

Lottery Organizational Task Force Report



January 10, 2005

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INTRODUCTION

The 2004 Legislature created a Lottery Organization Task Force “to study and make recommendations regarding the future organization and profitability of the State Lottery.”¹ (See Appendix A for the full text of the legislation.) This legislation followed the release of a Legislative Audit that recommended consideration of several organizational and oversight options for the Lottery. This document presents the Task Force’s findings and recommendations.

Two of the Task Force members were appointed by the Governor, two by the Majority Leader of the Senate, and two by the Speaker of the House. The Commissioners of Finance and Natural Resources and the Lottery Director were members by reason of office. The members are:

Mary Choate	Citizen member
Bill Haas	State Representative
Clint Harris (Chair) (beginning 10/11)	Lottery Executive Director
Peggy Ingison	Commissioner of Finance
Debbie Johnson	State Senator
Phyllis Kahn	State Representative
Gene Merriam	Commissioner of Natural Resources
Craig Shaver	Citizen member
Mike Vekich (Chair) (through 10/10)	Acting Lottery Director
Jim Vickerman	State Senator

Legislative Auditor James Nobles attended most of the meetings and served as an advisor to the Task Force.

The Task Force was given two charges. First, it was to consider whether the Lottery should be part of another state agency, be accountable to a new oversight board or commission, continue under its current structure, or operate under some other alternative structure. Second, the Task Force was asked to consider the feasibility and desirability of measurable performance goals for the Lottery.

The Task Force was encouraged in the legislation to consult with the Commissioner of Public Safety, Commissioner of Revenue, and chair of the Citizens Advisory Committee to the Legislative Commission on Minnesota Resources (CAC). Acting Lottery Director Mike Vekich met with Public Safety Commissioner Michael Campion on September 23, 2004, Revenue Commissioner Dan Salomone on September 13, 2004, and CAC chair Nancy Gibson on September 9, 2004. Acting Director Vekich relayed their comments and concerns to the Task Force.

CURRENT LOTTERY GOVERNANCE

The Minnesota State Lottery is currently an independent state agency (not considered part of the Governor’s cabinet) with a director appointed by and serving at the pleasure of the governor with the advice and consent of the Senate. The Lottery does not receive a legislative appropriation, but is required to submit a biennial budget plan to the Legislature and the Department of Finance. The Governor, as part of his budget recommendation, recommends a maximum amount that the Lottery be permitted to spend on operating and capital expenses (not including prizes, compensation to lottery retailers, the cost of producing and distributing scratch tickets, and the cost of operating and maintaining an online gaming system). The Legislature must approve the maximum amount available for operating and capital expenses.² While the Lottery began its existence in 1990 with an advisory board, this board was abolished by the Legislature in 1995.

¹ Laws 2004, Chapter 233, Sec. 5, Subd. 1

² Prior to the 2004 session, the Director was appointed by the Governor but could only be removed for cause. Prior to the 2003 session, lottery expenditures were constrained only by a requirement that they be less than 15 percent of net revenue.

LOTTERY ORGANIZATION IN THE U.S.

Lottery staff conducted a survey of the governance structures of the other 39 lottery states. Thirty-five states responded to the survey. In some cases, information on the non-responding states could be obtained from other sources.³

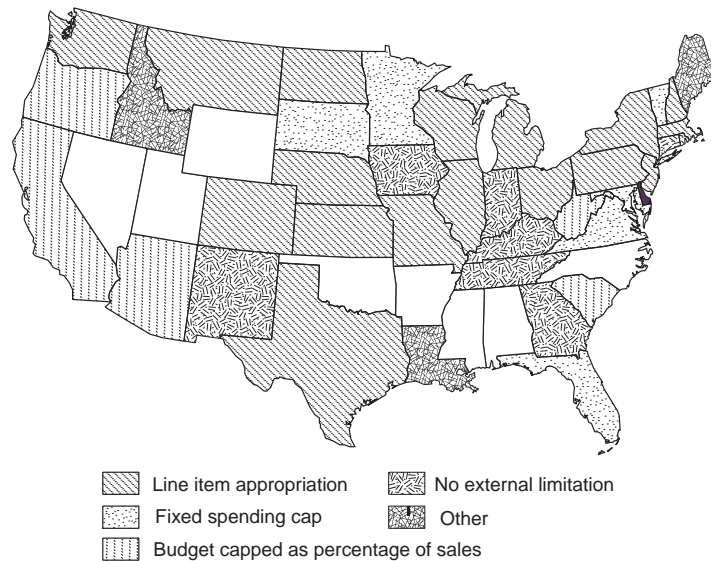
Structure: In 17 of the states surveyed, the lottery is an independent agency separate from the executive branch (including Minnesota). The degree of independence varies. Those with the greatest independence function as publicly-held corporations similar to port authorities. Those with less independence (such as Minnesota) function with greater autonomy than executive branch agencies but are still subject to civil service, procurement, and other requirements from which publicly-held corporations are often exempt.

The next most common model, found in 14 states, makes the lottery a division of another executive branch agency. Of these states, all but four make it part of the state agency responsible for the collection of taxation. The Montana Lottery is part of their Department of Administration, the Maine State Lottery is part of the Bureau of Alcoholic Beverages and Lottery Operations, the North Dakota Lottery reports to their Attorney General and the Massachusetts Lottery to their State Treasurer.

In most cases, however, the lottery functions with considerable independence from the parent agency. Four states reported that the relationship with their parent agency exists only on paper and that the lottery is in practice independent. In six states, some administrative functions are shared with the parent agency, but strategic and operational decisions are made independently. In only two cases (Illinois and North Dakota) did the lottery report that the parent agency makes major strategic decisions.

Nine states operate their lottery as an executive branch agency.

Lottery Budget Systems



Board: Thirty-one states have some form of board or commission. Of the nine that do not, seven are part of a parent state agency. The remaining two (Florida and Minnesota) previously had boards that were abolished by their legislatures. Twenty-four boards make policy, seven are advisory only, and two have policy-making authority in limited areas only.⁴

³ Georgia, Massachusetts, Maine, and Tennessee did not respond to the survey.

⁴ In Arizona, for example, the board has the authority to approve contracts, but serves in an advisory capacity in all other areas.

Boards range in size from three to 13. In 23 states board members are appointed by the governor; legislative confirmation is required in 12 of these. In two additional states the governor shares appointing authority with other public officials. Seventeen states specify some qualifications for board members. These include:

- Limitations on the number from any one political party,
- Requirements that certain geographic areas of the state must be represented,
- Requirements that certain occupations be represented.

The most common occupational requirements include experience as an attorney, certified public accountant, or law enforcement professional. Others include marketing experience, retail experience, computer expertise, experience with problem gambling issues, or private sector management experience.

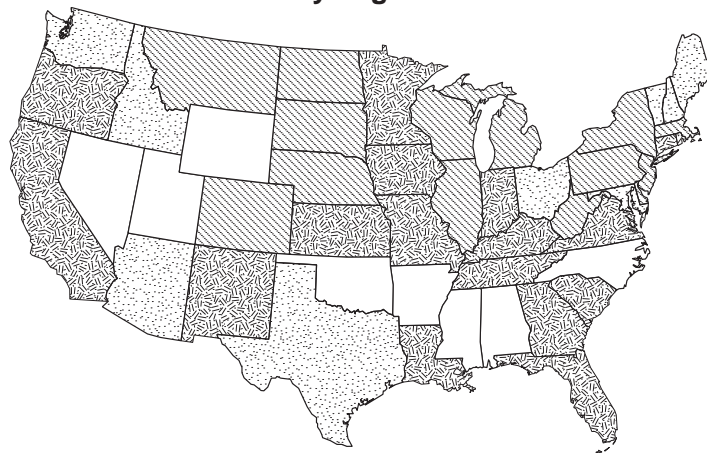
In all states but Connecticut board members serve fixed terms, with three-, five-, or six-year terms being common. These terms are typically staggered so the entire board is not replaced at once.

Lottery director: The lottery director is appointed by the governor in 23 states. However, in six states the director must meet certain qualifications established in law. Legislative confirmation of the director is common. The lottery board makes the appointment in nine states (typically those organized as publicly-held corporations). Two directors are appointed by the heads of the lottery’s parent agency, one (North Dakota) by the Attorney General, and one (Massachusetts) by the State Treasurer. In 20 states the director serves at the pleasure of the governor, in eight at the pleasure of the board, and in one at the pleasure of the Attorney General. Three directors may be terminated only for cause, while one director (Colorado) is part of the classified civil service.

Budget: The degree to which lottery budgets receive legislative scrutiny varies greatly. Twenty-eight states require some degree of legislative approval. The legislature makes at least a partial line item appropriation in 17 states. Five states cap the lottery’s budget as a percentage of sales, and a fixed dollar spending cap is established in six states, including Minnesota. Exemption of items relating to the “cost of goods sold” (such as the cost of scratch tickets) is common.

In eight states there are no legislative restrictions on the lottery’s operating budget. These states are publicly-held corporations where the director proposes a budget that is approved by the board. A ninth state (Louisiana) requires that a fixed percentage of sales must be returned to the state treasury, but the lottery is free to allocate all remaining revenue between prizes, retailer payments, and operating expenses as it sees fit.

Lottery Organization



Part of other agency (14)
 Exec. branch agency (9)
 Independent agency (17)

Trends: Most recently established lotteries (such as Tennessee and South Carolina) have adopted the public corporation model. Several states with established lotteries, such as Connecticut and Iowa, have moved from more traditional state agencies to public corporations. Two states in recent years (Illinois and South Dakota) have gone from being a separate organization to become part of a larger state agency.

Performance goals: Every lottery (including Minnesota) prepares a forecast of expected revenue that the state can use in preparing its budget. These forecasts can and do serve as one type of performance goal. Many other potential goals exist, such as sales, sales growth, public opinion, retailer satisfaction, number of retailers, reduced administrative expenses, per capita sales compared with other states, and public participation.

However, the specific performance goal cited in legislative debate is the percentage of lottery revenue that is returned to the state. Several lotteries have been required by law to return specified percentages to their state. In recent years, though, some legislatures have reviewed and repealed this requirement or similar requirements that seek to maximize percentage return to the state by limiting prize payouts. Often removal of these requirements has resulted in higher overall revenue to the state even though the percentage going to the state has declined. To the knowledge of lottery staff, only three states still have a legal requirement for a minimum percentage to be returned to the state: California, Kansas, and Louisiana. The Kansas legislature, however, has given the lottery one-year exemptions from the requirement for each of the last few years and is considering making the exemption permanent.

FINDINGS AND RECOMMENDATIONS

I. The Lottery differs in significant ways from most state agencies.

The Lottery does not exist to provide a service but to raise revenues. Unlike the Department of Revenue, it cannot rely on the force of law to collect this revenue. No citizen is required to buy a lottery ticket and no retailer is required to sell them. Further, lottery products must compete in the marketplace with a wide range of goods and services sold by the private sector. Competitors range from other gambling options such as casinos and pull-tabs to impulse items sold at convenience stores to other entertainment options such as movie rentals. In order to respond quickly to a rapidly changing marketplace, the Lottery requires greater flexibility and freedom than is generally afforded other state agencies.

RECOMMENDATION: The Lottery should not be merged with an existing state agency. The Lottery's core mission is different enough from other agencies that a merger could potentially deprive the Lottery of needed flexibility and distract the parent agency from its mission.

RECOMMENDATION: The Lottery should continue to be exempt from certain restrictions imposed on other state agencies. While an overall spending limit is appropriate, line item appropriation would deprive the Lottery of necessary flexibility and potentially interject a political element into what should be business-driven decisions. In addition, certain Lottery purchases, such as advertising services and ticket production, are sufficiently unique to justify continued partial separation from the state procurement process.

RECOMMENDATION: The Lottery and the Department of Finance should continue to explore ways to improve the transparency and efficiency of the Lottery's financial records and reporting.

II. The Lottery has made great strides in accountability and fiscal responsibility.

The Lottery today is a very different organization than the one portrayed in the 2004 legislative audit. It has responded to all 49 audit recommendations, prepared and released its first-ever strategic and marketing plans, commissioned outside security and information systems audits, and overhauled internal controls and financial reporting. It has reduced its workforce by 25 percent since October, 2003, reduced office space by 33,000 square feet, and has imposed cost reductions averaging \$4.5 million in each of the next two fiscal years. Most importantly, in fiscal 2004 the Lottery's contributions to the state exceeded \$100 million for the first time.

RECOMMENDATION: The Lottery should continue its effort to be more accountable and fiscally responsible. While the Lottery has made significant progress toward accountability and fiscal responsibility, it needs to remain vigilant and continue to look for ways to cut costs and remain accountable.

III. There is a need for meaningful outside oversight of lottery operations.

While the Lottery must operate as a business, it is a public enterprise. Moreover, it is a public enterprise that handles a significant amount of the public's money: \$387 million in fiscal 2004. And its ability to generate revenues depends greatly on the public's perception of its benefits and integrity.

The recent legislative audit found that oversight of the Lottery had been lax and that revenues to the state had suffered as a result. More detailed oversight of lottery operations might have prevented the questionable spending, marketing, and operational decisions cited in the audit. While the practices cited in the audit have been addressed, additional steps need to be taken to ensure openness and accountability.

Oversight can come from many places and take on many forms. Certainly the executive and legislative branches of government have a role to play. The 2004 legislation requires greater review of the Lottery's budget and spending plans by the Legislature, Governor, and Department of Finance. Media scrutiny is also expected and appropriate. Compared to a private business, the Lottery has a far greater duty for its operations to be completely transparent to the public. Oversight, advice, and counsel can also come from outside traditional government processes. The boards of many lotteries exist in part to provide a private sector perspective on the Lottery's entrepreneurial mission. Recently the Acting Lottery Director convened a "blue ribbon task force" of private sector experts to review and advise on the Lottery's marketing plans and strategies.

While legislative oversight is critical, it is unrealistic to expect legislators to provide ongoing detailed review of lottery operations given the demands of other public policy issues. In addition, a properly constituted board can provide the private sector perspective needed by a "business in a government wrapper" like the Lottery. Finally, a board constitutes an ongoing public forum where the Lottery must present and justify its plans and activities.

RECOMMENDATION: The Legislature should establish a board to oversee the activities of the Minnesota State Lottery.

IV. Performance goals for the Lottery.

There has been considerable discussion as to whether there should be measurable performance goals for lottery proceeds and operations. The debate centers around whether it is appropriate to establish performance goals based on comparable state lottery performance. It is often difficult to compare performance from one state to another given the differences in the products offered and the markets in which the lottery must operate, but certainly the performance of other lotteries can be used as an indicator of the effectiveness of a lottery.

RECOMMENDATION: The Legislature should not establish measurable performance goals for lottery proceeds and operations; however the Director of the Lottery, in consultation with the Lottery Board, should include measurable performance goals in its annual strategic plan. The Lottery Board and Director should discuss and set target goals for Lottery performance based on performance in other states while at the same time taking into consideration the unique nature of the Lottery's market in Minnesota. While it may be difficult to compare one lottery to another, it is important for the Lottery to look to the performance of other lotteries as a guideline to its performance so that the Lottery can maximize the net proceeds for the general fund and the environment and natural resources trust fund. The Lottery should present any goals set and its progress toward those goals to the Governor and the Legislature.

V. The following provides the detail relating to implementation of the lottery board outlined above.

Draft legislation reflecting these proposed changes is included in Appendix B.

These recommendations cover the size of the Lottery Board, the qualification of its members, its organization, and its responsibilities. Based on the duties of this Board (based on the cost of similar type boards), the estimated annual expenditures of the Lottery would be increased by \$15,000 to \$20,000.

A. Board membership: The proposed Board will have seven members. For the Board to have proper oversight of the Lottery it must have members who have qualifications in specific areas. The Task Force recommends that one member must be an attorney, one member must be a CPA who is a financial expert, one member must have experience in marketing or advertising, one member must have retail management experience, and the remaining three must have either experience in managing complex businesses or have policy-making experience in the public sector. In order to ensure geographic diversity, at least three members must reside outside the Twin Cities seven-county metropolitan area. The Board would be appointed by the Governor with the advice and consent of the Senate. To ensure the integrity of the Lottery, there is a requirement that a person could not be a member of the Board if the person had been convicted of a felony, a crime involving fraud or misrepresentation, or a gambling-related offense.

B. Responsibilities of the Board: The Board will have oversight responsibility over the operation of Lottery which include, but are not limited to the following: (1) reviewing the Lottery's annual budget (2) reviewing proposed Lottery rules, (3) annually reviewing the Lottery's strategic and marketing plans, (4) reviewing the performance of the Lottery, (5) conducting an annual performance review of the Lottery Director, (6) reviewing the financial affairs of the Lottery, and (7) contracting for an annual audit of the Lottery.

C. Powers and Duties of the Lottery Director: The Lottery Director will have the power and duty to administer the Lottery on a day-to-day basis and be accountable for its operation.

Legislation Creating the Lottery Organization Task Force

LAWS 2004 Chapter 233-S.F.No. 2181

An act relating to the State Lottery; amending provisions relating to the director; providing for review and approval of lottery budget; creating a task force and requiring a report; amending Minnesota Statutes 2002, sections 15A.081, subdivision 8; 349A.02, subdivision 1; 349A.10, subdivision 6; 349A.15; Laws 2003, First Special Session chapter 1, article 1, section 23; repealing Minnesota Statutes 2002, section 349A.02, subdivision 2.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

Section 1. Minnesota Statutes 2002, section 15A.081, subdivision 8, is amended to read:

Subd. 8. [EXPENSE ALLOWANCE.] Notwithstanding any law to the contrary, positions listed in section 15A.0815, subdivisions 2 and 3, constitutional officers, ~~and~~ the commissioner of Iron Range resources and rehabilitation, ~~and the director of the State Lottery~~ are authorized an annual expense allowance not to exceed \$1,500 for necessary expenses in the normal performance of their duties for which no other reimbursement is provided. The expenditures under this subdivision are subject to any laws and rules relating to budgeting, allotment and encumbrance, preaudit and postaudit. The commissioner of finance may adopt rules to assure the proper expenditure of these funds and to provide for reimbursement.

Sec. 2. Minnesota Statutes 2002, section 349A.02, subdivision 1, is amended to read:

Subdivision 1. [DIRECTOR.] A State Lottery is established under the supervision and control of a director. The director of the State Lottery shall be appointed by the governor with the advice and consent of the senate. ~~The director must be qualified by experience and training in the operation of a lottery to supervise the lottery.~~ The director serves in the unclassified service at the pleasure of the governor. The annual salary rate authorized for the director is equal to 95 percent of the salary rate prescribed for the governor.

Sec. 3. Minnesota Statutes 2002, section 349A.10, subdivision 6, is amended to read:

Subd. 6. [BUDGET APPEARANCE; PLANS.] The director shall prepare and submit a biennial budget plan to the commissioner of finance. The governor shall recommend the maximum amount available for the lottery in the budget the governor submits to the legislature under section 16A.11. The maximum amount available to the lottery for operating expenses and capital expenditures shall be determined by law. Operating expenses shall not include expenses that are a direct function of lottery sales, which include the cost of lottery prizes, amounts paid to lottery retailers as sales commissions or other compensation, amounts paid to produce and deliver scratch lottery games, and amounts paid to an outside vendor to operate and maintain an on-line gaming system. In addition, the director shall appear at least once each fiscal year before the senate and house of representatives committees having jurisdiction over gambling policy to present and explain the lottery's budget plans for future games and the related advertising and promotions and spending plans for the next fiscal year.

Sec. 4. Minnesota Statutes 2002, section 349A.15, is amended to read: 349A.15 [REPORT.] The director shall file an annual report with the governor and legislature which must include a complete statement of lottery revenues, administrative and operating costs, capital expenditures, net proceeds transferred, and other financial transactions for the period the report covers.

Sec. 5. [LOTTERY ORGANIZATION TASK FORCE.]

Subdivision 1. [CREATION; MEMBERSHIP.] A Lottery Organization Task Force is created to study and make recommendations regarding the future organization and profitability of the State Lottery. The task force is composed of nine members, to be appointed as follows: (1) the commissioner of natural resources, or the commissioner's designee; (2) the commissioner of finance, or the commissioner's designee; (3) two members of the house of representatives, including one member of the minority caucus, both to be appointed by the speaker; (4) two members of the senate, including one member of the minority caucus, both to be appointed by the senate committee on committees; (5) the director of the State Lottery; and (6) two members to be appointed by the governor. The governor shall appoint one member of the task force as the chair.

Subd. 2. [CHARGE; REPORT.] (a) The task force shall examine the State Lottery and consider whether the State Lottery should: (1) become part of another existing state agency; (2) be accountable to an oversight board or commission to be created for that purpose; (3) continue under its current organizational structure; or (4) operate under other governance structures that provide appropriate oversight and accountability. (b) The task force shall also examine the feasibility and desirability of establishing measurable performance goals for lottery proceeds and operations. (c) The task force is encouraged to consult with the commissioner of public safety, the commissioner of revenue, and the chair of the Citizens' Advisory Committee for the Legislative Commission on Minnesota Resources. The task force shall submit a report with its findings and recommendations to the legislature and the governor by February 1, 2005.

Subd. 3. [SUNSET.] The task force expires upon the adjournment of the 2005 regular legislative session.

Sec. 6. Laws 2003, First Special Session chapter 1, article 1, section 23, is amended to read:

Sec. 23. [STATE LOTTERY.] Notwithstanding Minnesota Statutes, section 349A.10, the operating budget must not exceed \$43,538,000-\$27,419,000 in fiscal year 2004 and \$43,538,000-\$27,419,000 in fiscal year 2005 and thereafter. The savings must be transferred 60 percent to the general fund in the state treasury and 40 percent to the Minnesota environment and natural resources trust fund in the state treasury.

Sec. 7. [REPEALER.]

Minnesota Statutes 2002, section 349A.02, subdivision 2, is repealed.

Sec. 8. [EFFECTIVE DATE.]

This act is effective the day following final enactment. Sections 2 and 7 apply to the appointment of a director of the State Lottery made on or after January 1, 2004.

Presented to the governor May 15, 2004 Signed by the governor May 19, 2004, 1:40 p.m.

Proposed Legislation

Bill for an Act

relating to the state lottery, establishing a lottery board; amending Minnesota Statutes 2004, section 349A.01, by adding a subdivision; 349A.08, subdivision 7; 349A.11; 349A.14; and proposing new coding in chapter 349A.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

Section 1. Minnesota Statutes 2004, section 349A.01, is amended by adding a subdivision to read:

Subd. 1a. [BOARD.] "Board" means the state lottery board.

Sec. 2. [349A.011.] [LOTTERY BOARD.]

Subdivision 1. [ESTABLISHED.] There is created a state lottery board comprised of seven members appointed by the governor with the advice and consent of the senate.

Subd. 2. [BOARD MEMBERS.] Board members must be residents of the state of Minnesota and at least three members must reside outside the Twin Cities seven-county metropolitan area. At least one member must be an attorney licensed to practice law in Minnesota, at least one member must have demonstrable experience in marketing or advertising, at least one member must be a licensed certified public accountant who is qualified as a financial expert, at least one member must have demonstrable management experience in retail business, and the remaining three members must have demonstrable experience in managing complex business enterprises or have policy-making experience in the public sector. No person may be a member of the board who has been convicted of a felony, a crime involving fraud or misrepresentation, or a gambling-related offense.

Subd. 3. [TERMS, COMPENSATION] The terms, removal and compensation of board members shall be as provided in section 15.0575, except that board members shall serve a term of three years.

Subd. 4. [BOARD ORGANIZATION.]

(a) The board shall elect from their membership a chair and vice-chair at the first meeting following the beginning of each fiscal year.

(b) The board shall meet at least quarterly or at such other times at the call of the chair of the board.

(c) Notwithstanding chapter 13D, meetings of the board, or any committee of the board, that relate to the Lottery's security or information security, to evaluate the performance of the director may be closed to the public.

(d) The expenses of the board shall be paid by the lottery.

Subd. 5. [BOARD RESPONSIBILITIES.] The board has the responsibility to review the overall operation and performance of the lottery and make recommendations to the director regarding the operation of the lottery including identifying potential improvements that will assist the lottery in maximizing proceeds to the state and ensuring the integrity and public confidence in the lottery. The responsibilities of the board include, but are not limited to (a) reviewing the annual budget of the lottery, (b) reviewing proposed lottery rules, (c) conducting an annual performance review of the director, and (d) reviewing the financial affairs of the lottery.

Sec. 3. Minnesota Statutes 2004, section 349A.08, subdivision 7, is amended to read:

Subd. 7. [PAYMENTS PROHIBITED.] (a) No prize may be paid to the director ~~or~~, an employee of the lottery, member of the board, or a member of their families residing in the same household of the member, director, or employee. No prize may be paid to an officer or employee of a vendor which at the time the game or drawing was being conducted was involved with providing goods or services to the lottery under a lottery procurement contract.

(b) No prize may be paid for a stolen, altered, or fraudulent ticket.

Sec. 4. Minnesota Statutes 2004, section 349A.11, is amended to read:

349A.11. [CONFLICT OF INTEREST.]

Subdivision 1. [LOTTERY TICKET; RETAILER.] The director, an employee of the lottery, a board member, a member of the immediate family of the director, ~~or~~ employee, or board member residing in the same household may not:

(1) purchase a lottery ticket; or

(2) have any personal pecuniary interest in any vendor holding a lottery procurement contract, or in any lottery retailer; or

(3) receive any gift, gratuity, or other thing of value, excluding food or beverage, from any lottery vendor or lottery retailer, or person applying to be a retailer or vendor, in excess of \$100 in any calendar year.

Subd. 2. [GIFTS.] The director ~~or~~, an employee of the lottery in the unclassified service, or a board member, may not accept a gift the acceptance of which by an official would be prohibited by section 10A.071.

Subd. 3. [PENALTY.] A violation of subdivision 1, clause (1), is a misdemeanor. A violation of subdivision 1, clause (2), is a gross misdemeanor. A violation of subdivision 1, clause (3), is a misdemeanor unless the gift, gratuity, or other item of value received is in excess of \$500, in which case a violation is a gross misdemeanor.

Subd. 4. [FUTURE EMPLOYMENT.] The director or, an unclassified employee of the lottery, or a board member may not, within two years of terminating employment with the lottery or terminating membership on the board, represent any person, corporation, or entity before the lottery. A violation of this ~~paragraph~~ subdivision is a misdemeanor.

Sec. 5. Minnesota Statutes 2004, section 349A.14, is amended to read:

[349A.14.] [AUDIT.]

The ~~director~~ the board shall contract for an annual certified audit of all accounts and transactions of the lottery, including but not limited to an audit of the lottery's information security. The audit must be conducted in accordance with generally accepted accounting standards. The ~~director~~ board shall file a copy of each audit report of the lottery with the governor ~~and~~, the legislature, and the director. The board shall cooperate fully with any audit, evaluation, or investigation initiated by the legislative auditor.

Sec 6. [APPOINTMENT OF INITIAL LOTTERY BOARD MEMBERS.]

Of the initial members of the State Lottery board, three shall serve a term of three years, two shall serve a term of two years, and two shall serve a term of one year. The governor shall select the initial chair of the board who shall serve as the chair until the board elects the chair.

Sec 7. [EFFECTIVE DATE.]

This act is effective July 1, 2005.