CHAIRPERSON JAMES:

Ms. Paul.

MS. PAUL: Well, good morning, Commissioner James, members of the Commission, distinguished guests. Contrary to what I told you yesterday, my name is really Rebecca O'Paul--
91
(Laughter)

MS. PAUL: --and I am still the President
of the Georgia Lottery Corporation and the President of
the North American Association of State and Provincial
Lotteries.

You've asked me to address the question
today of how lotteries operate. Each lottery is very,
very unique in its own way. Based upon the decisions
made by its own state legislature, each legislature
takes a different approach deciding the scale of
operations, the allocating of revenues, the
establishing of mechanisms for oversight, et cetera, et
cetera, et cetera. I can offer my experiences based on
being the chief executive officer of Illinois, Florida
and Georgia.

However, before I start, I want to remind
you no lottery is now more alike than are Boston Red
Sox and the Atlanta Braves. I should throw out that
the Braves play real baseball but we won't go there.
There are lotteries in states with less than a million
people. There are lotteries in states with tens of
millions of people. There are lotteries that are 30
years old. There are lotteries that have yet to
celebrate their fifth anniversary. They are very
different for many, many reasons.

It's safe, however, that the newer
lotteries have really learned lessons from their
predecessors. And as we talked about yesterday, some
of those lessons can be seen in things like Georgia's
HOPE Scholarships. The three lotteries that I ran took
three very different approaches in how their
legislature set them up. So, what I'd like to do today
is just address those three approaches with the three
lotteries that I have the most experience with.

The Illinois lottery began in 1974 and like
many of the older lotteries, when it began, it was a
division of another agency of state government. In
Illinois' case, it was the Department of Revenue. Our
budgets were line-item appropriated as a part of the
Department of Revenue's budgets. Our employees were,
for the most part, members of the state union and bid
on jobs with other revenue employees. Security was
directed by the Department of Revenue. Our sales
representatives were mostly former tax collectors. Our
internal audits were performed by revenue's auditors.
Our security was done by revenue's security team.
Our players claimed larger prizes at one of our many offices, but had to wait four to six weeks for checks to arrive after being processed by the state treasurer. All employees were part of the state merit system, the state retirement system, as well as the state health care plan. As superintendent of the lottery, my boss was the director of the Department of Revenue.

In Florida, which began operations in 1988, the legislature took a very different approach. We were a free-standing state agency, the Department of the Lottery. I worked directly for the governor and my title was secretary of the lottery, much like the secretary of transportation. We set up our own security force. We set up our own internal audit department. We had our own legal staff.

We still had our budgets line-item appropriated by the legislature every year, and we still had oversight committees in both houses of the legislature, but our employees were not state merit system employees and we could, as an example, pay winners directly upon the receipt of a valid claim.

Georgia, which began in 1993, took yet a third approach. The legislature structured us as a
public corporation. All of our profits still certainly
go to the public good. The programs I discussed
yesterday, Georgia's HOPE Scholarship program, pre-
kindergarten programs and computer technology for
elementary and secondary schools.

My title is President of the Georgia
Lottery Corporation, but I report to a seven member
citizen board. They come from all over Georgia.
They're very respected members of their communities and
in fact, some of them even voted against the lottery.
The board is appointed by the governor and confirmed by
the Senate. We still have oversight committees in both
Houses of our legislature. We're still subject to
state audits. We're still subject to all open records
and all open meeting laws of our states, but we're not
line-item appropriated.

We have very broad guidelines in our law
which mandates what percentages of sales must go to
players, what percentages of sales must go to
education, what percentages of sales must go to
retailers, but it is the board's duty as citizen, non-
paid advisors, to maximize revenues for education
within those very broad guidelines.
Now, while as I continue to stress every lottery is different, there are some similarities in the three lotteries that I ran, and I'd like to talk just briefly about those similarities. In those three states, approximately 50 to 55 percent of each lottery dollar goes back to the players in the form of prizes, 35 to 40 percent of each lottery dollar goes to the public programs funded by their particular legislature and six to seven percent goes to the retailers who sell their products and in all three states, operating expenses are less than seven percent.

In all three states, much like you heard from Sam DePhillippo this morning, when a player claims a prize over $5,000, there is a check done before a payment is made to any winner to see if that player owes back child support, and if they do, that amount is subtracted from their winnings.

In all three states, the security of the drawings, the systems, the tickets is quite elaborate. Credibility is vital to any lottery success. If a player is not absolutely certain they have the same chance of winning as any other player, they have no reason to play.
To reinforce that point, let me just give you an example of the drawing process that happens in all three of those states. While the televised drawing you might see lasts approximately 60 seconds, the actual drawing procedure lasts several hours. In Illinois, two independent audit firms are available or are present for the whole process. In Florida and Georgia, an outside independent auditor, as well as the lottery security staff, is present for the entire process.

There is actually a lottery held to determine which ball sets and which machines will be used before any drawing is held. Then there are several pre-tests to ensure the randomness of the balls and machines that have been chosen for that night's drawing. Then you actually hold the drawing. Then you have several post-tests to again assure the randomness of the actual official number before that number becomes certified by the outside independent auditors. All three states have both their ball sets and their machines tested on a regular basis by their state police organizations.

Every terminal at every retail location is connected to a central site through dedicated phone
lines so that at no time can anyone tap into the system
and manipulate any date. It's my understanding that
all three states have more dedicated phone lines than
does the Pentagon.

When instant tickets are printed, security
staffs test all processes to ensure the security of
that product and in fact, the North American
Association of State and Provincial lotteries has a
separate security committee made up of the security
directors of all of the lotteries who work together to
develop those practices and in fact, are working right
now to develop standards for all of our systems.

There are other lottery directors today who
are talking about how their lotteries operate and the
guidelines under which they operate, but no matter how
they operate, there are some things that every single
lottery has in common. Every single lottery is
responsible to the people of its state. Every lottery
is audited by internal auditors, external public
accounting firms and by their own state auditors.
Every lottery mandates that each employee pass a
criminal background check before they can begin
employment. Every lottery is subject to the state's
open meeting laws and all of our records are available
for public scrutiny. Every lottery is subject to the
oversight by the men and women elected to serve the
public, and it is their job to see to it that lotteries
operate in a socially responsible way. But most
importantly, every lottery raises dollars for very
important public programs.

Thank you.

CHAIRPERSON JAMES: Thank you.