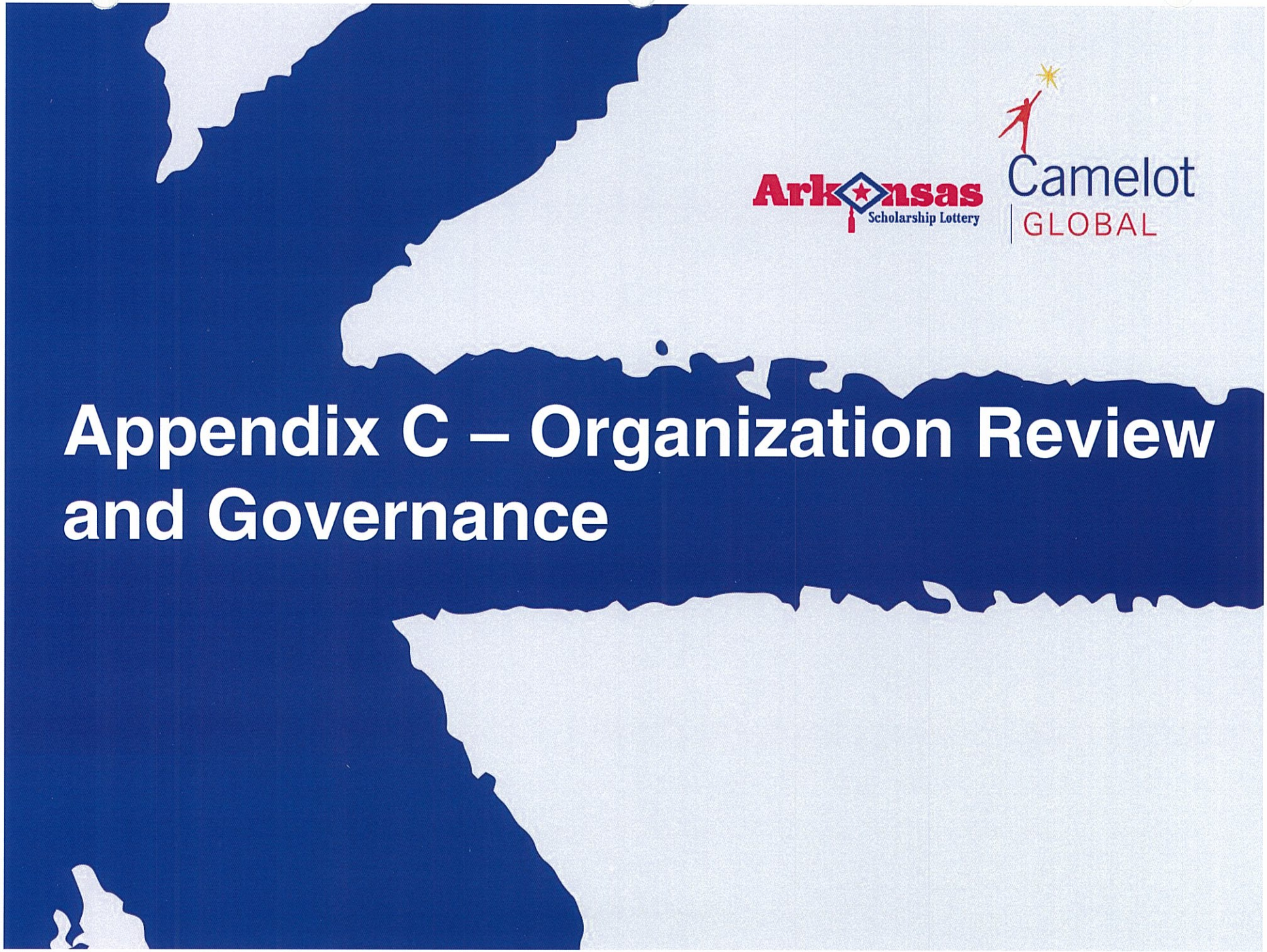
Arkansas
Scholarship Lottery
Camelot
GLOBAL
Appendix C – Organization Review and Governance

Section Review

- This section covers the following areas:
    1. US Lottery Governance & Structures
    2. Organization
    3. Private Management Governance
    4. Comparison of Governance Models
    5. Summary and Recommendations

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1. US Lottery Governance & Structures

There are five major types of US Lottery governance structures:

1. **State Agencies (PA, MI, FL):** Lottery Director reporting directly into an Executive Office of the State

2. **Appointed Commission State Agency (MA, NY, CA):** Similar to above, except Governor/Legislature appoint a Commission to oversee the Lottery. Lottery Director reports to the Commission

3. **Independent Agency (SC, NC, OK,AR):** Operates as an independent, stand alone agency separate from other agencies but who follows all the laws of the State. The agency has sovereign immunity and is self funding. Commissioners are appointed to oversee the Lottery and have authoritative control of the Lottery. The Executive Director is accountable to the Commission

4. **Lottery Corporations (CT, KY, GA):** Independent Agencies, where Lottery Board of Directors has authoritative control. Structure is quasi-public and the Corporation is responsible for personnel, compensation, pension and procurement processes

5. **Privately Managed Lotteries (IL, IN, NJ):** State recruits a private sector company to manage sales and marketing operations of the Lottery. Usually this is accountable to the Lottery Director and the Governor's office

Source: Camelot Desk Research – Interviews with Peer State Lotteries, Oct-Nov 2014

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1. US Lottery Governance & Structures

Four main public governance structures, with age of Lottery characterising type of agency. Governance varies between Executive Office and Commission

	State Agencies (PA, MI, FL)	Agency / Commission (MA, NY, CA)	Independent Agency (SC, NC, OK, AR)	Lottery Corporations (KY, GA, CT, TN)
Ultimate Accountability	Elected State Treasurer or Governor (Lottery Director reporting to an Executive Office)	Lottery Commission appointed by Governor/Legislature	Lottery Commission or Governor(OK)	Board of Directors
Executive Office Involvement	Involved as needed	Major decisions/issues or policies	App't of Commission Major Political-policy issues	App't of Directors Major Policy issues
Role of legislature	Approve budget Lottery oversight Approve new types of games	Approve or review budget Lottery oversight Approve new types of games Approve comm. members	Oversight advise and review Can conduct audits or investigations	Board of Directors
Qualification of commission/ directors	N/A	One law enforcement One CPA/Finance	Should represent demo and regional mix of state and cover essential bus skills	Financial, Legal, Business
How are they appointed	N/A	Majority by Governor	Usually equally by Governor. Senate and House	Governor/ consent by Senate
Timing of Audits	Some annually Some less frequent	Annual Audits	From quarterly to annual	From quarterly to annual

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1. US Lottery Governance & Structures

Lottery director and structure:

	State Agencies (PA, MI, FL)	Agency / Commission (MA, NY, CA)	Independent Agency (SC, NC, OK, AR)	Lottery Corporations (KY, GA, CT, TN)
How is Lottery Dir. Appointed?	Political - with reasonable qualifications	Political - with reasonable qualifications	Qualifications	Qualifications
Lottery Director Salary Range	$125k to $160k	$125k to $160k	$165k to $300k	$200k to $500k
Incentives	No	No	Yes (except AR)	Yes
Is the Lottery Unionized?	Mostly	Mostly	No	No (except for some part of CT)
State Pay Grades	Yes	Yes	Mostly No	No
Personnel Policies	State Agency	State Agency	Most develop own policies	Develop own policies
Retirement Plan	State	State	Mixed	Separate from state (Except TN)

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2. Organization

Organization processes and structure should be reviewed and focus on the following areas:

- Insight and strategic planning requirement for Lottery
  - Formal business planning process required to maximise sales/net revenue
  - Increasing player-ship of lottery/bettering propositions
- Marketing focus
  - Re-engineering of Marketing department / focus on brand management / propositions
  - Brand marketing expertise
- Sales department changes
  - Retail analysts and segmentation requirement
  - Key Account requirement (drive our key account policy)
- Supplier management / development
  - Vendor management team to cost control

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3. Private Management Governance

Private management varies across the Globe. De-lineated regulator / operator set-up is key with clear roles for each

	USA (IL,NJ.IN)	UK/France
Accountability/ Governance	Lottery director reports to Governor and Private Manage(PM) reports to Lottery Director/Commission Legislature has limited authority—oversight function. Legally, all major divisions must be made by the state((working with the PM) Governance remains with Governors office and the State	Lottery Operator reports to A Regulator who ensures compliance to the license and oversight of operator. Lottery operator responsible for day to day operations in all functions Net revenues are mandated (UK) Highly regulated in terms of responsible gaming Legislature involved in budgeting and in approving new games and channels
Management	Lottery director manages and oversees PM A formal and financially committed business plan is required of the PM who will make up any shortfalls Monthly, quarterly reports are submitted from the PM to the lottery Annual audits by State Auditor	Business plans are the blueprint of the lottery operator and must be adhered to Annual report required Compliance and financial audits are required
Organization	Previously unionized states "lease" their employees to the PM, so they can retain benefits. PM hired staff are usually professional, seasoned and highly incentive	No political appointments. Staff is hired based on qualifications with heavy emphasis on commercial and consumer goods experienced. Well paid and highly incentive. All have a pension plan

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4. Comparison of Governance Models

	Advantage	Disadvantage
State Agencies	◦ Political Sponsorship; ◦ Employee Benefits ◦ Legislature set budget	◦ Too bureaucratic/politicized ◦ Not commercial mind-set ◦ Often low priority for Governor ◦ Legislature set budget
Agency/Commission	◦ Same as state agency ◦ Commission provides more guidance	◦ Same as state agency ◦ Commission often lacks authority
Independent Agency	◦ More commercially oriented ◦ More frequent reports and audits ◦ Can operate more like a business ◦ Commission has significant power ◦ Lottery director more based on qualifications	◦ State comp/personnel polices restrict operations ◦ Lacks political sponsorship ◦ Power is a negative if commission is not aligned
Lottery Corporations	◦ Operated like a business ◦ Commission has significant power ◦ Lottery director based on qualifications ◦ Staff judged on performance ◦ ◦ Governor more involved	◦ Power of Board is a negative if Board is not aligned with the state leadership • Legislature has less input
Private Management USA	◦ Provides Professional management ◦ Some upfront cash ◦ Union power is lessened ◦ Pvt Mgr objectives aligned with state-net profits	◦ DOJ ruling limits benefits and competition◦ ◦ Director has ability to be an obstacle to PM ◦ Union issues could limit effectiveness ◦ PM requires political support
Private Management Europe	• Completely commercial oriented • Lottery operator has freedom to operate lottery like a business but with high regard for social responsibility • Total emphasis is on net returns to state	• Highly regulated vs their competition • Changes to rules, regulations and budgets could be a cumbersome process

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5. Organization Review and Governance Summary and Recommendations

The current set-up needs to change and future Lottery organization needs political and public protection. The Lottery is an important State asset

- Private Manager could be considered in the future which could provide professional management and more financial security for the Scholarship Fund
- Lottery is set up to be an independent agency but in practice it is treated more like a state agency ,Need to have more commercial personnel policies, incentives and procurement practices
- The majority of commission members, including the Chairperson, should be selected by the Governors office. Members of this forum should be considered based on expertise (Finance, HR, Marketing and Sales) – with the Chair being appointed by the Governor
- Transformation of current Lottery processes required. Needs to become consumer facing and focused on the delivery of the business plan
- Legislature should have an oversight of Lottery activities but not in a way that hinders progress. They should conduct / schedule independent audits, Formal meeting should be scheduled between lottery and LOC

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