OREGON STATE LOTTERY
Annual Performance Progress Report (APPR)
for Fiscal Year 2006-07

Original Submission Date*:* September 30, 2007

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AGENCY NAME: Oregon State Lottery **I. EXECUTIVE SUMMARY**

Agency Mission: The mission of the Oregon Lottery® is to operate a lottery with the highest standards of integrity and security to earn maximum profits for the people of Oregon commensurate with the public good.

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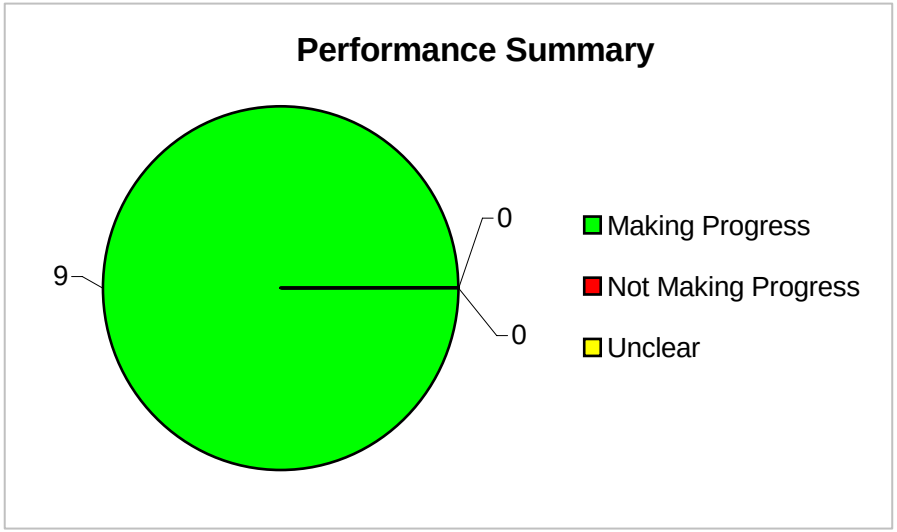
1. SCOPE OF REPORT



- **Record Lottery Sales:** For Fiscal Year 2007, the Lottery finished with over $1.2 billion in sales, an all-time high. Some of the sales highlights for FY '07 include:
    - Record Video Lottery^{SM} net sales exceeded $850 million.
    - Four Video Lottery^{SM} sales weeks exceeded $18 million.
    - Record Sports Action sales of $14.01 million (final season).
    - Of the all-time Lottery sales weeks, 15 of the top 20 were recorded during FY '07.

  Since the Lottery began in 1985, nearly $5.3 billion in Lottery profits has gone to public education, economic development, job creation, state parks, and watershed enhancement/salmon habitat restoration across the state. Looking ahead to the present biennium alone, the Lottery is projected to provide $1.335 billion for these programs based on the September 2007 revenue forecast.

- **Transfer:** For FY '07, the Lottery transferred $604 million, a new record. This reflects earnings from increased sales as well as administrative savings. Transfers exceeded the 2005 close-of-session forecast by $119 million. These records were achieved while limiting administrative expenses to 2.7%, which is well below the 16% authorized in the Oregon Constitution.

- **Video Lottery^{SM}:** Strong sales from video line games contributed to another record sales year. Video Lottery^{SM} sales increased 16% compared to last year's sales.

- **Powerball®:** The past year the Lottery continued to support the Powerball® game with a substantial advertising investment and a focus to expand play at lower jackpot levels. Sales and playership for this product are strong with 70% of the population having

played Powerball®. The Lottery increased sales of the Power Play option by 45% during the 10X Multiplier Promotion. Oregon's lucky streak continued with another big Oregon jackpot winner of $182.7 million in March 2007. The media exposure for a lucky player from Milwaukie helped bring more attention to the game and reinforced that Oregonians do win Powerball®.

- **Oregon Wins Again:** In June 2007, Oregon opened its first new full-service state park in 30 years - ***Stub Stewart Memorial State Park***. This park is located 30 miles west of Portland near the town of Vernonia, which is predicted to benefit dramatically from the influx of visitors to the area. The park's trails and structures were constructed almost exclusively with Lottery profits and would not have been possible without the funding from Measure 66 which dedicates 7.5 percent of Lottery profits to state parks. The Lottery promoted the park on television and radio, in print, and on the web.

- **Successful Financial Audit and Reporting:** The Secretary of State Audits Division issued an unqualified opinion on the Lottery's June 30, 2006, financial statements. The auditors concluded that the Lottery's financial statements are fairly presented in accordance with generally accepted accounting principles. The Audits Division also reported that it did not identify any reportable conditions related to internal control or to noncompliance with applicable laws and regulations. The State Controller's Gold Star was awarded to the Lottery for the 13th consecutive year. This award reflects excellence in financial reporting.

- **Problem Gambling:** No matter what the source from which a gambling problem might arise, the Lottery seeks to mitigate those problems by funding treatment programs which are administered through the Department of Human Services. The Lottery continues to educate Oregonians about problem gambling and the treatment available through television, radio, print advertisements, and information posted at Lottery retailer locations.

  For the 2007-2009 biennium, the Legislature budgeted $13.14 million in Lottery profits for the Department of Human Services to fund Oregon Problem Gambling Services, allowing free treatment for Oregonians seeking help. The Lottery works with the Problem Gambling Services Manager at the Department of Human Services, the treatment and prevention communities, and the Oregon Gambling Addiction Treatment Foundation to guide the development of messaging and to help create outreach programs. Oregon has an extensive program for raising public awareness of the risks inherent in gambling and the help available. These efforts have helped place Oregon at the forefront of problem gambling consciousness.

  In September 2006, the Oregon Gambling Addiction Treatment Foundation released a third Oregon prevalence study for problem gambling. This study was funded in part with Oregon Lottery® research dollars. The study found that the rates of problem and pathological gambling among adults in Oregon were essentially unchanged from a 2001 study and significantly lower than the rates reported in 1997. The Foundation stated that the reason problem gambling is being kept in check is most likely due to

ongoing aggressive problem gambling advertising efforts by the Lottery and the largest prevention and treatment system in the nation, which is funded entirely by Lottery profits.

The Oregon Lottery® will continue to help direct those in need of help to the problem gambling treatment that, thanks to Lottery profits is free.

- **Retailer Contracts:** For FY '07, Retail Contracts processed nearly 466 new retailer contracts. Of those, 218 were for new installations at locations that previously did not have Lottery games.

- **Security:** The security and integrity of Lottery operations continues to be a primary focus. Lottery Security continues to perform timely, thorough, and efficient background investigations on all Lottery employees, retailers, vendors, and contractors. The Assistant Director for Lottery Security, in conjunction with the Lottery Director and the Oregon Department of Justice, continues to pursue any alleged violations of law that threaten the fairness, integrity, security, or honesty of the Lottery.

2. THE OREGON CONTEXT

The Lottery's responsibility is to develop, produce, and market its Lottery tickets and shares; pay its winners; cover its expenses; and transfer the net profits to the state. From April 1985 through June 2007, the Lottery has paid over $14.3 billion in prizes, and has transferred over $5.3 billion to the State Economic Development Fund which provides funds for public education, economic development, job creation, state parks, and watershed enhancement/salmon habitat restoration.

3. PERFORMANCE SUMMARY

The Lottery met or surpassed all of its performance measures for FY '07.

4. CHALLENGES

As a state agency with essentially a private industry mission, the Oregon Lottery® needs to perform to both private and public industry standards. The Lottery needs to continually move forward and build on proven successful strategies in order to monitor and control expenses and maximize sales commensurate with the public good.

In fulfilling its mission, the Lottery faces three critical challenges:

- Constantly evolving consumer preferences for new and more entertaining games.

- Public perception and expectations of the Lottery, including how the money generated by the Lottery is used, and concerns about problem gambling.

- Increasing competition from other forms of gaming and entertainment.

To overcome these challenges, the Lottery will promote these strategic objectives:

- Generate optimal revenue for the public purpose by offering a broad variety of market-responsive games that will appeal to diverse consumer markets and support the success of a broad retailer base which matches the demands of the consumer markets.

- Inform the public how Lottery profits are used to fund state programs and minimize the potential impact of problem gambling through a variety of methods including providing public information about problem gambling and the treatment available.

- Maintain an efficient and effective Lottery organization with a reasonable expenditure of funds for administration, while generating optimal revenue commensurate with the public good.

5. RESOURCES USED AND EFFICIENCY

The Lottery's Commission approved budget for administrative expenses for FY '07 was $321 million, which includes game vendor expenses, retailer commissions, and Lottery operating expenses. The Lottery is entirely self-financed through sales of its tickets and shares, and it does not receive or rely on any General Fund or other tax dollars. By law, no more than 16% of the Lottery's total annual revenue may be used for those administrative costs. For FY '07, the Lottery operated on 2.67% of its total annual revenue.

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KPM #1	MONEY TRANSFERRED TO THE STATE FOR PARKS, WATERSHEDS, ECONOMIC DEVELOPMENT, AND EDUCATION	Measure since: 2002
Goal	Maximum profits for the people of Oregon.	
Oregon Context	The primary mission of the Oregon Lottery® is to maximize revenue for the people of Oregon commensurate with the public good.	
Data source	Audited Financial reports of the Oregon Lottery.®	
Owner	Kathy Ortega, Chief Financial Officer, (503) 540-1308.	

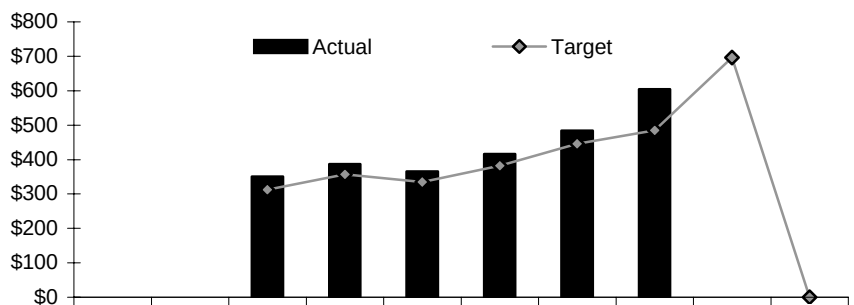
1. **OUR STRATEGY**

Lottery transfers are primarily a function of profits derived from sales of Lottery tickets and shares. As noted earlier, high sales are the result of a having a wide variety of innovative games, effective marketing strategies, and good customer service. Transfers are also impacted by Lottery administrative savings which are added to the amounts transferred. Administrative savings are primarily derived from cost-effective management of Lottery dollars resulting in administrative costs that are lower than budgeted.

2. **ABOUT THE TARGETS**

Targets for the Lottery are set through a combination of factors including the DAS quarterly revenue forecast and the Oregon economic and revenue forecast prepared by the Office of Economic Analysis. A higher data point indicates increased funds raised by the Lottery for the public purpose.

Money Transferred to the State



	00	01	02	03	04	05	06	07	08	09
Actual			$350	$387	$365	$416	$484	$604	$0	$0
Target			$312	$357	$335	$382	$446	$485	$696	$0

3. **HOW WE ARE DOING**

The Lottery exceeded its target and achieved record transfers due to record sales of Lottery tickets and shares. The Lottery has consistently exceeded its target over the last several years.

4. **HOW WE COMPARE**

As with sales, state lottery transfers are difficult to compare. State lotteries differ substantially in what they do with the profits they earn and how those profits are transferred. In addition to widely different game offerings and private/public relationships, some lotteries are actually part of larger agencies and are not structured the same as the Oregon Lottery.® According to records of the National Association of State and Provincial Lotteries (NASPL), Oregon ranked 13th in transfer amounts within the 43 states with a lottery.

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5. **FACTORS AFFECTING RESULTS**

Lottery profits, which are the primary source of Lottery transfers, can be affected by a number of factors. The variety of games and their entertainment value, customer service, and the perception of gambling and the Lottery all play roles. In terms of administrative savings, a number of factors come into play, but chief among them is the need to replace poor performing or outdated equipment in order to increase sales. These purchases are vital to generating sales, but they also increase capital spending.

6. **WHAT NEEDS TO BE DONE**

The Lottery will continue to move forward and build on proven successful strategies while adapting to meet new challenges.

7. **ABOUT THE DATA**

The Oregon Lottery® is on a fiscal year, accrual based accounting cycle. The data, collected and maintained by the Lottery's Finance and Accounting section, is reliable, and is subjected to multiple audits.

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KPM #2	LOTTERY'S ADMINISTRATIVE EXPENSES AS A PERCENTAGE OF SALES	Measure since: 2002
Goal	Maximum profits for the people of Oregon.	
Oregon Context	The primary mission of the Oregon Lottery® is to maximize revenue for the people of Oregon commensurate with the public good.	
Data source	Audited financial reports of the Oregon Lottery.®	
Owner	Kathy Ortega, Chief Financial Officer, (503) 540-1308.	

1. **OUR STRATEGY**

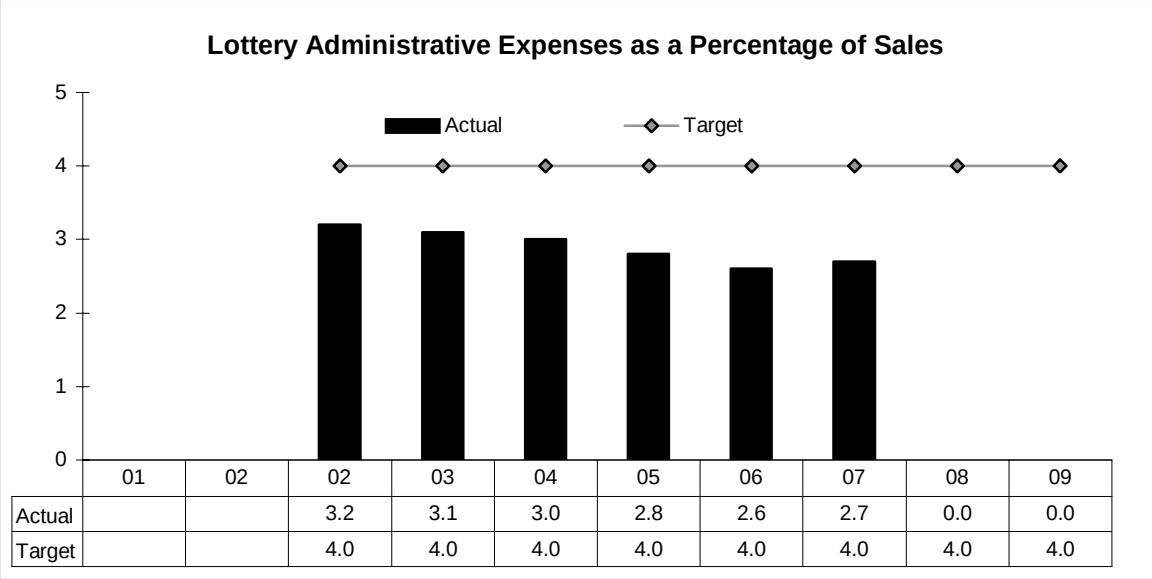
As part of its mission to maximize revenue for the people of Oregon commensurate with the public good, the Oregon Lottery® endeavors to control administrative expenses in order to be able to transfer more money for other essential state programs.

The Lottery accomplishes this mission through fiscal responsibility, tight budget controls, and business acumen.

2. **ABOUT THE TARGETS**

The Oregon Constitution mandates that the annual administrative expenses of the Lottery not exceed 16% of total annual revenues from the sale of all Lottery tickets and shares.

The lower the data point, the more money the Lottery is able to transfer due to decreased administrative expenses of the Lottery.



	01	02	02	03	04	05	06	07	08	09
Actual			3.2	3.1	3.0	2.8	2.6	2.7	0.0	0.0
Target			4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0

3. **HOW WE ARE DOING**

Despite having a constitutional spending cap of 16%, the Lottery budgets its administrative expenses for less than 4% and rarely even exceeds 3%.

Based on this ongoing performance, the Lottery continues to do extremely well. Lottery has consistently kept its expenses below the 4% target.

4. **HOW WE COMPARE**

Based on virtually any standard of comparison, public or private enterprise, the Lottery compares very favorably.

5. **FACTORS AFFECTING RESULTS**

One of the largest single factors affecting this category is the cost of replacing outdated Lottery equipment, particularly Video Lottery℠ equipment. Video Lottery℠ terminals are expensive, and because the Lottery has over 11,000 of them, the replacement cost of aging and obsolete terminals is substantial, but replacement is necessary for continuing sales growth.

Failure to keep pace with equipment replacement, while saving administrative expenses, can result in decreased sales, eventually culminating in decreased profits and transfers. Lottery has greatly increased transfers by investing in new Video Lottery℠ terminals this past year.

6. **WHAT NEEDS TO BE DONE**

The Lottery will continue to move forward and build on proven successful strategies while adapting to meet new challenges.

7. **ABOUT THE DATA**

The Oregon Lottery® is on a fiscal year, accrual based accounting cycle. The data, collected and maintained by the Lottery's Finance and Accounting section, is reliable, and is subjected to multiple audits.

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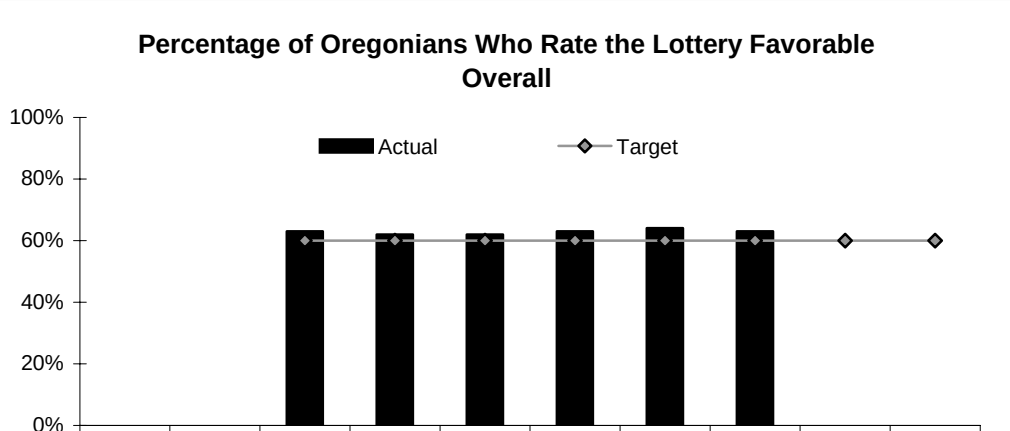
KPM #3	THE PERCENTAGE OF OREGONIANS WHO RATE THE LOTTERY FAVORABLY OVERALL	Measure since: 2002
Goal	Integrity – Public Trust.	
Oregon Context	Favorable perception of the Oregon Lottery® by Oregonians enables the Lottery to continue to operate and fulfill its mission.	
Data source	Public Survey.	
Owner	Carole Hardy, Assistant Director of Marketing, (503) 540-1030.	

1. **OUR STRATEGY**

The Lottery's strategy is to perform in a manner that assures Oregonians that the Oregon Lottery® is continually working hard to maintain the fairness, integrity, security, and honesty of the Lottery and its games, and to maximize profits for the public purpose commensurate with the public good.

2. **ABOUT THE TARGETS**

It is very important that Oregonians, who were responsible for voting in the Lottery, maintain a favorable image of the Lottery. Confidence in the way the Lottery conducts its business, knowing how Lottery profits benefit the state, and knowing how the Lottery proactively deals with problem gambling issues are major factors contributing to an overall positive public perception. The higher the data point, the better the result for the Lottery and the State of Oregon.



	00	01	02	03	04	05	06	07	08	09
Actual			63%	62%	62%	63%	64%	63%	0%	0%
Target			60%	60%	60%	60%	60%	60%	60%	60%

3. **HOW WE ARE DOING**

Considering that a percentage of Oregonians are opposed to gaming of any kind, the fact that 64% of Oregonians rate the Lottery favorably is an impressive statistic which has held steady over the past five years.

4. **HOW WE COMPARE**

The best comparison to be made would be with other State of Oregon agencies. However, since the Lottery is unique in that its primary mission is to earn profits versus providing some form of government service, a valid comparison would be difficult to make.

5. **FACTORS AFFECTING RESULTS**

Much of what Oregonians know about the Lottery comes to them through the media. Thus, what and how the media chooses to report about the Lottery is significant and can influence public opinion. The Lottery conducts public information outreach programs to educate Oregonians

about the Lottery, how it operates, how Lottery profits benefit Oregonians, and to educate the public about problem gambling and how to receive treatment for those in need.

6. **WHAT NEEDS TO BE DONE**

When all factors are considered, the Lottery is doing extremely well in this category and has done so consistently for several years. As a result, the Lottery will continue to move forward and build on proven successful strategies while adapting to meet new challenges. We will continue to monitor this biannually to ensure we are meeting or exceeding our target.

7. **ABOUT THE DATA**

Every six months, the Infotek Research Group, a market research provider contracted by the Oregon Lottery,® conducts a tracking study among 1,000 Oregonians aged 18 or older. The data gathered for the study was obtained by using the "Random Digit Dial" sampling method. The confidence level for the study is 95% and there is a margin of error of plus or minus 3.1%.

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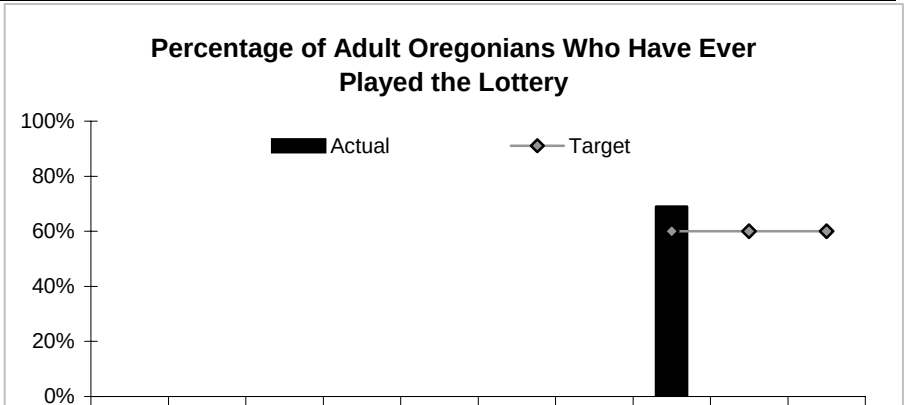
KPM #4	THE PERCENTAGE OF ADULT OREGONIANS WHO HAVE EVER PLAYED THE LOTTERY	Measure since: 2007
Goal	Customer and Stakeholder Satisfaction.	
Oregon Context	Game appeal is linked to higher sales which in turn are linked to maximizing revenue.	
Data source	Player survey information.	
Owner	Carole Hardy, Assistant Director of Marketing, (503) 540-1030.	



	00	01	02	03	04	05	06	07	08	09
Actual								69.0%	0.0%	0.0%
Target								60%	60%	60%

1. **OUR STRATEGY**

The Lottery's strategy is to: 1. Introduce new and improved games that continue to hold the interest of its long-time players and attract an emerging gaming audience; 2. Implement marketing programs that do the same; and 3. Provide good customer service.

In addition to its own staff, Lottery depends even more on its retailers to provide good customer service. In addition, the Lottery works closely with various gaming vendors, research companies, and advertising agencies to accomplish its overall marketing goals.

2. **ABOUT THE TARGETS**

Lottery seeks to maintain its appeal among a majority of adult Oregonians while constantly working to penetrate new markets. A higher data point represents a more favorable result for the Lottery and the State of Oregon.

3. **HOW WE ARE DOING**

This is a new measure for the Lottery, adopted by the Commission, and this is the first year of data.

4. **HOW WE COMPARE**

Approximately two-thirds of adult Oregonians have ever played the Oregon Lottery. This measurement is unique to the Lottery. As a result, there is nothing similar in Oregon to which it can be compared.

5. **FACTORS AFFECTING RESULTS**

The results are accurate within the design parameters of the survey.

6. **WHAT NEEDS TO BE DONE**

The Lottery plans to continue bringing in new Video Lottery^{SM} terminals and games, as well as traditional games that will appeal to a broader percentage of adult Oregonians.

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7. **ABOUT THE DATA**

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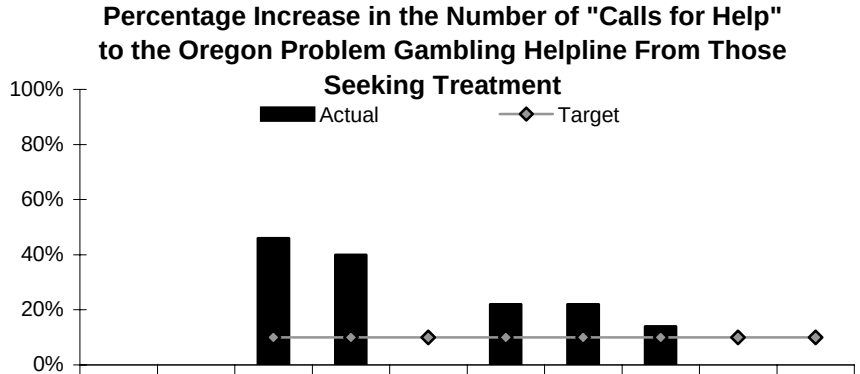
KPM #5	PERCENTAGE INCREASE IN THE NUMBER OF "CALLS FOR HELP" TO THE OREGON PROBLEM GAMBLING HELPLINE FROM THOSE SEEKING TREATMENT	Measure since: 2002
Goal	Integrity – Public Trust and Public Good – Civic Benefit.	
Oregon Context	While seeking to maximize profits for the state commensurate with the public good, it is vital to consider and offset any negative consequences that might ensue.	
Data source	Data obtained from the Department of Human Services and local treatment centers.	
Owner	Carole Hardy, Assistant Director of Marketing, (503) 540-1030.	

1. **OUR STRATEGY**

In cooperation with the Department of Human Services (DHS), the Oregon Lottery® seeks to educate those players with potential or actual problem gambling issues to the warning signs and treatment resources available to them.

2. **ABOUT THE TARGETS**

In conjunction with DHS, the Lottery has set an annual target of an increase of 10% in the number of calls for help by problem gamblers seeking treatment. The purpose of the target is to measure the effectiveness of Lottery's efforts to communicate information to Oregonians about how to seek treatment. Treatment effectiveness remains a DHS target.



	00	01	02	03	04	05	06	07	08	09
Actual			46%	40%		22%	22%	14%	0%	0%
Target			10%	10%	10%	10%	10%	10%	10%	10%

Since many people in need do not reach out for help, the goal of the Lottery's efforts is to reach more of those people in need and to encourage them and their families to call to seek help. As a result, the higher the data point, the more positive the result is for Lottery and the State of Oregon.

3. **HOW WE ARE DOING**

The Lottery reworded this goal to add clarity to what was being measured. The Lottery exceeded its target.

4. **HOW WE COMPARE**

Because efforts at addressing problem gambling are so varied across the country and around the world, it is difficult to make a valid comparison. However, Oregon's problem gambling program is recognized as a model program by leaders in the U.S. problem gambling community.

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5. **FACTORS AFFECTING RESULTS**

Factors affecting results include: The effectiveness of the Lottery's advertising messages and outreach programs, the retailers' cooperation in assisting to get the message out at their level, and the data collection capabilities of DHS.

6. **WHAT NEEDS TO BE DONE**

The Lottery will continue to move forward and build on proven successful strategies while adapting to meet new challenges.

7. **ABOUT THE DATA**

The data is obtained from DHS which, through a third party contractor, is responsible for handling calls seeking treatment. The information is deemed to be highly reliable. More detailed information can be obtained through DHS.

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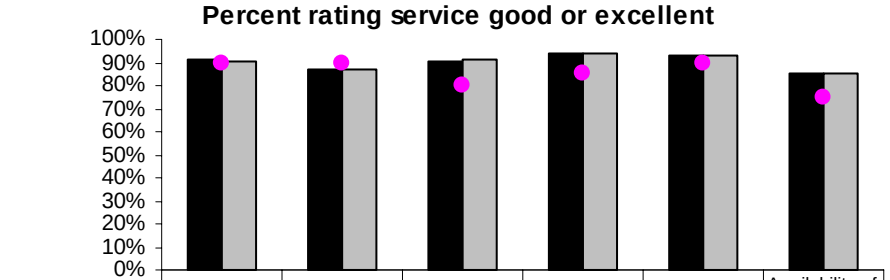
KPM 6	CUSTOMER SERVICE : Percent of customers rating their satisfaction with the agency's customer service as "good" or "excellent": overall, timeliness, accuracy, helpfulness, expertise, availability of information	Measure since: 2006
Goal	Customer and Stakeholder Satisfaction.	
Oregon Context	Favorable perception of the Oregon Lottery® by Oregonians enables the Lottery to continue to operate and fulfill its mission.	
Data source	Customer service surveys.	
Owner	Tim Eaton, Assistant Director of Retail Operations, (503) 540-1101. Carole Hardy, Assistant Director of Marketing, (503) 540-1030.	

1. **OUR STRATEGY**
   In order to measure different levels of customer service, the Lottery sent questionnaires to several thousand Lottery retailers to solicit their responses. Retailers represent the Lottery's customer base.

2. **ABOUT THE TARGETS**
   The targets were developed through the Department of Administrative Services for use by all reporting state agencies.

3. **HOW WE ARE DOING**
   The results are that the Lottery was rated good or excellent by over 80% of the retailers responding to the survey for each category listed in the adjacent chart. This is the second time the Lottery has responded to this measurement.



	Overall	Timeliness	Accuracy	Helpfulness	Expertise	Availability of Information
2006	914%	86.6%	90.7%	94.0%	93.3%	85.6%
2007	90.8%	87.0%	90.9%	94.2%	93.1%	85.1%
2007-09 Target	90.0%	90.0%	80.0%	85.0%	90.0%	75.0%

4. **HOW WE COMPARE**
   The Lottery will be able be make a valid comparison to other State of Oregon agencies once all the data regarding these measurements is submitted by other agencies.

5. **FACTORS AFFECTING RESULTS**
   The quality of Lottery's employees, competency, training, and responsiveness to customer issues are the major factors affecting the results.

6. **WHAT NEEDS TO BE DONE**
   The Lottery will continue to move forward and build on proven successful strategies while adapting to meet new challenges.

7. **ABOUT OUR CUSTOMER SERVICE SURVEY**
   The Lottery sent its 2007 Retailer Survey to all 3,640 Lottery retailers of which 1035 were returned for a response rate of 28.4%.

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Alternate: Larry Trott, Senior Rules and Policies Analyst	Phone: (503) 540-1046

The following questions indicate how performance measures and data are used for management and accountability purposes.	
1 INCLUSIVITY Describe the involvement of the following groups in the development of the agency's performance measures.	• **Staff:** Lottery staff in conjunction with the Oregon State Lottery Commission developed the performance measures based on Lottery established goals and targets in the Lottery's Business Plan and Strategic Plan. • **Elected Officials:** The Lottery's performance measures have always been shared with elected officials including the Governor and state senators and representatives. • **Stakeholders:** The Lottery's performance measures reflect input from its major stakeholders including its players and its retailers. • **Citizens:** The Lottery's performance measures reflect input from its major stakeholders, including the citizens of Oregon.
2 MANAGING FOR RESULTS How are performance measures used for management of the agency? What changes have been made in the past year?	The Lottery manages to the goals and performance measures established in its Commission-approved Business Plan and Strategic Plan. Results are tracked and reported to the Lottery Commission. The Lottery Commission deleted four outdated or duplicative measures, modified two, and then renumbered all of its performance measures. A business plan was developed to continue to outperform prior projections.
3 STAFF TRAINING What training has staff had in the past year on the practical value and use of performance measures?	Lottery training has been on-the-job using the resources available on-line through the Internet, and in meetings with the Progress Board.
4 COMMUNICATING RESULTS How does the agency communicate performance results to each of the following audiences and for what purpose?	• **Staff:** Performance measurement results are posted on the Lottery's web-site. • **Elected Officials:** Performance measurement results are reported annually to the Lottery Commission. Sales results are reported monthly to the Lottery Commission and to state officials. Each legislative session, results are presented to the Representatives and Senators. • **Stakeholders:** Performance measurement results are posted on the Lottery's web-site. • **Citizens:** Performance measurement results are posted on the Lottery's web-site. • The Lottery communicates these results to the public through various mediums and its web-site. In addition, the Lottery also uses newsletters, field staff, and other direct means to communicate with retailers. Elected officials are informed via personal correspondence or meetings with Lottery staff.