

Janice K. Brewer
Governor



Jeff Hatch-Miller
Executive Director

March 4, 2010

Ms. Debbie Davenport
Auditor General
Office of the Auditor General
2910 N. 40th St.
Suite 410
Phoenix, AZ 85018

Dear Ms. Davenport:

The Arizona Lottery is pleased to respond to the performance audit and sunset review conducted by the Office of the Auditor General. Our first meeting on this topic was held almost a full year ago; this report clearly documents the hard work of your staff and the Lottery.

Early on in the process, your staff mentioned that a performance audit could also be an excellent business development tool. We took this advice to heart, and considered your team to be a group of consultants, eager to help us identify ways to improve our internal and external processes. Having this expertise available at no cost has been an unexpected benefit of the audit.

We agree with the report's findings and intend to implement all of the recommendations. You will note in our implementation schedule that many of the recommendations are scheduled to be completed by July 1, 2010. We are eager to start the new fiscal year with these improvements already in place.

We appreciate your staff's dedication to conducting a fair and thorough review. We are proud of this review, and the effort everyone put into making it a success.

Sincerely,

Jeff Hatch-Miller
Executive Director

Cc: Leo Valdez, Chairman,
Arizona Lottery Commission

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Arizona Lottery Performance Audit Response

Background

In four of the last five fiscal years, the Arizona Lottery has seen sales grow year over year. The Lottery has introduced new products in response to player demand, offered incentives for retailers, promotions for players, and developed a variety of marketing and promotional partnerships, all strategically intended to meet our mission to maximize revenue for state programs. As a result, sales for fiscal 2009 were almost 22% higher than fiscal year 2005, eclipsing the industry average of 10.8% growth for the same period.

Lottery sales in most states, including Arizona, have shown a more modest growth rate in the last three years. A report from the Nelson A. Rockefeller Institute of Government noted that state and local gambling revenues from lotteries, casinos, and racinos declined by -2.6% in fiscal 2009—the first such decline in at least three decades.¹ Revenues from tribal casino gaming in Arizona are reported to have declined every quarter since the start of 2008, with a 13% drop in the fourth quarter of 2009. The Lottery believes these Arizona-specific indicators reflect a downturn in the economy and a general population with less disposable income.

Although the Lottery's 2.4% growth in FY 2009 could be considered leveling off, the Lottery believes any growth to be a positive indicator when measured against the above-mentioned factors, and the lottery industry as a whole. Growth in the instant product line is significant, since it represents the products a lottery can best control. For calendar year 2009, the Arizona Lottery was by a wide margin the top performer of all US lotteries when ranked by instant games sales growth, and #2 nationally in total sales growth.

Decrease in beneficiary distributions and low per-capita sales indicate room for improvement.

When the Lottery's statutory beneficiary distribution method was modified in the FY2008 legislative session, it enhanced the Lottery's ability to fully fund its current and potential new beneficiaries. Under the old process, beneficiaries received proceeds from the sale of specific products, often at different rates of return. If Powerball jackpots were unusually high, those beneficiaries received full funding, while those dependent on other products might not. Funding all beneficiaries from the sale of all products corrected this inequity.

Increased prize expense, as the audit report notes, is a factor in decreased distributions, but the ability to offer increased payouts (prize expense) was essential to the substantial growth of the Lottery's instant ticket product. If prize payouts had remained at their pre-2009 levels, the Lottery would have been unable to introduce its *\$100 Million Cash Spectacular* game. The estimated \$7.4 million returned from this game's sales represented more than 5% of FY 2009's total distributions. With sales to date of more than \$67 million, the game is likely to make a similar contribution to this fiscal year's distributions.

Arizona's per-capita sales have been comparatively low since 1999. Several factors outside the Lottery's control contribute to this situation. First, this period coincides with unprecedented population growth in Arizona, which the Arizona Department of Commerce estimates to have been slightly more than 30% from 2000 to 2009.² Second, Arizona also has a relatively high proportion of the general population morally opposed to gambling and by extension, the Lottery. In a 2007 study commissioned by the Lottery, this group was estimated to be approximately 17% of the general population.³ And finally, Arizona's marketing/advertising budget was capped at 2.7% of sales during much of the last decade, while advertising costs climbed. The ability to tell players, especially new residents who may have played in other states, about our products was limited by the advertising cap. When the cap was lifted in FY 2009, Arizona saw 2.4%

¹ Nelson A. Rockefeller Institute of Government, Sept 21, 2009. *For the First Time, a Smaller Jackpot*

² Arizona Dept of Commerce website: azcommerce.com/econinfo/demographics/Population+Estimates.html

³ Ipsos Reid *Arizona Lottery Gamer Segmentation Study*, December 2007

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per capita growth over the prior year. This may well be a barometer of future direction; Arizona's 11.4 percent of per capita growth from 2005 to 2009 is well above the industry's 5.6 percent average.⁴

Lottery should raise sales revenues by recruiting more players and responsibly increasing player base.

The Lottery has not traditionally recruited non-players. For many in this group, the choice to not participate in gaming activities is a moral decision, not one driven by convenience or lack of motivation. Actively recruiting this group might be perceived as offensive to many of our constituents, and damaging to public perception of the Lottery as a good way to raise money for the State. From a practical perspective, the Lottery believes the most effective use of its resources is in offering products that will encourage casual players to play more often, and to sustain or increase the interest of more frequent players.

In early FY 2010, the Lottery conducted an instant game player segmentation study as a follow up to its 2004 general market player segmentation study. The Lottery seeks to identify what motivates players to purchase one game play style or price point over another. The study's focus on why people play will help form a comprehensive strategy for attracting players beyond our current audience. The study will provide the Lottery a better understanding of instant game players and their preferences.

The development of games appealing to a broad range of Lottery players will aid in increasing revenues and distributions. The study information will also be helpful in post-game analysis, providing another tool for determining if games were well-received by the audience they were designed to attract.

Lottery should better manage and report costs.

Statutory changes to the beneficiary distribution method were enacted during the FY 2008 legislative session; these changes made additional monies available to increase prize payouts. For at least ten years, Arizona's 60% aggregate payout had kept it in the bottom quarter of all states. Industry data indicated that the states with the highest sales also had average instant-game prize payouts well above Arizona's. The ability to increase payouts gave the Lottery a vital tool to support the introduction of higher price-point games that could generate increased revenue.

Once this legislation was enacted in August 2008, the Lottery was tasked with immediately increasing sales with hopes of funding the newest beneficiary, bonding for university capital improvements. Increasing instant game payouts remains the industry's most effective tool for increasing sales, but it is normally a 24- to 36-month process. The initial "more winners, better prizes" concept fairly quickly attracts players' attention and achieves the goal of increasing sales. However, a long-term investment in finding the balance between higher payouts, better odds and more prizes while sustaining return to beneficiaries is equally important, and highly dependent upon learning more about players' response to those factors.

In FY 2009, the first year this plan was in effect, increased payouts and increased advertising led to record-breaking sales, but not at the unrealistic levels the Lottery was pressured to endorse. Distributions also failed to meet expected levels.

As the Lottery approaches almost two years of increased prize funding, plans are in place to lower selected instant game payouts while avoiding a significant decrease in product sales. These actions, combined with the strategic use of advertising funds, provide a pivot point for the Lottery. Analytical tools for the measurement of growth trajectories are necessary to assess the full impact of adjustments to prize structures. A considerable number of problems are inherent in the measurement and analyses of change. If sales drop as a result of lower prizes and less advertising, distributions also decline. This is a complex issue and will be discussed at length with lottery staff, vendors and ultimately, the Lottery Commission.

⁴ LaFleur's Almanac, 2005-2009

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Game controls ensure fairness of drawing and instant games

The Lottery has long maintained its success is based on the delivery of two products: its games and its integrity. Players must be confident that they have the same chance of winning as anyone else; players and non-players alike must be assured that the process, from game design to distribution to prize payment, is above reproach. Although these responsibilities may be delegated to retailers or vendors, they intentionally remain directly within the control of the Lottery. Vendors who print or distribute our products are held to same exacting standards as Lottery employees. The Lottery's requirements for physical and logical data security and general business practices are consistent with industry standards.

Steps to protect against retailer theft, fraud, and impropriety can be further enhanced

For many players, licensed Lottery retailers are the "face" of the Lottery; they sell Lottery games, pay Lottery prizes and respond to player questions about Lottery products. Obtaining a license to sell Lottery products is not the end of the process. Every Lottery retailer receives training immediately and is subject to planned and unexpected compliance investigations to monitor activities in the field and to identify obvious issues at the retail location. In addition, customer complaints, licensing and financial concerns and routine monitoring of retailer activity all contribute valuable information to identify potential retailers whose activities may classify them as at-risk. Routine compliance investigations are a long-accepted industry tool for identifying retailer problems. Unfortunately, as the retailer base grows, lotteries require an increasing number of personnel qualified to conduct these investigations. When the Lottery was unable to sustain staffing levels to conduct these investigations, the focus shifted to the use of technology to help identify potential issues prior to a complaint being filed. Added in FY07, this at-risk program seeks to utilize and enhance industry best practices in proactive loss prevention and player protection. When necessary, the Lottery works with local law enforcement to support criminal investigations and offer expert witness for prosecution in cases of fraud or theft.

Measures to protect players should include more web-based information

The lottery provides player protection at multiple levels, including its website. Every ticket clearly explains the odds of winning a particular prize, and the prize amount. Players have a variety of ways to confirm if a ticket is a winner; they may call a hotline for winning draw numbers, check the Lottery website or a local newspaper or television broadcast, or visit any Lottery retailer. In 2006 the Lottery added additional prize verification tools for players. Ticket checkers at virtually every location allow players the opportunity to independently confirm if a drawing ticket is a winner; this ability will be expanded to include instant tickets in 2011. When a retailer validates a winning ticket, the prize amount is displayed for the player. At any time, players may visit the Lottery website to determine how many prizes remain in an instant game. The Arizona Lottery was at the forefront of lotteries who remove games from market as soon as the last top prize is claimed, ensuring once again, that every player has an equal chance of winning.

Although not traditionally considered player protection, the Lottery also provides information about problem gambling on all products and player information collateral. Funded by a \$300,000 appropriation from the Lottery's budget, the Problem Gambling Program offers resources to both gamblers and their families. Lottery products are rarely cited as a source of gambling problems, but the Lottery remains committed to ensuring resources are available.

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Finding 1: Lottery should enhance its efforts to maximize its sales and beneficiary distributions.

Audit Recommendations:

- *To maximize beneficiary distributions, the Lottery should increase sales by:*
 - a. *Assessing its own retailer data and information from other states to strategically increase both the number of retailers and the volume of retailer sales.*
 - b. *Using its market research company to collect additional information aimed at better understanding how to increase the number of players and how to motivate casual players to play more frequently, and regularly using this information as well as its marketing staff to help make decisions regarding the design and introduction of both drawing and instant games.*
- *To ensure that increased sales lead to increased beneficiary distributions, the Lottery should better manage its costs by:*
 - a. *Better managing its prize expenses by ensuring calculations based on economic theory are regularly used to optimize its existing prize structures for both instant and drawing games, and when developing any new games, and if necessary seeking outside assistance from experts who specialize in such work.*
 - b. *Ensuring it effectively manages its advertising costs by reinstating its practice of developing an annual marketing plan that is based on the effectiveness of its previous years' marketing efforts.*
 - c. *Analyzing information to that used by the South Carolina Education Lottery and regularly including in its reports to the Arizona State Lottery Commission members, such as how costs impact beneficiary distributions over time and how its costs compare to those of other comparable lotteries.*

Lottery Response:

The Lottery agrees with these recommendations, and provides the following detail.

Strategically increase both the number of retailers and the volume of retailer sales.

The Lottery has reviewed the information in LaFleur's almanac and assessed areas for improvement, identifying Arizona retail segments that have been under-developed in comparison to the national average. An important area of focus appears to be bars and restaurants. Using information from other states, information available on the State Liquor License website, and information gained by contacting individuals within the trade, the Lottery hopes to expand this important retailer category.

The Lottery continues to work with a food marketing consultant to contact corporate accounts not currently selling lottery products. The Lottery will also continue to work with its gaming vendor GTECH Corporation, who is working at a national level to recruit corporate accounts.

In FY10 the Lottery added a corporate account manager with the strategy of enhancing current corporate accounts, adding displays in smaller accounts and expanding the retail base. This approach will eventually be expanded to include all corporate accounts.

An expanded marketing/advertising budget allowed the Lottery to conduct promotional events for both players and retailers. A consistent presence at retailer locations is a key component of increasing the volume of retailer sales. In several instances, the Lottery was able to combine promotions to the benefit of both players and retailers. A recent 2by2 promotion rewarded players who purchased a \$2 ticket with a free Powerball ticket, cross-promoting products. At the same time, clerks at participating stores were entered into a drawing for a \$25 Arizona Lottery branded VISA gift card. Of the 800 clerk entries submitted, one retail chain was selected to receive a \$2,000 incentive. During the promotion period, sales of the 2by2 game increased more than 30% compared to the game's first three weeks of sales.

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Additional support is provided to retailers who also have ticket vending machines at their locations. Past promotions have rewarded retailers who kept these dispensers full, but this required a resource-intensive mystery shopping campaign by lottery staff. Earlier this fiscal year the sales department employed a different tactic by informing retailers of the commissions they were losing because dispensers were empty. While vending machine sales will always be a reflection of overall instant sales, it is worth noting that sales through vending machines grew by more than 29% in FY09 over the prior fiscal year.

Collect information to learn how to increase number of players and motivate more frequent play; use this information in the design and introduction of games.

For a number of years the Lottery has collected information about its players and their product preferences. The most consistent research consists of a monthly tracking study, which focuses on attitudinal statements such as the lottery being a good way to raise money for the State, and whether the lottery is run with honesty and integrity. In recent years, the survey has been expanded to include information about advertising recall and use of the lottery website. While players are asked about the games they play, detailed information about their play habits is not monitored.

Routine tracking studies lack the specificity the Lottery requires to determine which new products are likely to be successful. Research, most often web-based or focus groups, is conducted when potential new products are being considered. In early 2009 the Lottery considered offering a new drawing game at a \$2 price point. Since this would be a departure from the Lottery's traditional \$1 games, player research was critical to moving this concept forward. Player response indicated the \$2 price point was not a barrier, and several concepts appealed to a broad base of respondents. This research encouraged the Lottery to introduce not one, but two, new games. Each game responds to a different segment of players, one offering a lower top prize and good overall odds of winning a prize. While the second game's top prize is higher, the odds are slightly less attractive. Follow-up research conducted several months after the games' introductions substantiated the lottery's belief that both products could successfully co-exist. This research had the added benefit of pointing out that retailer and player support could be enhanced by increasing awareness of the games, especially among retailers, and by offering special game-specific promotions for both groups.

Research on both the national and local level has indicated the most potential for growth in our player base may lie with younger players. The Lottery has been able to use that information to increase its marketing activities and establishing a strong brand presence that focuses on this particular group, while still appealing to a broader range of players. The success of the above mentioned \$2 drawing games was due in part to an advertising campaign strategically designed to attract the younger market research indicated would find this product appealing.

A Scratchers segmentation study conducted earlier this year is expected to provide valuable insight on the purchasing habits of instant game players. This information is essential in determining the factors to support per capita growth.

Better manage its prize expense

While much of the audit report focuses on the impact of higher instant game expenses on beneficiary distributions, the Lottery believes reducing those payouts is not the only viable option. Drawing games have a lower payout, averaging 50% to instant games' aggregate 68%. By continuing to introduce new drawing-type games, the Lottery has an additional tool to maximize return to beneficiaries. Approximately thirty cents of every dollar in sales from drawing games is returned to beneficiaries; the return on instant games is lower, depending on the game. To assist in the growth of drawing games, the Lottery introduced two new games, CA\$H4 and 2by2. Both products were introduced at the \$2 price point, making Arizona one of the few states to successfully launch a \$2 drawing game. The Lottery also began the development of a new

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multi-state jackpot game that will be introduced in April 2010. The Lottery continues to explore new drawing game options.

In response to the audit's recommendation that the Lottery ensure its prize structure calculations are based on economic theory within lottery literature, in late February the Lottery asked the National Association of State and Provincial Lotteries (NASPL) to conduct a survey of its members regarding the "...use of economic theory in controlling prize amounts and the probability of winning." A similar survey was sent to each of the lottery's gaming products/services vendors. Several responding states contacted the Arizona Lottery directly, asking for clarification of the term "economic theory". No state responded that they specifically used economic theory; most referred to the same strategy the Arizona Lottery employs, performing analysis of past games to identify key elements likely to lead to a game's success. As the executive director of one US lottery noted in his response: *"Price, graphics, play style, product mix at retail, regional preferences and seasonality are also factors affecting the profitability of a game...the best way to optimize a prize structure is to analyze historical sales, taking into account all of the factors mentioned above."*

A leading instant game printer provided the following response: *"While we do not utilize economic models for individual prize structure development we do have the capabilities to procure an optimal prize payout analysis on behalf of the lottery which will provide them the optimum payouts by price point. This analysis is conducted by a partner Economics firm and has been performed for many of our customers. In addition to internal expertise, we maintain a [proprietary] database...which contains detailed prize structure, game attribute and sales data. With this data, we correlate prize structure characteristics to game performance to determine what works best in a given market at a given time. It's because of the information in [proprietary database] that the economist is able to perform the analysis. We supply them with the information and they use that to build their models. While we do not use economic modeling per say to develop individual prize structures, we use it to validate the overall approach we take to create them, in addition to many other types of analyses so that we can develop the best prize structure "fit" for each game in each circumstance."*

Many of the articles the audit cites regarding economic analysis in controlling prize amounts refer to the design of drawing games. For example, one topic discussed is the breakdown of game revenue designated for the jackpot prize, and how much should go to the other prizes. When a new online concept is presented, careful attention is paid to factors like the balance between jackpot and other prize amounts, with the online games vendor providing their expertise and insight. This information, coupled with the sales performance of similar games in Arizona and other lottery states, is used to determine the optimal prize payout.

The lottery has also begun to manage the impact of higher instant game payouts introduced in FY2009. Payouts for several price points are now slightly above the national average. The lottery will gradually reduce payouts at the \$1 and \$5 price points by an estimated 2%, bringing them closer to the national average. The lottery has collected sales data for these games at higher payouts; this data is key to managing the gradual reduction of payouts without a significant impact on game sales. The lottery estimates that by the end of FY11, savings of as much as \$1.8 million can be realized by reducing payouts; this translates to increased distributions to beneficiaries.

The lottery has an ongoing relationship with the WP Carey School of Business at Arizona State University. Since one of the experts identified by the auditor is affiliated with this school, the lottery will ask if conducting economic analysis of lottery products would make a good research project.

Effectively manage its advertising costs by reinstating annual marketing plan

Beginning in FY 08, the marketing plans were provided in an alternative format for easy comprehension and the flexibility of ongoing initiative adjustments. The team is currently pulling all past marketing and initiative

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presentations from 2008, 2009 and 2010 and is in the process of transferring the content into a narrative format as per audit recommendation. The Lottery requested its advertising agency vendor re-format the plans.

The goal is to have three marketing plans (2008, 2009, and 2010) in a narrative format similar to the 2007 marketing plan's information and analysis. The narrative will provide an improved overview for staff not participating in the marketing planning presentations. The traditional narrative format will continue with the planning and development of the FY11 marketing plan.

Provide additional information to the Lottery Commission

The Lottery agrees that more information should be made available to the Lottery Commission. While the auditor's report suggests sharing information about how costs impact beneficiary distributions, there may be additional items that are equally important to the Commission. The Lottery will, with the Commission's input, develop a standard reporting schedule, and append that as necessary, or at the request of the Commission.

The Lottery recognizes that it may be beneficial to provide an introductory session on the selected topics in advance of the first presentations. A similar strategy will also be employed with new Commissioners, to ensure the information provided is both useful and relevant.

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Finding 2: Lottery's game integrity and player protection measures generally match other states' efforts, but can be enhanced.

Audit Recommendations:

- 2.1 *The Lottery should continue with its plan to implement a system that allows it to track, monitor and analyze how frequently prizes of more than \$599 are claimed by retailers, and enhance its efforts by:*
 - a. *Modifying its claim forms to request whether the claimant is a retail owner, employee, or immediate family member.*
 - b. *Making the necessary programming changes to its computer system to allow it to more effectively ascertain whether claimants are lottery retail owners; and*
 - c. *Using this information to help identify retailers who should receive an investigation for claims of more than \$599.*
- 2.2 *To help address its backlog of compliance investigations, the Lottery should adopt and implement a risk-based approach for conducting compliance investigations by considering things such as findings from previous reviews, incidents reported to the Lottery, and a history of retailer winning. The Lottery should revise its policies accordingly.*
- 2.3 *The Lottery should publish player protection information on its Web site, such as measures players can take to protect themselves and their tickets from fraud, theft and lottery scams.*

Lottery Response:

The Lottery agrees with these recommendations, and provides the following detail.

Monitor prizes of more than \$599 claimed by retailers

Winner claim forms will be updated to require a response to the following question: *"I am a licensed retailer or its employee, a lottery vendor, lottery employee or family member in the same household."* Since all prizes over \$599 must be claimed at the Lottery office, claims store staff will notify the investigation staff of all claimants who respond in the positive before processing the claim. The agency's assistant attorney general has approved the inclusion of this language.

Policies and procedures will be developed in support of this change; the assistant attorney general will review these documents to determine if changes are required to either statutory or rule authority to enforce this additional requirement before prize payment.

Programming changes are also required to support the collection of this information. In the interim, security staff is using an ad hoc report to monitor social security numbers of claimants against the social security numbers of Lottery retailers. To date, no such matches have occurred, although this data is routinely collected only for claims greater than \$599.

Address backlog of compliance investigations

In February the Lottery began the process of formalizing its at-risk retailer compliance program. It is currently evaluating the tools available, since the reporting of results is as important as collecting the initial findings. It is likely that resources will be re-allocated to support this program.

Publish player protection information on the Lottery website

The process to add this information to the website is already underway. The Lottery is intent upon assuring the information is immediately apparent to website visitors, much like the help for problem gamblers that appears on virtually every page. The information will be located under the "I Won, Now What?" section and accessible via the global footer. This information will include measures that players can take to protect themselves and their tickets from fraud, theft and lottery scams. This content is consistent with the "PLAY SAFE" brochure developed by the Arizona Lottery Security Department along with industry best practices.

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Conclusion

The Lottery believes the performance audit process has yielded benefits beyond the agency's expectations. The audit's findings and the resulting recommendations reflect areas where the Lottery was already at work. The insight of the Auditor General's staff not only supports the Lottery's approach to increasing sales and beneficiary distributions, it also provides a valuable, independent review of our long-range strategy.

The Arizona Lottery is grateful for the assistance of the Auditor General's staff over the past eleven months. As we move forward with our annual strategic planning process, we are fortunate that the audit recommendations, and our responses, have already created a framework upon which to build a plan focused on the increased importance of the agency's mission to maximize revenue for State programs.

Arizona Lottery Performance Audit Response: Implementation Schedule

Implementation Date	Recommendation	Comments
7/10	Finding 1: Increase number of Lottery retailers <ul style="list-style-type: none"> • Review lottery's own retailer data • Review data from other lottery states 	<ul style="list-style-type: none"> • Focus on underperforming category: bars/restaurants • Gather information on estimated 14,000 licensees from State Liquor Department; develop customized recruitment strategy • Contact non-traditional retail organizations like the Arizona Restaurant Association • Continue work with outside consultation team to contact corporate accounts who are not lottery retailers • Continue work with GTECH national corporate account team in support of recruiting national chain retailers • Review information in the LaFleur's almanac; evaluate industry best practices and develop implementation strategy
7/10	Finding 1: Increase volume of retailer sales <ul style="list-style-type: none"> • Review lottery's own retailer data • Review data from other lottery states 	<ul style="list-style-type: none"> • Continue efforts to educate corporate retailers on potential increased revenue by reducing inventory out-of-stock • Increase secondary dispenser locations in current retailers • Continue to execute three-tiered promotions strategy, targeting customers, corporate participation and reaching the point of sale (clerk) level. • Align Sales Rep incentive to reflect agency product initiatives • Gather and evaluate information on best practices from vendors, research questionnaires, NASPL information, and standard industry publications.
7/10	Finding 1: Collect information to increase number of players and frequency of play <ul style="list-style-type: none"> • Best practices to expand the player base • How to motivate more frequent play • Game design targeted to new players 	<ul style="list-style-type: none"> • Attract interest from specific audience segments by increasing marketing activities • Establish a stronger brand presence with increased visibility • Introduce new products to the market on a more frequent basis • Expand use of routine, player-focused research • Report/present findings to all team to ensure cross-function communication and implementation • Implement results of Scratchers segmentation study in instant game design/predictive tool • Include segmentation study results in game performance analysis • Add question about first purchase to monthly tracking study

Arizona Lottery Performance Audit Response: Implementation Schedule

		<ul style="list-style-type: none"> • Add quarterly research to track new players • Use instant player segmentation in future research recruitments • Research elements of segmentation study: use of merchandise and second-chance drawings
7/10—12/10	Finding 1: Better manage prize expense by using economic theory to optimize prize structures <ul style="list-style-type: none"> • Ensure these calculations are used to optimize game design • Seek assistance from experts in this field 	<ul style="list-style-type: none"> • Contact WP Carey School of Business regarding economic theory/review of lottery prizes structures as research project • Manage the impact of higher instant game payouts introduced in FY2009 • Gradually reduce payouts at the \$1 price point by 2% and \$5 price points by an estimated 2%. Savings estimated to be \$1.8M in FY11 • Manage gradual reduction of payouts without a significant impact on game sales; report impact FY11, first quarter. • Continue to develop new online games to balance expense/distribution rates of instant and drawing product lines
7/10	Finding 1: Reinstate annual marketing plan	<ul style="list-style-type: none"> • Lottery goal is to have three marketing plans (2008, 2009, 2010) in a narrative format such as the 2007 marketing plan reflecting similar information and analysis. The narrative will provide an improved overview for those team members not participating in the marketing planning presentations • Involve advertising agency vendor to assist in re-formatting plans. • Additional narrative format will continue with the planning and development of the FY11 marketing plan
8/10	Finding 1: Provide additional information regarding sales and distributions to Lottery Commission	<ul style="list-style-type: none"> • Survey Commission on items from other lottery's agendas • Survey Commission on other suggestions • Survey staff leadership for suggestions • Implement new reports. Changes will be implemented with first meeting of new fiscal year. If applicable, year-end reporting for FY 2010 will reflect requested changes.
5/10	Finding 2: Modify claim form	<ul style="list-style-type: none"> • Revise form and supporting programs • Create policy and procedures

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		<ul style="list-style-type: none"> • Request legal review • Provide staff training
7/10	Finding 2: Address investigations backlog	<ul style="list-style-type: none"> • Formalize at-risk program • Create policy and procedures • Evaluate resource allocation • Provide staff training
5/10	Finding 2: Add player protection info to website	<ul style="list-style-type: none"> • Determine where to add player protection information on the Arizona Lottery website. This information will include measures that players can take to protect themselves and their tickets from fraud, theft and lottery scams.