



# Performance Audit

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**Delehanty Consulting LLC**  
Security, Integrity, and Performance

“Delehanty Consulting, LLC has been providing auditing and consulting services to the lottery industry since 2005. Our consultants have evaluated and consulted with more than forty government-sponsored lotteries on four continents since 1985.”

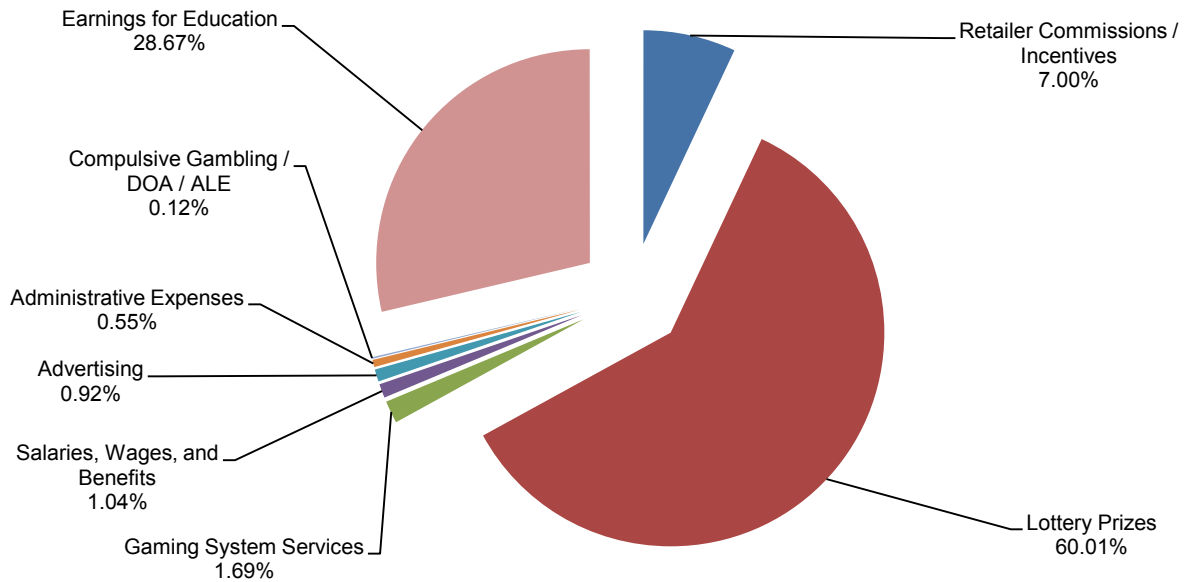
**A biennial performance audit, required in 18C-122, reported these key findings in its Feb. 26, 2013 report:**

- “Of the six U.S. lotteries started since 2002, only the NCEL managed to increase profits every year. In fact, the NCEL is one of only three U.S. lotteries to achieve profit growth every year from 2007 through 2012.”
- “Sales, profits, number of retailers and sales per retailer have consistently increased from Fiscal Year 2008 through Fiscal Year 2012.”
- “The NCEL’s exceptional success in consistently growing profits indicates a prudent cost-benefit approach to increasing expenditures.”
- “We believe we would be remiss if we did not point out that restricting the advertising budget to one percent of sales reduces the NCEL’s ability to increase funding for education.”



# Distribution of Revenue

FISCAL YEAR 2012



## Total Revenue

Total Ticket Sales  
Prize Tickets  
Sales Services / Bad Debt  
Fees and Licenses  
Interest Income

### Total Revenue

	\$ in thousands	% of Revenue
Total Ticket Sales	1,596,693	99.65%
Prize Tickets	(182)	-0.01%
Sales Services / Bad Debt	(55)	0.00%
Fees and Licenses	5,381	0.33%
Interest Income	523	0.03%
<b>Total Revenue</b>	<b>\$ 1,602,360</b>	<b>100.00%</b>

## Distribution of Revenue

Retailer Commissions / Incentives  
Lottery Prizes  
Gaming System Services  
Salaries, Wages, and Benefits  
Advertising  
Administrative Expenses  
Compulsive Gambling / DOA / ALE  
Earnings for Education

### Total Revenue

	\$ in thousands	% of Revenue
Retailer Commissions / Incentives	\$ 112,233	7.00%
Lottery Prizes	961,556	60.01%
Gaming System Services	27,110	1.69%
Salaries, Wages, and Benefits	16,639	1.04%
Advertising	14,696	0.92%
Administrative Expenses	8,742	0.55%
Compulsive Gambling / DOA / ALE	1,915	0.12%
Earnings for Education	459,469	28.67%
<b>Total Revenue</b>	<b>\$ 1,602,360</b>	<b>100.00%</b>

## Cash Distribution of Earnings

	\$ in thousands	% of Revenue
FY 2012 Earnings for Education	\$ 459,469	28.67%
FY 2011 Cash Surplus to Education	7,398	0.46%
FY 2012 Cash Surplus to Education in FY 2013	(10,103)	-0.63%
<b>Cash Transfers to State</b>	<b>\$ 456,764</b>	<b>28.51%</b>



# Impact of Budget Cuts

Proposed by Governor

## Operating Expenses

- Gaming expenses are variable based on sales levels. The only way to cut these expenses is to cut sales.

The Governor's recommendation is to cut retailer incentives by \$350,000. This expense is based on winning tickets and is not controlled by the NCEL.

## Administrative Expenses

- Controlled by the NCEL

Projected - FY14	\$46.5 million
Governor's Budget	\$37.2 million
Dollars Cut	\$9.3 million
Percentage Cut	21.3%

## NCEL Staffing

- The NCEL has **249 budgeted approved positions**. All unfilled positions are in one of three statuses:

- Posted for application
- At interview stage
- Candidate undergoing background check

**The Governor's budget stated 237 positions.**



# Missouri Study

Conducted by the Missouri Lottery Commission

- After cut in advertising dollars, Missouri experienced a sales drop three of the last five years.
- Missouri responded by introducing instant tickets at the \$10 and \$20 price points and increased their prize payout to forestall a drop in sales. The NCEL has already taken these actions.

## History of Resource Cuts as Related to Transfers to Education

Year	Ad Budget	Mo. Lottery Sales	Mo. Lottery Profits	(+/-) Mo. Lottery profits from prior year	Net Mo. State General Revenue Collections	Percentage Change From Prior Year	Percentage Change in Total US Retail Sales	Percentage Change in Mo. Lottery Sales
FY02	\$8,250,000	\$585,189,254	\$160,092,441					
FY03	\$6,250,000	\$708,047,512	\$193,940,550	\$33,848,109	\$6,021,981,869		3.08%	20.99%
FY04	\$3,050,000	\$791,154,358	\$230,318,233	\$36,377,683	\$6,440,066,497	6.94%	5.77%	11.74%
FY05	\$2,138,000	\$785,597,632	\$218,285,010	(\$12,033,223)	\$6,711,958,083	4.22%	6.04%	-0.70%
FY06	\$2,138,000	\$913,518,251	\$260,300,831	\$42,015,821	\$7,332,387,018	9.24%	6.33%	16.28%
FY07	\$1,500,000	\$934,270,658	\$259,737,970	(\$562,861)	\$7,715,969,299	5.23%	3.29%	2.27%
FY08	\$1,300,000	\$995,492,888	\$265,051,179	\$5,313,209	\$8,004,275,146	3.74%	3.05%	6.55%
FY09	\$1,300,000	\$968,451,896	\$259,006,284	(\$6,044,895)	\$7,450,964,278	-6.91%	-7.55%	-2.72%
FY10	\$1,300,000		\$250,000,000 est.	(\$9,006,284)				
FY11	\$1,300,000		\$235,000,000 est.	(\$15,000,000)				

*Note that sales growth has stalled recently and is expected to continue to erode. Annual Lottery profits have declined three of the past five years and are expected to decrease by \$9 million in FY10 and by \$15 million in FY11 without additional resources.*



# Texas Study

Conducted for Texas Lottery by the University of Texas at Austin

**“Evidence about the impacts from reduction in advertising is quite strong.”**

■ The study found that:

**Every \$1 in advertising cuts results in \$30 in lost sales**

■ **Risk of Cuts to NCEL Sales:**

Projected Sales - FY14	\$1.609 billion
With proposed advertising cuts	\$1.386 billion

■ **Risk of Cuts to NCEL's Return to Education:**

Projected Return to Education	\$450 million
With proposed advertising cuts	\$390 million



# Fiscal Year 2014 Budget

	Fiscal 2014 Budget	OSBM Project - includes 2014 projected revenues and FY 2013 budget	Revise Lottery per reduced advertising
<b>Sales:</b>	1,609,321,500.00	1,609,321,500.00	1,386,514,740.00
Sales/Service Bad Debt	(150,000.00)	(150,000.00)	(150,000.00)
Fees and Licenses	5,000,000.00	5,000,000.00	5,000,000.00
<b>Operating Revenue</b>	<b>1,614,171,500.00</b>	<b>1,614,171,500.00</b>	<b>1,391,364,740.00</b>
<b>Non Operating Revenue</b>			
Investment Earnings	450,000.00	450,000.00	450,000.00
<b>Total Projected Revenue</b>	<b>1,614,621,500.00</b>	<b>1,614,621,500.00</b>	<b>1,391,814,740.00</b>
<b>Operating Expenses:</b>			
<b>Gaming Expenses</b>			
Prizes	976,253,839.00	976,253,839.00	841,093,801.00
Retailer Commissions	112,652,505.00	112,652,505.00	97,056,032.00
Retailer Incentives	1,000,000.00	650,000.00	650,000.00
Gaming Licensing Fees	1,200,000.00	1,195,523.00	1,030,006.00
Gaming System Services	26,054,638.00	26,054,736.00	22,447,519.00
Total Gaming Expenses	<b>1,117,160,982.00</b>	<b>1,116,806,603.00</b>	<b>962,277,358.00</b>
<b>Administrative Expenses</b>			
Salaries, wages and benefits	17,900,000.00	17,698,850.00	17,698,850.00
Advertising	15,500,000.00	8,073,108.00	8,073,108.00
Marketing	4,050,000.00	3,759,000.00	3,759,000.00
Other services	3,880,000.00	3,264,113.00	3,264,113.00
Furniture, fixtures, and equipment	1,248,000.00	1,049,900.00	1,049,900.00
Depreciation	722,000.00	722,000.00	722,000.00
Other general and administrative expenses	3,157,000.00	2,655,878.00	2,655,878.00
Total Administrative Expenses	<b>46,457,000.00</b>	<b>37,222,849.00</b>	<b>37,222,849.00</b>
<b>Total Operating Expenses</b>	<b>1,163,617,982.00</b>	<b>1,154,029,452.00</b>	<b>999,500,207.00</b>
<b>Non Operating (Revenue) Expenses:</b>			
DHHS Compulsive Gambling	1,000,000.00	1,000,000.00	1,000,000.00
ALE	-	1,000,000.00	1,000,000.00
Transfer to DOA - Motor Fleet	-	-	-
<b>Total Non Operating Expenses</b>	<b>1,000,000.00</b>	<b>2,000,000.00</b>	<b>2,000,000.00</b>
<b>Total Projected Expenses</b>	<b>1,164,617,982.00</b>	<b>1,156,029,452.00</b>	<b>1,001,500,207.00</b>
<b>Net Available to State</b>	<b>450,003,518.00</b>	<b>458,592,048.00</b>	<b>390,314,533.00</b>