



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #565

Lottery Administration Positions (DOR -- Lottery Administration)

[LFB 2013-15 Budget Summary: Page 410, #3]

CURRENT LAW

In 2012-13, the Lottery Division is funded \$21,221,300 from the segregated lottery fund for general program operations and authorized 79.95 positions associated with the administration of the lottery.

GOVERNOR

Provide \$266,800 in 2013-14 and \$335,400 in 2014-15 from the lottery fund and 6.0 program operations positions annually for administration of the lottery. The positions include: (a) 1.0 financial specialist (financial services); (b) 1.0 lottery supervisor (security); (c) 1.0 inventory control position (warehouse services); and (d) 3.0 lottery customer service specialists (retail management). Funding would be for: (a) salaries (\$163,400 in 2013-14 and \$217,800 in 2014-15); (b) fringe benefits (\$66,400 in 2013-14 and \$88,400 in 2014-15); and (c) supplies and services (\$37,000 in 2013-14 and \$29,200 in 2014-15).

DISCUSSION POINTS

1. In 2002-03, lottery sales totaled \$435.0 million. At that time, the lottery was administered with position authority of 109.5 positions. Currently, the lottery is operated with fewer positions (79.95 positions) and generates more revenue. The Department of Revenue projects 2012-13 lottery sales to total \$521.2 million.

2. The Lottery Division currently has 3.7 financial specialist positions. Financial specialists bill retailers for lottery ticket sales, calculate and pay retailers amounts due for sales incentives and other compensation, and collect payment on past due accounts. The administration

indicates that the current staffing level is insufficient to maintain high quality retailer accounting services. In particular, "follow-up on past due accounts is done as time permits, and errors in retailer accounting have been detected by internal accounting staff and external auditors." Specifically, the Legislative Audit Bureau reported finding financial errors while conducting annual audits of the Wisconsin Lottery in May, 2011, and in June, 2012. The additional 1.0 position would be provided to: (a) ensure that accounting functions are performed accurately in a timely manner; (b) assist in preparation and review of Retailer Performance Program payments and accountability; (c) provide oversight of the Internal Control System (real-time auditing of gaming system vendors); (d) assist in configuring and testing of new implementations, software upgrades, and other accounting system changes in the Lottery Gaming System; and (e) prioritize follow-up on past due accounts. Funding provided for the position would be \$41,900 in 2013-14 and \$55,800 in 2014-15.

3. The Lottery currently has 3.0 positions responsible for monitoring of lottery security and internal controls. The Governor recommends 1.0 lottery supervisor position be provided to serve as a Security Director. The administration indicates that in the last two independent audits of the Lottery security, Delehanty Consulting LLC "urged the Lottery to hire a full-time Security Manager to 'provide full-time, entity-wide security program planning and management.'" The auditor noted that the Wisconsin Lottery is the only U.S. lottery without a Vice President, Director, Chief, Manager, or Supervisor of Security. The Director would provide continuous oversight of security activities and plan ahead to manage risk. In particular, the position would "develop and implement a framework and continuing cycle of activity for managing risk, developing security policies, assigning responsibilities, and monitoring the adequacy of the Lottery's security and internal controls." Funding for the position would be \$48,400 in 2013-14 and \$64,400 in 2014-15.

4. The Lottery has 3.0 inventory control coordinator positions responsible for preparing the shipment of instant scratch tickets to retailers around the state. The administration indicates that instant scratch ticket sales have increased from \$249 million in 2002-03 to \$320 million in 2011-12, which has resulted in: (a) shipping more tickets; (b) handling more ticket returns from retailers; and (c) shipping more point-of-sale materials (for example, signage and brochures). The administration recommends providing 1.0 inventory control coordinator position "to handle increased instant scratch ticket distribution in a cost effective manner." Funding for the position would be \$30,700 in 2013-14 and \$39,100 in 2014-15.

5. The Governor recommends the addition of 3.0 lottery customer service specialist positions to the lottery's position authority of 36.3 positions. The 3.0 positions would serve as field marketing representatives, providing support to for-profit retailers around the state. Field marketing representatives are responsible for providing training to retailer staff, as well as guidance regarding product placement and marketing. The positions also provide information relating to participation in the Retailer Performance Program. The administration notes that, compared to other states, Wisconsin has a high ratio of retailers to field marketing representatives. The Lottery Division estimates that the addition of 3.0 field marketing representatives would translate into an additional \$20.5 million in sales annually by 2017-18. Funding for the 3.0 positions would be \$138,800 in 2013-14 and \$171,100 in 2014-15.

6. The Committee could approve the Governor's recommended positions and funding.

This would increase position authority to the Lottery Division by 6.0 positions. Funding of \$266,800 in 2013-14 and \$335,400 in 2014-15 would increase expenditures from the segregated lottery fund by those amounts in each year. In general, increased expenditures for program operations could be seen as reducing the amount of net revenue available for property tax relief. However, as noted above, the addition of lottery customer service specialist positions could result in an increase in ticket sales. It could therefore be argued that an increase in future sales over the 2013-15 biennium would offset the increase in expenditures for lottery general program operations. Further, if sales increased by more than the amount of increased expenditures, net revenue available for property tax relief would be greater. [Alternative 1]

7. On the other hand, it could be argued that lottery sales have increased over the years utilizing existing staff. Further, as indicated above, funding expended for lottery operations is unavailable for use as property tax relief. However, the Lottery does indicate that compared to other state lottery operations, Wisconsin has a smaller sales staff. Additionally, the Lottery believes that additional sales staff will result in increased sales. In order to balance these two competing interests, the Committee could provide fewer additional sales staff at this time, and if increased sales result from increased staffing, further staffing could be requested at a later time. Under this alternative, the Committee could provide 1.0 financial specialist, 1.0 lottery supervisor, 1.0 inventory control coordinator, and 1.0 lottery customer service specialist for a total of 4.0 FTE positions and funding of \$174,300 in 2013-14 and \$221,400 in 2014-15. [Alternative 2]

8. Alternatively, given that the lottery has experienced a general growth in sales with existing staff, the Committee could delete all of the recommended additional sales staff. Under this alternative, funding could be reduced by \$138,800 in 2013-14 and \$171,100 in 2014-15 and 3.0 positions annually. [Alternative 3]

ALTERNATIVES

1. Approve the Governor's recommendation to provide \$266,800 in 2013-14 and \$335,400 in 2014-15 and 6.0 positions annually for improved operation of the lottery.

2. Modify the Governor's recommendation to provide \$174,300 in 2013-14 and \$221,400 in 2014-15 and 4.0 positions annually, as follows: (a) 1.0 financial specialist (financial services); (b) 1.0 lottery supervisor (security); (c) 1.0 inventory control position (warehouse services); and (d) 1.0 lottery customer service specialist (retail management).

ALT 2	Change to Bill	
	Funding	Positions
SEG	- \$206,500	- 2.00

3. Modify the Governor's recommendation to provide \$128,000 in 2013-14 and \$164,300 in 2014-15 and 3.0 positions annually, as follows: (a) 1.0 financial specialist (financial services); (b) 1.0 lottery supervisor (security); and (c) 1.0 inventory control position (warehouse services).

ALT 3	Change to Bill	
	Funding	Positions
SEG	- \$309,900	- 3.00

4. Delete the Governor's recommendation.

ALT 4	Change to Bill	
	Funding	Positions
SEG	- \$602,200	- 6.00

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