for the cost centers representing each lottery category: Instant, Online games, Racetrack Video Lottery, Limited Video Lottery, Table Games and the Historic Resort. The Lottery records the actual advertising costs for the associated cost center when it receives the invoices; sometimes months after the advertising took place. Therefore, monthly advertising expenses invariably will not correlate with sales of that month. The Lottery's accounting procedures preclude it from developing an advertising data set that could help it understand the effectiveness of advertising on traditional lottery sales. PERD agrees that any attempt to develop a useful advertising data set would not be cost effective.

The Lottery's accounting procedures preclude it from developing an advertising data set that could help it understand the effectiveness of advertising on traditional lottery sales. PERD agrees that any attempt to develop a useful advertising data set would not be cost effective.

Recommendation 6 (2011)

The Lottery should develop a consistent and uniform reporting of advertising, marketing and promotional expenditures under the same category for an accurate report of all advertising expenses.

Level of Compliance: Non-Compliance

Although the Lottery informed the Legislative Auditor that it adopted this recommendation, discrepancies in what the Lottery reports as advertising and marketing expenditures persist. For example, Table 4 shows three different figures the Lottery reported in FY 2017 as advertising expenses. For the highest advertising expenditure amount reported, the Lottery broke down advertising and promotion expenses into categories (as shown in Table 3) for a total of $4.5 million. The second highest advertising figure was reported from information provided from the FY 2017 Comprehensive Annual Financial Report (CAFR), which simply lists the expenditure amount. The third advertising figure comes from the Lottery expenditure schedule provided by Our Advanced Solution with Integrated Systems (OASIS).

The Lottery did not develop a consistent and uniform reporting of advertising, marketing and promotional expenditures under the same category to accurately report all advertising expenses.

Each item listed as advertising in Table 4 includes or excludes certain expenditures that involve some type of advertising or marketing. In addition, in the Lottery's formal response to how it addressed the recommendation made in the 2011 report, the Lottery provided two separate figures for the total advertising expenses for FY 2016; $4.5 million that was identified in a chart and $4.9 million that was provided in another section of the response, a difference of $453,775. The Lottery did not develop a consistent and uniform reporting of advertising, marketing and promotional expenditures under the same category to accurately report all advertising expenses. Therefore, the Lottery is not in compliance with recommendation 6.

Table 4 Different Advertising Expenditure Figures FY 2017		
Title of Lottery Document		
Expenditure Schedule from OASIS FY 2017	Comprehensive Annual Financial Report FY 2017	Advertising & Promotions Expense FY 2017
$4,126,938	$4,157,000	**$4,514,505**
Source: WV Lottery Commission, OASIS, and CAFR.		

Conclusion

The Lottery is in full compliance with three recommendations, partial compliance with one recommendation, and non-compliance with two of the recommendations from Issue 1 of the October 2011 report. The Lottery reduced its advertising expenditures by approximately $3.1 million since FY 2010. However, the Lottery's advertising expenses and percentage of sales are still high when compared to other states with similar sales volume and population. The Lottery decreased its advertising expenses by reducing advertising and promotional expenditures for radio, television, and newspaper advertisements, in addition to others. The Lottery also increased its presence on social media in order to take advantage of the lower cost of digital advertising.

The Lottery is in full compliance with three recommendations, partial compliance with one recommendation, and non-compliance with two of the recommendations from Issue 1 of the October 2011 report.

At the time of the 2011 report, the Lottery had planned to move to a percentage-based cost structure for its advertising contract rather than an hourly-based cost structure and contract with an advertising agency to conduct a study to identify the effects of advertising on its revenues. However, the Lottery has yet to switch to a percentage-based cost structure for its advertising contract and it waited until November 2017 to finalize a contract for a study to determine its return-on-investment for its advertising and promotions. In addition, the Lottery has yet to develop a consistent and uniform reporting of advertising, marketing and promotional expenditures under the same category for an accurate report of all advertising expenses.

Finally, the Lottery noted that in many cases advertising expenses are paid months after the advertising took place. As a result, the Lottery's accounting procedures prohibit it from developing a reliable advertising data set that could facilitate an understanding of the relationship and effectiveness of advertising on traditional lottery sales.

UPDATE ISSUE 2

Statistical Evidence Suggests That West Virginia's Instant Ticket Prize Payout Rate Is Above the Optimal Level and Should Be Lowered a Few Percentage Points to Maximize Net Revenue to the State. *(October 2011 Issue 2 title)*

Recommendation 7 (2011)

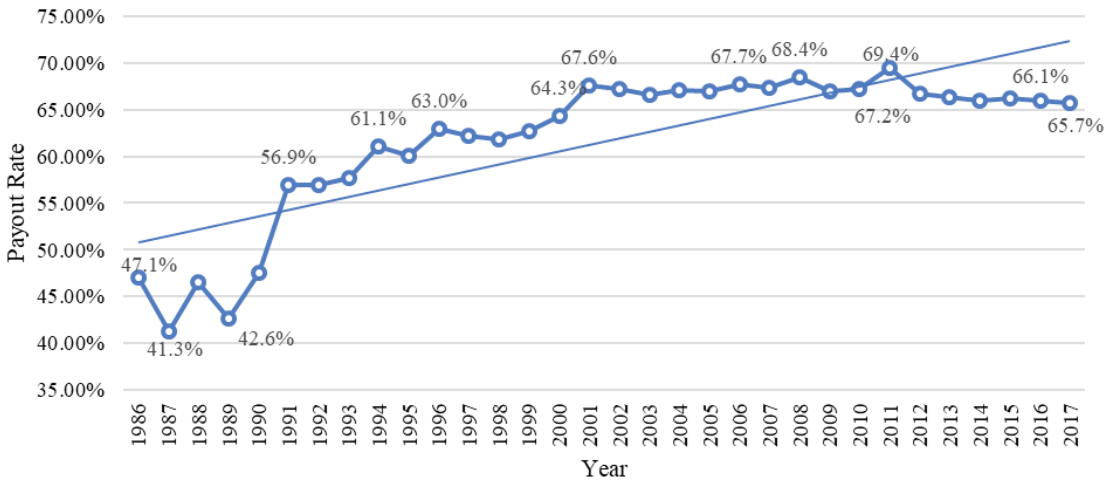
The Lottery should consider a gradual reduction of the instant prize payout rate to a level of 64 to 65 percentage points.

The Lottery has gradually reduced the instant game prize payout rate to 65.7 percent in FY 2017 from a high of nearly 70 percentage points in fiscal year 2011.

Level of Compliance: In Compliance

Figure 2 shows the instant ticket prize payout percentages for fiscal years 1986 through 2017. The Lottery has gradually reduced the instant game prize payout rate to 65.7 percent in FY 2017 from a high of nearly 70 percentage points in fiscal year 2011. PERD's original analysis based on data from 1986 to 2010 indicated that the instant ticket payout expenses were increasing annually more than the estimated annual increase in instant ticket revenue derived from the prize payout percent.[1] This suggested that the Lottery was beyond the optimal point and, therefore, net revenue to the State was not being maximized.

Figure 2
Lottery Commision
Instant Games Prize Payout Rates
FY 1986 through FY 2017



Source: The Lottery Commission.

[1] *Statutorily, the Lottery is required to allocate as prizes a minimum annual average of 45 percent of the annual gross lottery sales (W. Va. Code §29-22-18(c)).*

PERD replicated the 2011 report's statistical analysis for the optimal instant prize payout rate but included fiscal years 2011 through 2017. In Table 5, the 2011 report analysis is contrasted with the analysis including the additional years. In the analysis extended to 2017, the annual instant prize payout expenses are trending lower than the 1986-2010 period ($2.1 million per year compared to $2.9 million). This shows a narrowing of the gap between increases in instant prize expenses and increases in instant sales. The optimal level would be when these two are statistically equal, which they are for the 1986-2017 period but they were not for the 1986-2010 period. The payout percentage at 65.7 percent is higher than the 64 or 65 percent recommended in the 2011 report; however, the results of this analysis suggest that the Lottery is potentially at or near the optimal payout percentage. Therefore, the Legislative Auditor concludes that the Lottery is in compliance with recommendation 7.

The payout percentage at 65.7 percent is higher than the 64 or 65 percent recommended in the 2011 report; however, the results of this analysis suggest that the Lottery is potentially at or near the optimal payout percentage.

Table 5
Estimates for Determining the Optimal Instant Prize Payout Rate

Fiscal Years	Annual Trend for Instant Prize Expenses	Estimated Influence of Payout Rate on Instant Ticket Sales
1986 through 2010	$2.9 million	$1.47 million
1986 through 2017	$2.1 million	$2.02 million

Sources: Statistical analysis by PERD using Lottery data on annual instant ticket prize payouts, instant ticket prize payout percentages, personal income data and the total number of retailers. PERD used Bureau of Economic Analysis, U.S. Department of Commerce total state personal income data to estimate the influence on the payout rate on instant ticket sales.

It should be understood that while the overall instant prize payout rate is near 66 percentage points, individual instant game payout rates vary depending on the ticket price of the instant game. The higher the price of the instant game ticket the higher the payout rate. So, while the payout rate for a $1 ticket is 61 percentage points, the payout rate for a $5 game ticket is 67 percentage points and a $20 game ticket has a payout rate of 71 percentage points. The Lottery continuously monitors the process of "right-sizing" instant tickets with the appropriate mix of payout rates associated with higher price tickets. Also, it is possible for instant prize expenses to have an upward trend but ticket sales rise higher than expenses. This would result in lower prized payout rates despite rising prize expenses.

The Lottery continuously monitors the process of "right-sizing" instant tickets with the appropriate mix of payout rates associated with higher price tickets.

Recommendation 8 (2011)

Reductions in the instant prize payout rate should be monitored and evaluated statistically as to the effects on net revenue to the State.

Level of Compliance: In Compliance

The Legislative Auditor determines that the Lottery is complying with the recommendation 8 of the 2011 report. Following a rule change in 2014 the Lottery added higher price point tickets of $10 and $20 to the existing $1, $2, $3 and $5 price point tickets.[2] Since the rule change the Lottery tries to right-size instant tickets in terms of having the most effective payout percentages for each price point. One of the problems the Lottery is trying to address is the $2.00 Keno scratch game. Since 1989, the $2.00 Keno scratch game has had a 70 percent payout rate. The Lottery believes that it should have a payout of 66 percent. However, due to its popularity and fear that a change in the prize payout would hurt sales, the Lottery has held the payout at 70 percent. Currently, the $2.00 Keno scratch game accounts for 20 to 22 percent of all lottery ticket sales and half of all scratch tickets sold. The Lottery plans to reduce the prize payout for the $2.00 Keno scratch game to 66 percent while introducing a $5.00 Keno scratch game in July 2018. The Lottery will reduce the mid-tier prize for the $2.00 ticket from $100 to $50. The $5.00 ticket will have a payout rate of 67 or 68 percent and a mid-tier prize of $100. The Lottery is making the effort to right-size instant tickets and monitor the impacts on sales and net revenue due to changes in the payout rates.

PERD's analysis shows a narrowing of the gap between increases in payout expenses and increases in sales, which is suggestive of an optimal level. If the Lottery's instant ticket prize payout rate is at the optimum level, it is maximizing net revenue to the State.

Conclusion

The Lottery is in compliance with both recommendations 7 and 8 from Issue 2 of the 2011 report. The Lottery gradually reduced the instant game prize payout rate to what may now be at or near the optimal payout percentage. The payout percentage at 65.7 percent is higher than the 64 or 65 percent as recommended in the October 2011 report. However, PERD's analysis shows a narrowing of the gap between increases in payout expenses and increases in sales, which is suggestive of an optimal level. If the Lottery's instant ticket prize payout rate is at the optimum level, it is maximizing net revenue to the State. Additionally, the Lottery makes changes in the payout rates for its instant ticket games and monitors the impacts on sales and net revenue to determine what payout amounts will maximize revenue returns to the State.

[2] *At the time of the last audit, the Lottery was only able to sell higher price point game tickets on a limited time basis.*

UPDATE ISSUE 3

Although the Lottery Promotes Accountability by Providing a Large Volume of Information on Its Operations, There Are Important Areas in Which Accountability Can Be Improved. *(October 2011 Issue 3 title)*

Recommendation 9 (2011)

The Lottery should enhance its disaggregation of data by lottery type, including but not limited to actual administrative expenses, allowable administrative costs, and gross profit after actual administrative expenses.

In the October 2011 report, the Legislative Auditor reported a lack of transparency by the Lottery on how much it had received for administrative expenses for each lottery type and what were actual administrative expenses. The Lottery still is not reporting disaggregated information as recommended.

Level of Compliance: Partial Compliance

In the October 2011 report, the Legislative Auditor reported a lack of transparency by the Lottery on how much it had received for administrative expenses for each lottery type and what were actual administrative expenses. The Lottery still is not reporting disaggregated information as recommended. Although the Lottery is not disaggregating its reported data by lottery type as identified in the recommendation, it does maintain the information on its own and provided examples to PERD (see Table 6). The Lottery's response to the recommendation is that ". . . this recommendation has been considered and the Lottery maintains cost allocation records that satisfy this recommendation." However, the purpose of the recommendation was to have the Lottery routinely disaggregate data by lottery type and to have all distributions fully disclosed on a prominent basis to enhance accountability and transparency of the Lottery's operations which the Lottery's response does not address.

The purpose of the recommendation was to have the Lottery routinely disaggregate data by lottery type and to have all distributions fully disclosed on a prominent basis to enhance accountability and transparency of the Lottery's operations.

The Lottery incorporates allowable administrative expenses and distribution amounts for racetrack video lottery, limited video lottery, table games and the historic resort hotel into its CAFR; administrative expense amounts for traditional games are not incorporated. Each CAFR has in its Notes to Financial Statements for each of the identified lottery types a listing for "administrative costs." However, the amounts do not match up with actual administrative expenses provided to PERD by the Lottery. Instead, the amounts labeled "administrative costs" resemble the statutorily allowable administrative costs provided to PERD by the Lottery, but the amounts are not exact. The reporting of this data in this manner could be misinterpreted by the reader as being the actual administrative costs.

West Virginia Code stipulates that expenses associated with administering lotteries be no greater than certain percentages (see Table 6). The Lottery can receive the maximum amount for administrative expenses for each lottery. However, if actual administrative expenses are lower than the maximum amount allowable, then the excess becomes net

profit to the State. Reporting disaggregated information would allow the Lottery to show how each lottery is performing in terms of gross profit and how much each lottery contributes in net profit to the State.

Table 6 shows the allowable and actual expenses and excess administrative expenses for each lottery. For racetrack video lottery, the Lottery's allowable administrative costs are relatively high in comparison to actual costs. For limited video lottery, table games and the Historic Resort, the allowable administrative costs are relatively similar to the actual costs. Pursuant to W. Va. Code §29-22A-10(b) the Lottery is allowed administrative costs for racetrack video lottery that are not to exceed four percent of the gross terminal income it received in FY 2001. Therefore, by PERD's calculations the maximum allowable administrative costs have been constant since then at $17,523,621. However, the Lottery informed PERD that its allowance is less than $17,523,621. The amounts the Lottery states it is allowed are shown in Table 6. The Lottery indicated that its allowance is less because revenues declined. Even with the Lottery's explanation it is unclear as to how it calculates its allowable administrative expense. The relatively large excess racetrack video lottery administrative expenses can be used towards adjustment costs such as modernization and asset purchases, and any remaining amounts would be net profit to the State.

Reporting disaggregated information would allow the Lottery to show how each lottery is performing in terms of gross profit and how much each lottery contributes in net profit to the State.

Table 6
Actual and Allowable Administrative Expenses
& Excess Administrative Expenses
FY 2015 through FY 2017

	Actual Administrative Expenses	Pct.	Allowable Administrative Expenses	Maximum Allowable Pct.	Estimated Excess Administrative Expenses
Traditional Games					
2015	$18,958,906	10.5	$25,109,737	15.0	$6,150,831
2016	$18,596,101	9.9	$26,253,380	15.0	$7,657,279
2017	$16,886,838	10.1	$23,224,547	15.0	$6,337,709
Racetrack Video					
2015	$4,928,063	.88	$15,800,221	4.0	$10,872,518
2016	$4,846,606	.90	$14,908,819	4.0	$10,062,213
2017	$4,919,946	.94	$14,909,799	4.0	$9,989,853
Limited Video					
2015	$5,444,494	1.5	$7,464,415	2.0	$2,019,921
2016	$5,057,205	1.4	$7,216,287	2.0	$2,159,082
2017	$5,102,116	1.5	$6,951,109	2.0	$1,848,993
Table Games					
2015	$3,229,590	2.4	$4,022,415	3.0	$792,825
2016	$3,266,675	2.6	$3,732,457	3.0	$465,782
2017	$3,549,575	3.2	$3,339,248	3.0	-$210,327
Historic Resort					
2015	$453,165	7.5	$474,681	15.0	$21,516
2016	$408,376	6.4	$481,298	15.0	$72,923
2017	$390,625	7.5	$390,633	15.0	$8

Source: Lottery Commission data contained in its FY 2015 through FY 2017 Comprehensive Annual Financial Reports actual administrative expenses provided by the Lottery Commission.
Unaudited.

The Legislative Auditor determines that the Lottery is in partial compliance with the recommendation since it maintains disaggregated data by lottery type, including but not limited to actual administrative expenses, allowable administrative costs, and gross profit after actual administrative expenses, but it does not report the data on a prominent basis. Reporting disaggregated data by lottery type would enhance the Lottery's accountability and transparency of its operations.

Recommendation 10 (2011)

The Lottery should regularly and prominently report all relevant distributions of lottery revenue, including statutorily required and discretionary distributions such as expenditures made from excess allowable administrative costs.

According to the Lottery, the recommendation is implemented and incorporated as part of the Lottery's budget presentations and is available upon request for the previous and current fiscal year.

Level of Compliance: Non-Compliance

As stated in the 2011 report, the Lottery promotes accountability by the release of information such as its CAFR and the Lottery's "bucket" report which provides information regarding statutory transfers and budget appropriations. However, the Lottery should address the informational gaps to enhance its accountability. According to the Lottery, the recommendation is implemented and incorporated as part of the Lottery's budget presentations and is available upon request for the previous and current fiscal year. However, although the Lottery does maintain a breakdown of excess administrative costs for each lottery type available upon request, the agency does not routinely report it.

In addition, the Lottery indicates that ". . . there are no discretionary expenditures made by the agency except for those permissible pursuant to the relevant lottery statutes and those effectuated for a specific purpose with Commission approval." However, those expenditures that are for a specific purpose and approved by the Lottery can vary and have an impact on the surplus amount to the State. Adjustments made to the excess administrative costs such as Lottery modernization costs and asset purchases affect the surplus to the State. Table 7 shows a breakdown of the distribution of the excess administrative expenses including adjustment costs and the surplus to the State for fiscal years 2011 through 2017. Table 7 further indicates that although the adjustment costs may vary from year to year, the Lottery has reduced its adjustment costs and increased the surplus to the State since the fiscal year 2011. By routinely reporting the information addressed in the recommendation, the Lottery could enhance its accountability and transparency of the Lottery's operations.

Table 7 further indicates that although the adjustment costs may vary from year to year, the Lottery has reduced its adjustment costs and increased the surplus to the State since the fiscal year 2011. By routinely reporting the information addressed in the recommendation, the Lottery could enhance its accountability and transparency of the Lottery's operations.

Table 7
Distribution of Administration Costs Including Adjustment Costs and Surplus to the State for FY 2011 through FY 2017

	Actual Administrative Expenses	Administrative Allowance	Excess Administrative Expenses	Adjustments (Modernization Costs, Asset Purchase, Etc.)	Surplus to the State
FY 2011	$40,838,831	$60,335,580	$19,496,749	$12,688,427	$6,808,323
FY 2012	$38,989,047	$65,221,635	$26,232,588	$13,258,646	$12,973,942
FY 2013	$34,991,774	$61,841,426	$26,849,652	$12,891,203	$13,958,449
FY 2014	$35,652,921	$57,712,506	$22,059,585	$6,378,182	$15,681,403
FY 2015	$33,663,094	$54,576,894	$20,913,801	$4,151,776	$16,762,025
FY 2016	$32,858,938	$54,153,975	$21,295,037	$7,286,092	$14,008,945
FY 2017	$31,589,553	$50,502,492	$18,912,939	$2,737,772	$16,175,167

Source: The Lottery Commission.

Conclusion

The Lottery is in partial compliance with recommendation 9 and non-compliance with recommendation 10 from Issue 3 of the 2011 report. The Lottery continues to report relevant information about its lottery type operations in the aggregate, which conceals individual lottery performance and does not fully disclose lottery revenue distributions. The Lottery has the disaggregated information for each lottery type as addressed in the recommendations; however, it does not report it routinely on a prominent basis. As indicated in the 2011 report, by reporting disaggregated information by lottery type, the Lottery would enhance its accountability and transparency of the Lottery's operations.

The Lottery is in partial compliance with recommendation 9 and non-compliance with recommendation 10 from Issue 3 of the 2011 report.

UPDATE ISSUE 4

Although the Lottery Has Established Goals and Good Performance Measures as Stated in the Operating Details of the State Budget, There Are Other Important Performance Measures That Should Be Listed. *(October 2011 Issue 4 title)*

Recommendation 11 (2011)

The Lottery should add to its performance measures listed in the Operating Details of the State Executive Budget the amounts for total gross lottery profit after administrative expenses, and the total amount distributed to the State.

The Lottery perceives that its operations exceed the performance standards addressed in recommendations 11 and 12.

Level of Compliance: In Dispute

The Lottery perceives that its operations exceed the performance standards addressed in recommendations 11 and 12, and as such disputes the 11th recommendation. The 2011 report indicated that the Lottery should add performance measures related to gross lottery profit after administrative expenses and total distributions to the State because they directly represent the agency's mandated outcome. As discussed in recommendation 12 the Lottery indicates that it consistently operates with net profit and gross profit margins that are well above 40 percent as recommended in the 2011 report, and consistently returns an operational surplus to the State which is available for appropriation by the Legislature each year.

The Lottery indicates that it consistently operates with net profit and gross profit margins that are well above 40 percent as recommended in the 2011 report, and consistently returns an operational surplus to the State which is available for appropriation by the Legislature each year.

Furthermore, the Lottery states that because statute dictates each gaming type's net profit, the only way the Lottery can influence or otherwise direct changes in net profit is by managing its administrative expenses. Nevertheless, performance measures represent actual performance of an agency which provides a complete and transparent picture of the agency's overall performance which can promote accountability before the Legislature and the public; especially since Lottery revenues and appropriations to the State have been in decline since the 2011 report. Although the Lottery indicates that in FY 2017 its sales exceeded the $1 billion mark for the 15th consecutive year, those sales have been on the decline over the past ten years. In addition, the Lottery reduced its goal, as stated in the Operating Details of the State Executive Budget, of maintaining revenues from $1.5 billion in FY 2011 to $1.0 billion in FY 2017. The Legislative Auditor recommends that the Lottery follow recommendation 11 to provide more transparency and accountability to the Legislature and the public in regards to its overall performance.

Recommendation 12 (2011)

The Lottery should consider other goals such as maintaining gross profit after administrative expenses above 40 percent, or maintaining administrative expenses within a certain percentage of total operating expenses.

Level of Compliance: In Dispute

As with recommendation 11, the Lottery disputes recommendation 12. According to the Lottery, while specific performance goals for administrative funds are subject to many varying factors since statute provides different standards for administering each game type, it consistently maintains an average net profit above 40 percent. The Lottery further indicates that:

> *In addition to our exceptional net profit margin, the Lottery's actual administrative expenses represent less than 3% of total gaming revenues even though total administrative allowance represents 4.5% of total gaming revenues. By operating in such a cost-effective manner, the Lottery consistently returns operational surplus to the state that is available for appropriation by the legislature each year.*

However, although the Lottery states that its operations consistently exceed the performance standards as indicated in Issue 4 of the 2011 report, there is the possibility its performance could change. Furthermore, since FY 2015, the Lottery's administrative expenses have slightly exceeded five percent of total operating expenses; which was the percentage recommended in the 2011 report that the Lottery not exceed. Since the revenues for the Lottery show a continuing downward trend, it is important to give the Legislature and public an accurate representation of the outputs that show the essential point or overall outcome for the Lottery since maximizing revenue to the State is its mission.

Since the revenues for the Lottery show a continuing downward trend, it is important to give the Legislature and public an accurate representation of the outputs that show the essential point or overall outcome for the Lottery since maximizing revenue to the State is its mission.

Recommendation 13 (2011)

Performance measures should also be developed for each major lottery type.

Level of Compliance: In Dispute

The Lottery disputes recommendation 13 as it perceives that the only type of game sales that it has any degree of control over is the sale of traditional lottery products, and reiterates that its goal is to maximize state revenues from the sales of these products. The Lottery further states that it constantly evaluates its traditional lottery segment to make

sure it is maximizing revenues to the State by monitoring how is utilizes administrative dollars on a continuous basis to ensure those dollars are expended in an efficient and fiscally responsible way.

However, as previously indicated in the 2011 report, the Lottery reports gross profit for each lottery, but the gross profit figures do not account for each type of lottery's actual administrative expenses. Reporting administrative expenses by each type of lottery would allow for a complete understanding of how much each lottery contributes to the amount distributed to the State. The Lottery's revenues and distributions to the State have declined since the 2011 report and the Lottery estimates they will continue to decline in the future. Therefore, the Legislative Auditor recommends that the Lottery develop performance measures for each major lottery type.

Conclusion

The Lottery disputes all three recommendations from Issue 4 of the 2011 report. The State's budget process requires state agencies to provide operational performance goals and measures to encourage accountability and provide a gauge as to how well the state agency is performing its mandated mission. However, the Lottery contends that its operations exceed the performance standards addressed in the recommendations of Issue 4.

The State's budget process requires state agencies to provide operational performance goals and measures to encourage accountability and provide a gauge as to how well the state agency is performing its mandated mission. However, the Lottery contends that its operations exceed the performance standards addressed in the recommendations of Issue 4.

Since 2011, the Lottery has reported some goals and performance measures in the Operating Details of the State Executive Budget. These include monitoring and evaluating the economic and competitive gaming environment to project gross revenues of $1 billion for use in the State's budget process and increasing the total number of licensed traditional lottery retailers each year to expand the existing retailer base and enhance market presence. Nevertheless, the Lottery continues to omit measures that would further demonstrate its performance in achieving its mission. The Legislature and public do not know if the Lottery is achieving its mission because the Lottery is not reporting certain information. By reporting the information addressed in the recommendations from Issue 4 into the Operating Details of the State Executive Budget the Lottery could enhance its transparency and accountability to the Legislature and the public. Given that the Lottery's revenues and distributions to the State are in a declining trend, it is the opinion of the Legislative Auditor that the Lottery should update its performance goals and measures with those addressed in recommendations 11, 12, and 13.

Given that the Lottery's revenues and distributions to the State are in a declining trend, it is the opinion of the Legislative Auditor that the Lottery should update its performance goals and measures with those addressed in recommendations 11, 12, and 13.

Appendix A
Transmittla Letter

WEST VIRGINIA LEGISLATURE
Performance Evaluation and Research Division

Building 1, Room W-314
1900 Kanawha Boulevard, East
Charleston, West Virginia 25305-0610
(304) 347-4890
(304) 347-4939 FAX

John Sylvia
Director

May 4, 2018

Alan Larrick, Director
Lottery Commission
900 Pennsylvania Avenue
Charleston, WV 25302

Dear Mr. Larrick:

This is to transmit a draft copy of the agency review of the Lottery Commission. This report is tentatively scheduled to be presented during the May 20 through 22, 2018 interim meetings of the Joint Committee on Government Operations, and the Joint Committee on Government Organization. We will inform you of the exact time and location once the information becomes available. It is expected that a representative from your agency be present at the meeting to orally respond to the report and answer any questions committee members may have during or after the meeting.

If you would like to schedule an exit conference to discuss any concerns you may have with the report, please notify us by May 9, 2018. In addition, we need your written response by noon on Monday, May 14, 2018 in order for it to be included in the final report. If your agency intends to distribute additional material to committee members at the meeting, please contact the House Government Organization staff at 304-340-3192 by Thursday, May 17, 2018 to make arrangements.

We request that your personnel not disclose the report to anyone not affiliated with your agency. Thank you for your cooperation.

Sincerely,

John Sylvia

John Sylvia

Enclosure

cc: Douglas P. Buffington II, Esq.
Managing Deputy Secretary
Department of Revenue

Appendix B
Objective, Scope and Methodology

The Performance Evaluation and Research Division (PERD) within the Office of the Legislative Auditor conducted this follow-up review of its October 2011 report on the Lottery Commission within the Department of Revenue pursuant to W.Va. Code §4-10-8(b)(2). The Lottery Commission is responsible for raising revenue for maximum contributions to education, tourism, and services for seniors benefiting citizens of West Virginia.

Objective

The objectives of this update are to determine to what extent has the Department of Revenue responded to the 13 recommendations made in the October 2011 PERD report on the Lottery Commission, and to assess the agency's overall financial conditions as of fiscal year 2017.

Scope

The scope of this audit is limited to the agency's activities necessary to respond to the recommendations made in the 2011 PERD report of the Department of Revenue's Lottery Commission. The time period covers the seven fiscal years since the PERD report was released, which is FY 2011 through FY 2017.

Methodology

Auditors requested that the Department of Revenue provide a written response on how it responded to the thirteen recommendations made in the October 2011 PERD audit on the Lottery Commission. PERD reviewed the Lottery Commission's responses and acquired financial data from the Lottery Commission. In order to confirm the agency's responses to the recommendations, PERD interviewed staff to clarify certain responses and requested additional information. All interviews were confirmed in writing. A large amount of information compiled for this report was acquired directly from the Lottery Commission. Statistical analyses used information collected from the Lottery Commission for FY 2011 through FY 2017. For state-to-state comparisons, information was gathered from Comprehensive Annual Financial Reports or other financial statements representing fiscal years 2017. Information was also obtained from the *West Virginia Code*. No procedures were conducted on financial data obtained from financial reports or statements as they had been audited and were thus determined to be sufficient and appropriate. PERD staff performed correlation and regression analyses on a host of data, including traditional lottery sales, prize and advertising expenses, unemployment rates, and population statistics. Every aspect of this review complied with Generally Accepted Government Auditing Standards (GAGAS) as set forth by the United States Comptroller General.

In order to determine the level of compliance of the Lottery to the appropriate recommendations from the October 2011 report PERD used the following table:

Levels of Compliance	
In Compliance	The agency has corrected the problems identified in the previous audit report.
Partial Compliance	The agency has partially corrected the problems identified in the previous audit report.
Planned Compliance	The agency has not corrected the problem, but it has provided sufficient and appropriate evidence that it is in the planning stages of resolving the problem.
In Dispute	The agency does not agree with either the problem identified or the proposed solution.
Non-Compliance	The agency has not corrected the problem identified in the previous audit report.
Requires Legislative Action	The recommendation was directed to the Legislature for statutory amendment.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix C
Comparsion of State Traditional Lottery Statistics FY 2017

Comparison of State Traditional Lottery Statistics FY 2017				
State	**Total Traditional Lottery Sales**	**Advertising**	**Advertising as a Percentage of Total Sales**	**2017 Estimated State Population**
New York	$7,679,115,000	$95,838,000	1.248%	19,849,399
California	$6,233,468,423	$76,690,663	1.230%	39,536,653
Florida	$6,156,479,000	$39,452,000	0.641%	20,984,400
Massachusetts	$5,084,779,000	$2,523,000	0.050%	6,859,819
Texas	$5,077,461,652	$31,780,038	0.626%	28,304,596
Georgia	$4,519,000,000	$27,606,000	0.611%	10,429,379
Pennsylvania	$3,946,027,724	$44,000,000	1.115%	12,805,537
New Jersey	$3,235,794,556	$24,793,452	0.766%	9,005,644
Michigan	$3,329,798,181	$24,009,633	0.721%	9,962,311
Ohio	$3,001,699,000	$23,364,000	0.778%	11,658,609
Illinois*	$2,843,956,000	n/a	n/a	12,802,023
North Carolina	$2,428,071,344	$20,110,000	0.828%	10,273,419
Virginia	$1,989,872,193	$25,960,177	1.305%	8,470,020
Maryland	$1,923,172,677	$18,379,694	0.956%	6,052,177
South Carolina	$1,635,698,381	$8,112,517	0.496%	5,024,369
Tennessee	$1,611,905,000	$8,697,000	0.540%	6,715,984
Missouri	$1,342,665,109	$15,999,987	1.192%	6,113,532
Connecticut	$1,218,956,273	$12,066,305	0.990%	3,588,184
Indiana	$1,213,076,372	$17,414,528	1.436%	6,666,818
Kentucky	$995,259,000	$10,074,000	1.012%	4,454,189
Arizona	$844,252,640	$14,766,514	1.749%	7,016,270
Washington	$673,330,399	$10,565,659	1.569%	7,405,743
Wisconsin*	$591,991,000	n/a	n/a	5,795,483
Minnesota	$563,622,282	$6,569,681	1.166%	5,576,606
Colorado	$555,333,490	$13,634,184	2.455%	5,607,154
Louisiana	$454,966,217	$7,167,480	1.575%	4,684,333
Arkansas	$449,141,028	$5,861,130	1.305%	3,004,279
Iowa	$352,242,810	$6,591,777	1.871%	3,145,711
Oregon	$332,231,233	$11,071,161	3.332%	4,142,776
New Hampshire	$299,154,697	$3,812,111	1.274%	1,342,795

Maine	$265,947,755	$1,047,978	0.394%	1,335,907
Kansas	$258,030,943	$4,623,134	1.792%	2,913,123
Rhode Island	$249,881,954	$2,622,021	1.049%	1,059,639
Idaho	$239,929,866	$3,431,517	1.430%	1,716,943
D. C.	$218,709,000	$6,504,000	2.974%	693,972
Nebraska	$175,967,645	$5,426,184	3.084%	1,920,076
Delaware	$169,723,004	$3,287,302	1.937%	961,939
West Virginia	**$166,479,421**	**$4,157,000**	**2.497%**	**1,815,857**
Oklahoma	$151,502,503	$2,004,465	1.323%	3,930,864
New Mexico	$125,925,522	$2,126,939	1.689%	9,005,644
Vermont	$122,370,063	$564,959	0.462%	623,657
Montana	$52,441,929	$598,988	1.142%	1,050,493
South Dakota	$49,078,623	$946,999	1.930%	869,666
North Dakota	$27,620,258	$581,313	2.105%	755,393
Wyoming	$25,333,304	$1,038,855	4.101%	579,315
Average	$1,619,588,055	$15,020,287	.927%	7,033,571
Median	$591,991,000	$8,112,517	1.370%	5,576,606

Sources: FY 2017 Comprehensive Annual Financial Reports or Annual Reports for each state, U.S. Census population data.
** Illinois did not detail advertising expenses separately in its financial audit. Wisconsin's sales are estimates from the Wisconsin State Comptroller's Annual Fiscal report because its financial audit was not publicly available.*
Video lottery sales for states (Delaware, Maryland, New York, Ohio, Oregon, Rhode Island, South Dakota, West Virginia) with video lottery and other non-traditional lottery games are not included.

Appendix D
Agency Response

P.O. BOX 2067
CHARLESTON, WV 25327

ALAN H. LARRICK
DIRECTOR

PHONE: 304.558.0500
wvlottery.com

May 14, 2018

John Sylvia, Director
West Virginia Legislature
Performance Evaluation and Research Division
Building 1, Room W-314
1900 Kanawha Boulevard, East
Charleston, West Virginia 25305

RE: Lottery Agency Review- Response to Post Audit Report

Dear Mr. Sylvia,

I write in response to your May 4, 2018, draft copy of the agency review of the Lottery Commission. We have reviewed the post audit report, and, as a preliminary matter, thank you for the work you and your team put in to reviewing the Lottery's progress since 2010. The Lottery has made an effort to reduce marketing expenditures, and continues the process of evaluating these expenditures to ensure we are using these dollars in an efficient and effective manner.

It is important to note that when comparing the WV Lottery to other state lotteries, other states classify expenditures differently, and even line items that look similar may include different expenditures. Further, we believe that expenditures we report are classified correctly. Additionally, we are in compliance with all reporting requirements, and respond appropriately and timely when information is requested by the legislature or any other governmental agency or when information is required to be uploaded or posted for public view. That being said, we will continue to review the findings of the report and work on achieving the objectives noted in the same.

We look forward to attending the presentation of this report during May interims, and will happily answer any additional questions or provide supplemental information as needed.

Sincerely,

Alan Larrick by DSM

Alan H. Larrick
Director

cc: Douglas P. Buffington II, Department of Revenue

Page 1 of 1

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