

# Frequent Jackpot Winners: Lucky Players or Scammers?

By Dan Russell

The integrity and security of the gaming industry, be it casino, pari-mutuel wagering, lottery, or any other form of legalized and regulated gaming, is of the utmost importance for the future of our industry. Worst case scenarios always involve the public's identification of an issue that would lead customers to be unsure as to whether or not they can actually win the game they're playing. It's one thing to hear the age-old saying, "They don't build these pretty buildings by paying winners." It's quite another when customers genuinely believe that games are fixed or that they cannot possibly win and thus the chance of winning is no longer worth the wager.



The lottery industry in the United States has been legalized and regulated for multiple generations. Today forty-three states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands all offer government-operated lotteries and account for approximately \$80 billion in annual sales. Since the first lottery was founded in 1964, lotteries have raised more than \$200 billion for various government programs in North America.<sup>1</sup>

Most sales of lottery products occur at a retail location (convenience or grocery stores) that is licensed by the state in one form or another. There are more than 240,000 lottery retail locations in North America and, as such, the lottery as a regulator has little to no in-person interaction with the vast majority of its ticket-buying customers.<sup>2</sup>

“It is “lucky” to win a \$50 million jackpot once in a lifetime; it is something other than luck to win a lottery prize in excess of \$600 for 1,745 times over a seventeen-month period.”

In recent months several jurisdictions have come under media scrutiny relating to the frequency with which people, including convenience or grocery store owners or operators who sell lottery tickets, were winning large prizes. In Massachusetts, the *Boston Globe* published a story about the “10 Most Prolific Massachusetts Lottery Winners,” listing a player’s name at the top

of this list who had cashed in 1,745 tickets in excess of \$600 between January 1, 2013, and May 14, 2014. That accounts for about three winning tickets, every day, for seventeen consecutive months.<sup>3</sup>

In Florida, the *Palm Beach Post* published a series entitled “Gaming the Lottery” in which a journalist retained a statistician to detail the statistical impossibility of certain players cashing tickets at such profound rates. According to the *Post*, the most prolific winner in Florida cashed a ticket in excess of \$600 two hundred fifty-two (252) times over a seven year period. The *Post* further pointed out some “red flags” which included the fact that this customer had “[n]ever won the lottery until October 2007, when he started cashing in an average of one ticket once every eleven days.”<sup>4</sup>

The story later evolved from questioning how anyone can win so frequently, to then questioning the frequency with which lottery retailers were cashing tickets. *ABC World News* ran a television fea-

*Continued on next page*

## >> NEW DEVELOPMENTS IN JURISDICTIONS: FLORIDA

*Continued from previous page*  
ture titled “Lottery Scratch-Off Scandal in Florida” which detailed the fact that many of the names on the most frequent winners list were also lottery retailers.<sup>5</sup>

This issue, owners and operators of retail locations cashing in lottery tickets at an impossible rate, is not a Florida-specific problem. Having endured the media scrutiny and implemented changes to ensure that those who sell lottery tickets in Florida are abiding by all applicable statutes and rules, there are certainly lessons learned in Florida that should be shared with the over forty other lottery jurisdictions. Some of these best practices are also useful to the gaming industry as a whole.

### Cashing a Winning Lottery Ticket

Like all other parts of the gaming industry, the Internal Revenue Service has certain guidelines which are applicable in the ticket cashing process. A winning lottery ticket valued at \$599 or less may be cashed without any paperwork by bringing the winning ticket to any lottery retailer. For wins of \$600 or more, a customer must appear at a lottery office and complete Form W-2G. Retailers are prohibited from paying prizes in excess of \$599. Although the state is able to track the life cycle of all lottery tickets (shipment, activation, sale, validation, payment), the media has thus far focused on the payment of prizes of \$600 or more.<sup>6</sup>

As all the lotteries operated in the United States are operated by a government entity, any documents generated which would indicate “who” is winning the lottery and “how often” is available to anyone via a public records request.

### Dishonest Ticket-Cashing, Theft, or High Volume Players?

There are many possible answers to the question of “how are lottery retailers winning the lottery so frequently?” In the



last few years, media outlets have highlighted ticket theft as one of the methods by which retailers come to possess winning lottery tickets with such high frequency.

The *Dateline* program on NBC News was one of the first media outlets to highlight this issue with its 2009 feature story titled “How Lucky Can You Get: Dateline’s Undercover Investigations Reveal Some Dishonest Lottery Clerks.” *Dateline* highlighted incidents in which customers presented winning lottery tickets to retailers and asked, “Is this a winning ticket?” and highlighted scenarios where the undercover agent was improperly told by the clerk that the ticket is “not a winner.” The clerk later presents the ticket to the lottery for payment, a ticket ostensibly stolen from the customer. *Dateline* followed along as the California Lottery conducted a “sting” operation at several lottery retailers and had the opportunity to see firsthand what it looks like when a clerk steals a winning ticket from a customer.<sup>7</sup>

Some other retailers are providing a “service” to customers by illegally paying tickets in excess of \$599 for customers who would like to avoid interacting with the state for any number of reasons. These retailers pay between 50-70% of the prize value then either cash the ticket themselves or hire a

runner (a “ten percenter”) to cash the ticket for them.<sup>8</sup>

A third group might just be the lottery’s most prized customer—a high volume player who happens to be a lottery retailer. In Florida, for example, when the lottery first came into existence in 1987, retailers and their relatives were forbidden from purchasing lottery tickets at their own stores. When the legislature reconvened in 1988, this prohibition was promptly removed.

Since that time retailers, and Florida has more than 13,000 of them, can buy a lottery ticket at any location, including their own counter. If a retailer happens to be a high volume player, it is critical for the lottery, as a regulator, not to mistake that player for a thief or ten-percenter.

### Advice for Lotteries and Other Gaming Entities

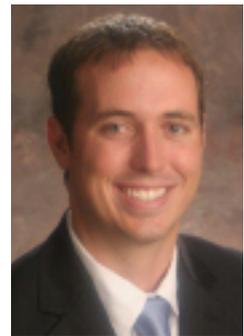
Many of the industry best practices for the Lottery are applicable to all gaming entities. For example, the easiest piece of advice is to know the customers. For a lottery this means conducting semi-annual audits of ticket-cashing activities by frequent winners. This audit of the most frequent winners over a given period of time, cross-referenced with a list of all officers and directors of lottery retailers, will supply more than enough information. From there, something that seems suspicious (a retailer or retailer’s relative with multiple wins over a short period of time) probably deserves further investigation. It is also important to remember to remove any sensitive information (social security numbers and so so) from documents and to make best efforts to remove other information (relating to gender, ethnicity, and so on.) so as to convert all investigations into a number, rather than an investigation into a particular person or group of people.

It is also important to audit retailer ticket validation and redemption activity. Unfortunately, one of the most critical components of these audits is also very time con-

suming and labor intensive—sting operations. Keeping in mind that the integrity of the lottery is crucial to its success, lottery security and law enforcement personnel should visit retail locations as regularly as possible to ensure that the process functions as it should. Two methods of testing retailers include the process utilized by California in 2009 as part of the *Dateline* investigation, wherein the lottery presents a “winning ticket” to a clerk for payment. Another option is to setup, with in-house or other law enforcement agencies, an undercover “underage buy” scenario. Again, it is also important to conduct these operations at various locations around your jurisdiction. All types of

retailers, from corporate chains to local convenience stores, should be given equal treatment.

The Lottery must learn lessons from other segments of the industry. The wave of media coverage relating to frequent winners is currently expanding. If a media outlet hasn’t contacted a particular jurisdiction’s Lottery yet that’s great news... that Lottery has time to implement these best practices and avoid being a headline. It is “lucky” to win a \$50 million jackpot once in a lifetime; it is something other than luck to win a lottery prize in excess of \$600 for 1,745 times over a seventeen-month period. ♣



**Dan Russell**

*Dan Russell serves as the General Counsel to the Florida Lottery, overseeing all legal and regulatory aspects of the Lottery’s \$5 billion operation. Mr. Russell has previously worked at the Jones Walker law firm and as General Counsel of Gulfstream Park Racing & Casino, Florida’s premier thoroughbred race track and casino operator. He has previously represented clients in nearly all facets of the gaming industry, including casino and cardroom operations, pari-mutuel wagering, and interstate simulcasting litigation. He has published multiple research articles, is regularly published by a national poker magazine, and lectures at the Florida State University College of Law.*

<sup>1</sup><http://www.naspl.org/index.cfm?fuseaction=content&menuid=14&pageid=1020#LotterySales>

<sup>2</sup> Id.

<sup>3</sup><http://www.bostonglobe.com/metro/2014/07/19/most-prolific-massachusetts-lottery-winners/KfevZkQ3TIVQew7o5DW3bL/story.html>

<sup>4</sup> <http://www.mypalmbeachpost.com/gaming-the-lottery/>

<sup>5</sup> <http://abcnews.go.com/WNT/video/lottery-scratch-off-scandal-florida-24036976>

<sup>6</sup> <http://www.irs.gov/instructions/iw2g/ar02.html>

<sup>7</sup> [http://www.nbcnews.com/id/30550956/ns/dateline\\_nbc-the\\_hansen\\_files\\_with\\_chris\\_hansen/t/how-lucky-can-you-get/#.U9-LEEDFaUk](http://www.nbcnews.com/id/30550956/ns/dateline_nbc-the_hansen_files_with_chris_hansen/t/how-lucky-can-you-get/#.U9-LEEDFaUk)

<sup>8</sup> <http://www.bostonglobe.com/metro/2014/08/05/unafraid-getting-caught-cottage-industry-helps-lottery-winners-dodge-taxes/3hP8EBXEG+Q4bLo05Vw6zI/story.html>

# Looking to license a U.S. patent?

## BattleBornIP.com

**Hire a U.S. patent attorney with over 10 years of experience as an in-house patent attorney for several gaming manufacturers.**

Abbott Law Chartered offers focused legal services and competitive rates. These legal services relate to the client’s needs involving intellectual property and business law.

I handle commercial leases, IP licenses, product acquisitions, vendor and customer agreements, and contracts (reviewing, drafting, and negotiation).

**Eric L. Abbott**  
**Patent Attorney**  
*B.S. in Electrical Engineering*



**Abbott Law Chartered**  
6900 Westcliff Drive, Suite 511  
Las Vegas, Nevada 89145



702.431.5800 direct  
702.813.9295 mobile  
**ELA@BattleBornIP.com**