



CHIEF FINANCIAL OFFICER
JIMMY PATRONIS
STATE OF FLORIDA

May 13, 2019

Mr. Jim Poppell, Secretary
Florida Department of the Lottery
250 Marriott Drive
Tallahassee, Florida 32301

Dear Secretary Poppell:

As authorized in ss. 17.03, 24.120(4), 215.971(3), and 287.136, Florida Statutes (F.S.), the Department of Financial Services has conducted an audit of the Florida Department of the Lottery's contract deliverables monitoring processes and selected contracts. Our audit, conducted by the Division of Accounting and Auditing, Bureau of Auditing, focused on the Lottery's monitoring of its advertising agreement with PP+K, Inc., during the period January 1, 2018 through March 31, 2019.

Pursuant to ss. 215.971(3) and 287.136, F.S., please provide within 30 days the Department's response to the findings presented in the enclosed audit report. If you have any questions, please contact Ms. Kim Holland, Bureau Chief, at (850) 413-5700 or kim.holland@myfloridacfo.com.

We appreciate the support and courtesy extended to our audit team. Completed reports of the Bureau of Auditing are available at <https://www.myfloridacfo.com/Division/AA/AuditsReviews/default.htm>.

Sincerely,

A black rectangular redaction box covering the signature of Paul Whitfield.

Paul Whitfield

PW/jf
Enclosure

c: Mr. Andy Mompeller, Inspector General

FLORIDA DEPARTMENT OF FINANCIAL SERVICES

Paul Whitfield • Director

Division of Accounting and Auditing

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**JIMMY PATRONIS
CHIEF FINANCIAL OFFICER
STATE OF FLORIDA**

Florida Department of Financial Services

**STATUTORY AUDIT
CONTRACT DELIVERABLES MONITORING
FLORIDA DEPARTMENT OF THE LOTTERY**

May 13, 2019

AUDIT AUTHORITY

The Department of Financial Services has performed an audit of the Florida Department of the Lottery's (Lottery) contract deliverables monitoring processes for selected contracts. Authority for this audit is provided by sections 17.03, 24.120(4), 215.971(3), and 287.136, Florida Statutes (F.S.). Our audit focused on the Lottery's monitoring of its advertising agreement with PP+K, Inc., during the period January 1, 2018 through March 31, 2019.

THE PP+K, INC., ADVERTISING AGREEMENT

The Legislature, in s. 24.107, F.S., has recognized the need for extensive and effective advertising and promotion of lottery games. Also, s. 24.105, F.S., authorizes the Lottery to enter into contracts for such goods and services as are necessary for the operation and promotion of the state lottery.

Currently, the Lottery's general advertising services are procured through an agreement with PP+K, Inc. (PP+K), entered in September 2016 based on an Invitation to Negotiate (ITN) for "General Market Advertising & Related Commodities and Services." This agreement is primarily a cost-reimbursement contract for the advertising services provided, with PP+K being paid an annual vendor fee of 8.25 percent of the budgeted costs. This vendor fee compensates PP+K for the successful performance of the deliverables (minimum acceptable levels of service) prescribed in the ITN. These deliverables generally address monitoring processes, including control reports and meetings, that would assist Lottery management in understanding the progress, ongoing planning, and execution of its contracted advertising programs.

DELIVERABLES MONITORING

The measure of a contract monitoring process is the extent to which it reliably demonstrates the completion of required deliverables and whether all expenditures for the contract period were incurred and allowable for the purposes of the agreement. For advertising agency services, the monitoring process should ensure that the services are provided consistent with the agreed-upon terms for advertising program execution, production, media delivery, etc.

For the PP+K agreement, we evaluated the Lottery's monitoring processes for the vendor fee and associated contracted deliverables (minimum acceptable levels of service) and the reimbursement of invoiced advertising services such as television and radio advertising placements. We also reviewed the Lottery's monitoring processes regarding media placements and market reach (delivery of media to the target audience) and PP+K's conveyance of available cost savings and discounts. Within the Lottery, the Division of Brand Management has primary responsibility for these monitoring processes.

- Brand Management maintains a monthly advertising budget breakdown outlining the annual forecast expenditures for the Lottery's advertising programs. For the 2018-19 fiscal year, the annual forecast totaled \$38 million, including \$35.2 million for reimbursements for advertising services obtained under the PP+K agreement. For the vendor fee, invoiced monthly by PP+K, the Lottery uses the current forecast expenditures to calculate the vendor fee (about \$2.9 million annually).

For the associated deliverables for which the vendor fee provides compensation, Brand Management, for the 2018-19 fiscal year, has developed a Master Monitoring Plan which includes the deliverables detailed in the ITN's Attachment A, Special Terms and Conditions, and provides links to supporting documentation maintained via electronic storage. For example, the Att. A, Sec. 1.6.1, requirement for quarterly media and advertising plans is shown as complete and reviewed and is linked to digital documents. Similarly, the Att. A, Sec. 1.6.6.3, requirement that PP+K maintain current flowcharts for all media is linked to the submitted flowcharts. Brand Management personnel indicated extensive reliance on these flowcharts in monitoring media buys against the annual media plans, campaign estimates, etc.

Brand Management personnel demonstrated a notable hands-on knowledge of PP+K's progress in meeting the required deliverables. Also, the Master Monitoring Plan, via its internal links, provides access to the various reports required by the ITN's deliverables and to summaries of meetings with PP+K regarding planning, campaign execution, production, media delivery, etc.

- ITN Att. A, Sec. 1.6.6.2, provides that PP+K must audit and verify all media outlets. For media campaign/estimate planning, the Lottery and PP+K jointly rely on market data provided by Nielsen (a media information, data, and measurement company) to evaluate the market reach of the contracted media outlets and conduct post-buy analyses.

For media placement verification, ITN Att. A, Sec. 1.6.6.4, states that PP+K must ensure that all media is published according to any contracts or placement instructions and must provide any placement verification requested by the Lottery. For television and radio advertising placements (the primary cost-reimbursement item), PP+K submits summary invoices (reimbursement requests) with line-item amounts for each media outlet participating in the media campaign/estimate. The Lottery requires that these line-item amounts be further supported by media outlet statements detailing the placement of all invoiced advertising. For all summary television and radio invoices reviewed, the Lottery invoice documentation included the approved media campaign estimates and the required media outlet statements.

Brand Management personnel indicated that should concerns arise regarding specific media outlets or placements, the Lottery would require PP+K and the media outlet to provide further proof of the media placement. Brand Management personnel also described several standard marketing data analyses utilized by PP+K to provide assurances as to media delivery, such as broadcast ratings for television and radio advertising, impressions made through out-of-home advertising (e.g., bulletins and gas station television), and impressions made through digital (social media) placements.

- An advertising agency/partner such as PP+K should have relationships, experience, and buying power in the media advertising markets that would provide cost savings and discounts to the Lottery. Pursuant to ITN Att. A, Sec. 1.6.6.1, PP+K is responsible for providing to the Lottery any applicable savings or discounts. Brand Management personnel indicated the potential cost savings and discounts available to PP+K are evaluated as a part of the annual budgeting and planning process and when planning individual advertising campaigns, including the proposals obtained from the various television and radio partners. Such evaluations were based on PP+K reports and records such as negotiations summary reports and rate comparisons.

We commend the Division of Brand Management on developing monitoring processes that provide assurances that the advertising services obtained under the PP+K agreement are being provided consistent with the ITN's deliverables and the agreed-upon terms for program execution, production, media delivery, etc.

DEPARTMENT OF THE LOTTERY RESPONSE

The Department's response to the findings in this report is attached.

Direct inquiries regarding this report to Kim Holland, Bureau Chief, at (850) 413-5700 or kim.holland@myfloridacfo.com. Completed reports of the Division of Accounting and Auditing, Bureau of Auditing, are available at <https://www.myfloridacfo.com/Division/AA/AuditsReviews/default.htm>.

RON DESANTIS
Governor



JIM POPPELL
Secretary

May 22, 2019

Paul Whitfield, Director
Division of Accounting and Auditing
Florida Department of Financial Services
200 East Gaines Street
Tallahassee, Florida 32399-0393

Dear Mr. Whitfield:

Thank you for the opportunity to respond formally to your office's audit of the Lottery's contract deliverables monitoring processes and selected contracts that focused on our advertising agreement with PP+K, Inc., from January 1, 2018 to March 31, 2019. This contract is managed by the Division of Brand Management within the Florida Lottery.

The Division welcomed the review and made themselves available to staff to ensure the most accurate and complete information was provided. They also worked to answer questions and clarify information whenever necessary. It was a team effort on both parts, and we appreciate your staff and the thorough review they conducted.

Overall, the final audit report commended the Division on the monitoring processes they have established to assure the advertising services received are consistent with the deliverables and terms of our agreement with PP+K, Inc. The Department strives to exceed expectations and to be prudent stewards of Florida taxpayers' dollars. I am pleased this audit reflects the Division's focus and commitment to both.

I thank you again for the opportunity to respond and for your staff's comprehensive review of the Division's monitoring processes. We look forward to working together in the future.

With all good wishes,

A black rectangular redaction box covering the signature of Jim Poppel.

Jim Poppel
Secretary

cc: Samantha Ferrin, Chief of Staff
Amber Seale, Brand Management Director
Andy Mompeller, Inspector General