

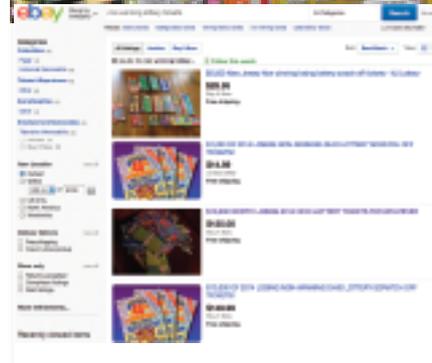
Fraud and Ticket Brokering: A Dilemma for Public Lotteries

By Dan Russell

The sale of lottery tickets in the United States grew slightly over the last year, up just shy of 2 percent to \$70.15 billion from \$68.88 billion.¹ This is not to say that the industry is not performing at a very high level. At this dollar value, if the nation's lotteries were a single entity, they would rank 69th internationally in Gross Domestic Product (just above Cuba, slightly behind Belarus).² California and Florida each exceeded \$5 billion in sales, while New York led the market (as New York includes play at its video lottery terminals) with more than \$9 billion in sales.

On the other side of these amazing sales figures remains a slightly less rosy situation, i.e., scandals dealing with the underside of the lottery ticket sale/cashing business have made the front page of newspapers in lottery jurisdictions around the country. California, Georgia, Florida, New Jersey, and many other states have dealt with newspaper articles and television pieces, including ABC World News, detailing the activities of unscrupulous players and lottery retailers. With all of the money in the industry, there has to be a method for lotteries to prevent these activities to continue; however, the question remains, what can be done about all of this?

In the United States, any customer holding a winning lottery ticket valued at \$600 or more is required to file paperwork with the Internal Revenue Service and, as such, the customer must work with the State Lottery, rather than directly with a



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retailer, to cash his or her winning ticket. This process creates a paper trail by which lotteries are able to track payments of medium-sized wins (\$600 or more) up to the largest jackpots, while details relating to smaller wins (\$599 or less) are largely unknown to the lotteries.

Most customers with winning tickets simply drive to the nearest Lottery office to claim their prize. Those who have an interest in not claiming their own prize (for reasons that include state-owed debt payment or tax avoidance) will find a “runner” or “shadow winners” to cash their tickets for them.

In a related form of tax evasion, there is a large market for non-winning scratch-off tickets on eBay, Craigslist and other online sales websites. Players seeking to reduce taxable winnings will purchase these non-winning tickets to use them as evidence to the IRS of the player's losses during the tax year in which his or her win occurred. There are thousands of dollars worth of non-winning tickets available for purchase, right now. As of this writing one eBay listing posted “\$10,000 worth of non-winning 2014 Ohio Lottery Scratch-Off Tickets” and was being sold for \$125.³

The methods by which lotteries attempt to prevent these practices vary state to state as well as internationally, both in their techniques and levels of effectiveness.

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State-by-State Approach Results in Various Methodologies

The Florida Lottery tracks players by the number of wins they have obtained. As this number grows, so does the level of suspicion. Naturally, a player who wins one time for \$50 million is “lucky” – but someone who wins \$1,000 fifty times, or more, is usually something else entirely. If one of these players with a multitude of wins happens to also be a retailer of lottery tickets their contract, allowing that person to legally sell tickets, may also be in jeopardy if an investigation reveals any suspicious activity related to that player/retailers wins.⁴

In Georgia, the Lottery’s methods of tracking winning players is similar to the description above. The main difference between the two states is the way they handle retailers with a large volume of wins. Georgia, rather than terminating a retailer’s contract and its ability to continue to sell lottery tickets, has refused to cash tickets for players with a large number of wins or who have taken part in other suspicious activities that the Lottery is aware of (ticket batching, multiple validations, and so on).⁵

Both Florida and Georgia, like many other lotteries, also conduct “sting” operations whereby, in one format or another, Lottery staff presents a winning ticket to retailers and asks the age-old question: is this ticket a winner? The retailers’ handling of the ticket will determine whether or not they’ll be placed under arrest.⁶

Many lotteries also have struggled with winners who have multiple “identities” in their prize payment system. By way of example, historically, players were able to self-identify prior to being paid a prize of \$600 or more. As one might imagine, this resulted in some innocent cases of a winner listing her name as Jane Q. Public on her first payment processing docu-



Example of a Nationalized Approach to Lottery Security

Norway has a population of just more than 5 million and its lottery operator, Norsk Tipping, generated gross sales of \$2.866 billion (USD) in 2014. Admittedly, Norsk Tipping operates sports wagering in addition to instant and terminal game sales but, nonetheless, its sales figures are very impressive. In addition, Norway incorporates into its online and in-store sales process a way for players to connect the ticket(s) he or she purchases with themselves.⁷ According to the company’s Managing Director, Axel Krogvig:

We are now living up to the wish of authorities such as The Norwegian Gaming Authority and the Criminal Division of the Norwegian Police Authority for 100 percent registered gaming under the auspices of Norsk Tipping. Registered gaming prevents money laundering using winning receipts, and is also an effective age control for the 18 year gaming limit... .

The phrase “registered gaming” means that customers must hold a player’s card and present that card before purchasing a lottery product. The downside for the player is the registration requirement and the additional few seconds it takes for each purchase to occur. The upside to the player is that their winning ticket can only be cashed by them, and even if the ticket is lost, the “win” is still tracked and paid to the player who made the purchase.

Registered gaming will be required in Norway for the first time in 2015 but has been an option to players for many years. During the optional period, Norsk Tipping reports that more than 90 percent of purchases were made by players who chose to register their purchase via the players card.⁸

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ments, then only as Jane Public on the second set of documents. This also creates a host of opportunities for unethical prize winners, or “winners,” to create many identities once they learn the process. More recently, tax identification number matching processes have gone into place to ensure proper tax payments by prize winners and also to prevent multiple identities being created for the same person. This is certainly a best practice that all lotteries should incorporate into their internal controls.

Casino Industry Player Tracking: Viable for U.S. Lotteries?

Marketing expenditures for the casino industry hover around 4 percent of gross revenue, and this number includes complementaries, promotions, direct marketing, and other facets such as player tracking and database management.⁹ While some portions of the casino marketing operation exist in the lottery space, such as advertising and promotions, the most critical engine driving the business, database and player tracking, is nearly nonexistent.

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The current model of marketing lottery products, namely television, radio and billboard advertisements, have been very successful in building a \$70 billion industry. However sales figures, for the first time in the history of modern lotteries, are flat. Powerball is being tweaked by the Multistate Lottery Association (MUSL) in the hopes of solving a sales slump, and the Monopoly Millionaires' Club, another multi-state game targeting an increase in terminal game sales, operated for less than four months before being shelved due to horrible sales figures.¹⁰

As the regional gaming markets expand, players are growing more and more accustomed to receiving targeted marketing pieces directly via mail or e-mail from their local casino. The success of this regional/ locals market is confirmed by the overwhelming success of Pennsylvania and New York's new operations, while historical vacation destinations such as Atlantic City and Las Vegas struggle to find their respective footholds.

Many lottery players also gamble at casinos; the inverse of this is also true: simply stated, a gambler likes to gamble. Lotteries remain committed to a non-gaming style of marketing while statistics clearly indicate that a lottery customer is a casino player, and vice versa.

The nationwide ticket brokering and other fraudulent activities in multiple states will continue until such time as the major state lotteries take the lead and implement real measures to prevent them. Undoubtedly, a step towards the Norwegian model of security would severely hinder illegal operators who steal from honest customers and broker tickets with those seeking to avoid paying taxes. The fact that this same security step would also allow lotteries to market directly to their customers and increase revenues in a casino database model makes this setup a perfect match for the American lottery industry. ♣



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¹ NASPL - <http://www.naspl.org/index.cfm?fuseaction=content&menuid=17&pageid=1025>.

² World Bank - <http://databank.worldbank.org/data/download/GDP.pdf>.

³ eBay, February 18, 2014 - http://www.ebay.com/itm/10-000-WORTH-LOSING-2014-OHIO-LOTTERY-TICKETS-FOR-WHATEVER-/271778800561?pt=US_Tickets_all_in_one&hash=item3f474763b1.

⁴ <http://t.co/iHNb+QPD7x>.

⁵ <http://www.myfoxafatlanta.com/story/26520101/ga-lottery-targets-shadow-winners>.

⁶ <http://www.flalottery.com/pressRelease.do?searchID=197780>.

⁷ http://www.world-lotteries.org/cms/index.php?option=com_content&view=article&id=3091%3Anorsk-tipping-100-percent-registered-gaming&Itemid=100311&lang=en.

⁸ <http://www.responsiblegambling.org/docs/research-reports/play-information-and-management-systems.pdf?sfvrsn=10>; see also https://www.norsk-tipping.no/_attachment/66308/binary/88588?download=true.

⁹ http://scholarworks.umass.edu/cgi/viewcontent.cgi?article=1055&context=gradconf_hospitality

¹⁰ http://www.powerball.com/pb_history.asp and <http://triblive.com/state/pennsylvania/7392254-74/game-lottery-monopoly>.