

REPORT HIGHLIGHTS
PERFORMANCE AUDIT

Our Conclusion

In 1980 Arizona citizens established the Arizona State Lottery Commission to oversee the Arizona State Lottery "... to produce the maximum amount of net revenue consonant with the dignity of the State." Eleven different programs or beneficiaries receive lottery revenues. We found that although sales and beneficiary distributions have increased over the years, both have leveled off since fiscal year 2007. The Lottery can increase its sales and beneficiary distributions by: (1) expanding its retailer network, (2) increasing the number of players, and (3) better managing its prize expenses and advertising costs. We also found that the steps the Lottery takes to ensure game integrity and player protection are generally comparable to practices that other states use or recommend, but the Lottery can enhance these steps in several ways.



2010

Lottery should take steps to increase sales and beneficiary distributions



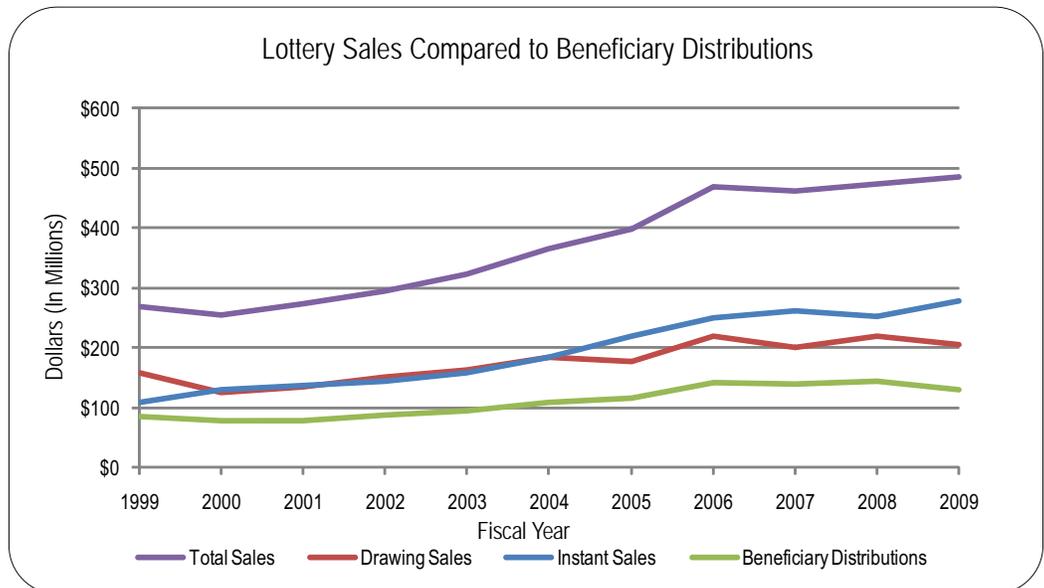
The Lottery provides both instant ticket (scratcher) and drawing games for the public to play. The Lottery had \$485 million in ticket sales and other revenues in fiscal year 2009, paying out over \$282 million in prizes and \$129 million in distributions to beneficiaries, including the State General Fund, the Local Transportation Assistance Fund, the Game and Fish Heritage Fund, and the State Park Heritage Fund. Retailers also received over \$32 million for selling lottery tickets.

Although Arizona lottery sales have generally increased since fiscal year 2000, per capita sales are low compared to other state lotteries. Compared to states with similar lottery games, Arizona ranked 24th out of 28 states in fiscal year 2008 with sales of \$73 per capita. In contrast,

Colorado ranked 17th out of the 28 states with sales of \$102 per capita. Further, Arizona lottery sales started leveling off in fiscal year 2007, and its beneficiary distributions not only leveled off, but actually declined in fiscal year 2009 (see below).

Increasing number of retailers—Arizona's low per capita lottery sales may stem partly from its having relatively few lottery retailers compared to other states. For example, Colorado had over 40 percent more retailers per capita than Arizona in fiscal year 2008. Colorado had one retailer for every 1,700 people, while Arizona had one retailer for every 2,444 people.

During the audit, the Lottery began taking steps to increase the number of retailers by assigning an employee the responsibility to recruit new retailers, and planning to develop relationships with existing and new retailers. In expanding the number of retailers, the Lottery should strategically target the highest-producing



types of retailer. For example, grocery stores and restaurants/bars in Arizona have the highest average lottery sales, and there are some grocery stores and many restaurants/bars that are not lottery retailers.

Increasing player base—The Lottery should also consider ways to increase the number of people who play the Lottery's games by using its market research company to determine what might motivate nonplayers to play and casual players to play more often.

Better managing costs—Beneficiary distributions declined in fiscal year 2009 because of increases in the amount of prizes and increases in administrative costs—primarily advertising (see textbox).

To help manage its prize expenses, when designing games, the Lottery should conduct formal analyses cited in lottery literature that will help it determine the

Costs (In Millions)	FY 2008	FY 2009
Prizes	\$262	\$282
Administration	67	75
Beneficiaries	145	129

lowest amount in prizes it can pay that still encourages play and maximizes beneficiary distributions. To ensure the Lottery effectively manages its advertising costs, it should reinstate its practice of developing an annual marketing plan. In addition, to provide its Commission with a better understanding of the impact of costs on lottery beneficiary distributions, the Lottery should report these impacts over time and report how its costs compare to those of other comparable lotteries.

Game integrity and player protection measures generally match other states' efforts, but can be enhanced

The Lottery helps ensure the games' integrity and player protection by licensing reputable retailers. It checks applicants' criminal history records, and has denied new licenses and revoked existing licenses when necessary. The Lottery also conducts proactive investigations at retailer locations, and 111 of these occurred in fiscal year 2009. In 72 of these, the Lottery identified retailers who were not complying with rules such as a rule prohibiting retailer employees from selling tickets to themselves. In a few cases, the problems involved fraud or theft. For example, a clerk at one retailer would lightly scratch instant tickets, keep the winners, and sell the nonwinners to the public. The Lottery works with law enforcement when appropriate to address the problems its investigations find.

Other states take additional action to ensure retailers' employees do not affect game integrity. For example, four of five states we contacted require winners to disclose if they are affiliated with a retailer. Because the Lottery directly pays out prizes over \$599, for those prizes, its claim form could require disclosure of any relationship between the claimant and any retailer. The Lottery could then use this information to cross-check records to determine

if further investigation is needed to ensure the tickets were obtained legitimately.

The Lottery also conducts routine compliance investigations of licensed retailers. However, in August 2009, there was a backlog of 789 retailers that had not had an investigation as planned. To address the backlog, the Lottery should continue focusing on higher-risk retailers, such as those with findings during previous investigations.

The Lottery helps players protect themselves against theft of their potential prizes. For example, it:

- Provides monitors that let players see if they have a winning ticket;
- Provides computer terminals that play a jingle when a ticket is a winner; and
- Verifies tickets at its Phoenix and Tucson offices.

Further, some retailers provide self-check machines and brochures on how to determine if a ticket is a winner, how to claim prizes, and how to avoid fraud, theft, and scams. The Lottery could enhance these player protections by posting on its Web site measures players can take to protect their tickets, such as signing the ticket upon purchase.