

Commissioner of Liquor and Lottery's Report

This report was prepared to comply with H.571 Section 115 (a)

September 27, 2018



Executive Summary

This report has been prepared at the directive of the Vermont legislature. The Vermont Lottery initiated a review of their current winner data as requested in H.7 section 114 (a). A major portion of the data requested in H.7 has proven to be unobtainable. The name of the purchaser is not recorded for sale of individual tickets. Therefore, the individual's ownership stake in a business, employment status, family affiliation is beyond the Lottery's ability to identify and quantify. We have provided statistical data on winner's that collected over \$500 because this data was collected and systematically reviewed. The data that is collected by the Vermont Lottery is consistent with the national Lottery industry standards.

Governor Phil Scott also requested that the Vermont Lottery provide responses and recommendations to the media report that purported potential fraud among certain subsets of lottery players. In that report, six individuals were represented as employees or agents who won nine top prizes from instant tickets during a five-year period. The report also highlighted two individuals, also represented as agent's employees that won frequently. After reading the report, prepared by former Executive Director, Danny Rachek, the governor concluded that the reported anomalies were either factually inaccurate or could be explained. The Vermont Attorney General also reviewed the report and concluded that there was no criminal activity detected and no charges would be filed.

To fulfill the legislative intent of this reporting requirement the Lottery reviewed the sales, fraud prevention, and security practices of our vendors, manufacturers, and lottery agents to determine whether the policies, procedures and practices that are currently in place were adequate to preserve the integrity of the Lottery and to avoid the appearance of illegitimate winnings by agents, employees or immediate family members.

Based on this evaluation the Department of Liquor and Lottery does not recommend the enactment any new legislation prohibiting agency owners, agency employees or immediate family members from purchasing tickets at the agent's location. The primary reason for this position is that after a thorough review of the media report we don't feel that there is a problem that legislation could address due to the abundance of security features that currently exist to preclude cheating in any form regardless of an individual employment or family status. A law disallowing legal gaming by agents, employees of agents, and immediate family members of agents would ultimately prove to be unenforceable and have a significantly negative impact on education funding due to the exclusion of so many potential players. This type of law would unfairly discriminate against a significant number of individuals that are employed in hundreds of retail businesses throughout the State and the members of their immediate families. The DLL will modify its agent agreement to prohibit owners and employees from playing instant ticket Lottery games at their place of employment.

There are numerous fundamental questions that need to be answered to objectively evaluate the intended and unintended results that would occur if such legislation were to be proposed.

1. **Tickets-** what tickets will be prohibited? Various MUSL games- Power Ball, Mega Millions Pick 3 or Pick 4 or other draw type games are played via terminals. There is no advantage from purchasing one of these tickets at any location. The drawings are not conducted in Vermont or by anyone associated with the Vermont Lottery. The

drawings are subject to a defined draw procedure that include a videotaped 24/7 secure room, draw manager and are witnessed by a CPA.

2. **Employee and family member-** what will the law consider an employee? Will someone working in the butcher department of Hannaford's be prohibited from purchasing a Lottery ticket at Hannaford's? If my son works at Price Chopper collecting carts will I be prohibited from purchasing lottery tickets, there? What about a Dunkin Donuts employee that is co-located in a gas station that sells Lottery- is that employee prohibited? A statutory change would also impact a large segment of the playing population- a supermarket easily has over 100 employees and each with a family. All these individuals would be prohibited from playing at locations where they likely shop.
3. **Law enforcement impact-** The proposed change in the legislation would have a negative impact on potential investigations and identifying theft by the agents.
4. **Ticket theft-** Presently, if an employee is stealing from an unsuspecting winner by lying about a winning ticket there is nothing stopping the employee from cashing the ticket at their own store or at another location. Security would discover the theft by reviewing agent win reports or from a player complaint. The next step would be to determine where the tickets were cashed. The best piece of evidence to prove that the agent stole the ticket is when the agent employee cashes that ticket. So, when the stealing agent cashes the stolen ticket we can pinpoint from lottery records the exact time the ticket was cashed and then we can obtain video of the agent cashing the ticket.
5. **Legislation to prohibit agents from playing will not impact theft-** tickets will still be stolen. However, legislation will take away the best evidence that law enforcement will have to prove the crime- the agent employee cashing the ticket. With legislation enacted the stolen ticket will be given to one or more non-employee co-conspirators (with no ties to the theft or evidence of the theft) to cash because the agent will not be allowed to cash a ticket purchased (or stolen) from his own store. The legislation will move the cashing of stolen tickets one level away from where the theft occurred and one more level away from the best evidence. Making it more difficult for law enforcement to make a case.
6. **Compliance checks-** A more efficient way to curb agent/cashier theft is to conduct additional agent compliance checks and prosecute offenders.

A SNAP SHOT OF DIVISION OF LOTTERY TICKET SALES VOLUME FOR 2017 AND 2018

Fiscal Years 2017 and 2018 ticket sales by individual tickets:

Count of Instant tickets sold by the Vermont Lottery = **49,465,581**

Count of online tickets sold by the Vermont Lottery = 22,709,719

Total count of tickets sold by the Vermont Lottery = **72,175,300**

Instant and Online Tickets	Fiscal Year 17	Fiscal Year 18	Agent/Employee/Family Wins %
Instant	24,653,334	24,812,247	
Online/Draw	11,187,888	11,521,831	
Totals:	35,841,222	36,334,078	
FY 17 and 18 Combined	72,175,300		
Winners (\$500) and greater	5,690	5,650	
Agent Wins (\$500) and Greater	335	345	
	FY 17 = 5.8%	FY 18 = 6.1%	

Total combined agent and employee winners for Fiscal Years 2017 and 2018 exceeding \$500.00

Count of individual tickets = six hundred and eighty (680)

In fiscal years 2017 and 2018 there were a total of 11,334 winners \$500 or greater, of those 680 were considered agent wins (employees, family of agents, family of employees or related to any of the combination).

The percent of agents wins was 6%.

The percentage of non-agent wins was 94%.

We have recommended improvements that will further strengthen the Lottery’s verification processes, as well as potentially assist the state of Vermont in collecting additional revenue, at the end of this report.

CURRENT GAMING SAFEGUARDS THAT PROTECT THE LOTTERY'S INTEGRITY

VERMONT INTERNAL LOTTERY SECURITY FEATURES FOR LOTTERY GAMING

Director of Security

The Vermont Lottery has a Director of Security whose primary responsibility is to ensure that the games offered by the lottery follow the laws and rules governing the industry. These rules are in place to ensure that each player has a fair chance to win the game that they play.

Lottery Security will refer matters to local or state law enforcement when a player or agent/employee is involved with lottery ticket transaction(s) that becomes criminal. Often law enforcement will contact the Lottery to determine where a ticket was purchased and to narrow down the purchase time by reviewing validation records. The lottery gaming system allows for security staff to designate tickets as lost or stolen. The lottery gaming system is set up to alert staff when a stolen or lost ticket has a validation attempt when marked

The Vermont Lottery security practices comply with all industry standards. There are 16 defined security features required to conform with industry standards. Before May 2018 the Vermont Lottery followed 14 of those standards. Following May 2018 the Lottery initiated 2 additional enhancements to our already robust program.

Security Director Brian Mclaughlin recently sorted a winner listing from 2011-2017 by individual names and subtotaled everyone's winnings. Mclaughlin then reviewed the list for individuals that won at least \$7,500 and had more than one win during this period. There were approximately 880 winners that met those criteria. Mclaughlin then reviewed the multiple winner list to determine how many agents were among the approximate 880 winners. There were approximately 55 agent/employees, approximately 6.25%, that were multiple winners during this period.

The Vermont Lottery has over 650 agents or stores where lottery tickets are sold. The types of Lottery ticket retailers run the gamut and include gas stations, convenience stores, grocery stores and drug stores. It is estimated that there are on average 10 employees at each store, and that there are approximately 6,500 individuals employed by lottery agents throughout the state of Vermont. As with the public, employees who are 18 and older are permitted to purchase lottery tickets and claim prizes.

It is expected that some of these 6,500 or so employees will win some prizes from the millions of instant tickets that are sold each year from the 650 outlets. Annually, Lottery tickets purchases earned players prizes totaling between \$60-80 million over the last ten years. From 2011 through 2017, the Lottery awarded more than 35,000 individual winning prizes of \$500 or more. In addition, the Lottery awarded several million individual prizes that were less than \$500 each in the 2011-2017 period.

The Lottery does not maintain records for wins of less than \$500, where a check was not issued. This calculation, an average of agent win percentage between 2011 and 2017, 6.48% does not include agent

low tier wins, and it also doesn't include the total low tier player winnings. There are two unknowns to consider when deciding if 6.48% is too large of a percentage for agent wins. These considerations are how many agents/employees and family members play and how much do they spend.

The Agent Compliance Program (ACP)

ACP is a program that is operated by lottery security and staff that gives us an inside look to determine if agents/employees are processing sales and wins appropriately. This program is to determine if agents are halving tickets (buying winners at a discount) or redeeming a winning ticket for less than its value.

Agent Wins Analysis

Agent wins are now linked to the claim rather than the individual- this will enable the Lottery to ensure that all the agent wins are recorded and that the claim information is accurate.

Insufficient Funds Analysis

This data is used to help determine if an agent is getting in trouble with lottery funds. The reoccurring NSF reports will be compared with past investigations and ACP findings to determine further investigation and action.

The lottery validation database for our gaming system for agent wins

Using our gaming system, a report of agent wins is compiled. The report is reviewed for, as well as, high-value wins and high-frequency of wins by agents. If these patterns are discovered, an interview will be conducted. If the player is a store owner, the system is checked against nonsufficient funds (NSF) to determine if the agent owes large amount of monies to the lottery.

High frequency wins are reviewed for a moving 12-month period (12 wins and/or \$15k/12-month period)

Suspicious patterns such as- timing of wins, locations of purchases, and winning amounts- for example, one player has numerous \$500 wins over a 12- month period but below the threshold of 15. This scenario will be reviewed to determine ticket discounting or cashier theft, etc. The same list is reviewed for agent wins.

An Outstanding Prize Report is compiled

This report tracks how much of a game's tickets were sold and how many prizes remain in each game. This report is also monitored to ensure that agents are not holding back books of tickets. If a retailer/agent has a book or books of tickets and they are not being sold or activated -the Director of Security will further investigate.

A High-Tier Winner's Analysis is conducted

This report shows all winners over \$599.00. The report is analyzed to see repeat winners and where the winners are validating. This allows us to review whether a person may have a possible gambling problem and can be used to determine if one area is getting more than the usual wins.

This report is also used to mine for trends in repeat winnings, and to ensure winners are being distributed in a fair manner.

1. Winners complete a questionnaire with Security
2. All winners (claimants) of prizes \$25,000 and above are interviewed by Security to determine playing habits and confirm authenticity of the ticket.

Outstanding prize analysis

All available games are checked for the percentage sold and compared to how many large prizes are available. That data is used to see if agents are purposely holding a game to better player odds of winning. An investigation or removal of those tickets will take place if wrongdoing is discovered.

Altered Tickets

In a case where an instant ticket appears to have been altered, security is asked to validate the ticket. An altered ticket is one that appears to have been manipulated to make it a winner. Any damaged ticket will also be reviewed closely. Instant tickets are bearer instruments, meaning the prize is paid to the individual that signs the back of the ticket. Commonly, an altered ticket is when a player signs the ticket and scratches out the name and/or address. There could be legitimate reasons for a signature to be altered on the back of a ticket; inadvertent slip of the pen, signature in wrong spot, or cashing ticket for family member that previously signed the ticket. At times, players are altering a ticket to avoid paying prize money for owed child support or criminal restitution.

When an altered ticket is presented, the retailer staff will notify security. An interview is conducted to see who, when and where the ticket was purchased to verify the rightful owner. Using the gaming system computer, the Lottery can determine approximately when and where the ticket was purchased. Determining who purchased can be done through the agent that sold the ticket, viewing their security cameras, if available. If the name that has been scratched out is visible enough to determine the owner, that person is required to claim the ticket, if the person cannot be verified the ticket is void and cannot be claimed.

Ticket Checkers

Each agent location has a visual ticket checker installed. The ticket checker equipment permits the player to independently verify if they have a winning ticket prior to presenting the ticket to the clerk. In addition, the agents have an audible and visual ticket checker at each counter. If a ticket has a win below \$500 the screen will display the winning amount. If the claim is \$500 or more, the screen will advise the player to take the ticket to the Vermont Lottery.

Best Practices Policy

Is designed to preserve the integrity of the Lottery game for the player and to educate the player to protect themselves from theft.

Lottery Sales and Marketing Reps

1. Distribute a security best practices brochure for agents

2. Meet with security periodically to review- security practices, and the results of agent compliance operations
3. Act as the eyes and ears of Lottery security – report security concerns back to the main office

Lottery Security Social Media Campaign

1. Consists of a series of tweets, Facebook posts and Instagram messages with player protection tips
2. New tips are disseminated bi-weekly and will be incorporated into the functionality of the Lottery App

Gaming Software Enhancements

The Vermont Lottery's gaming system has built in notifications for certain criteria in validating tickets. For instance, if a stolen ticket has an attempt to cash, the system will notify Lottery Security. Lottery Security can then notify law enforcement. There are notifications that are confidential and proprietary to the Lottery and will not be divulged.

Check A Ticket (CAT) A recent gaming software release changed the printed CAT message to advise the winning player to bring the ticket to the Lotter for a claim, rather than the cashier.

Instant Tickets

Instant tickets, or "scratch tickets," are produced and printed by [Pollard Banknote](#) in Lansing, Michigan. Pollard is one of the leading suppliers of instant tickets for over 30 years and serves over 60 lottery and charitable gaming organizations worldwide.

Each ticket has a bar code and a serial number. These items ensure that a player can independently determine if the ticket is a winner. The serial numbers and barcodes are used to scan a ticket for inventory and cash payouts. They also assist with the tracking of inventory, location of the ticket, where it was sold from and when it was received.

The prize payouts for each game are predetermined by senior managers at the Vermont Lottery. Typical pay outs are an average of 62-74% of gross revenues from the ticket quantity or run. More importantly, the location of winning tickets is not known by anyone at the Lottery or Pollard.

The amounts of the prizes vary and are determined by the price point for each ticket and the amount of the tickets that will be sold. The size of the prizes varies from \$1 up to \$250,000 or more.

A high-tier prize is any prize \$500 or higher. The \$500 level requires a claim form to be completed. All high-tier prizes are paid by check. In addition to the Vermont Lottery, People's United Bank can process payments up to \$5,000.

The Lottery keeps records of all prizes that are paid out for \$500 or more. At this prize level the Lottery will verify that the winner is not delinquent with child support payments or criminal restitution. The Lottery also maintains records for any claim that is less than \$500 when a check has been issued for payment by the Vermont Lottery or People's United Bank.

There are approximately 60 new instant ticket games introduced each year at different price points. All games have multiple winners and there will be multiple winners claimed during the life of the game. The length of time that the ticket is on the market varies by price point, time of the year, and popularity of the ticket graphics and/or game.

Since July 2010, the Vermont Lottery has had sales of more than \$850 million and awarded prizes of more than \$548 million.

TRI-STATE AND MULTI-STATE LOTTERY SECURITY FEATURES FOR LOTTERY GAMING

“Online”/Terminal Tickets

The term “online” within the lottery industry and throughout this report does not mean online in the popular sense and it has nothing to do with the Internet. Online refers to games that are sold from a terminal of the lottery gaming vendor. Online or terminal tickets are printed from the terminal at the time of purchase. The online/terminal tickets can be Tri State draw games, such as Megabucks, Pick 3 or Pick 4, or they can be part of larger multi-state games, such as Powerball or Mega Millions.

Pick3/Pick4 are online draw games: The Vermont Lottery participates in the Tri State Lotto compact with Maine and New Hampshire to offer various Tri State games and is also a member of the Multi State Lottery Association (MUSL). As a member of MUSL, the Lottery offers Powerball, Mega Millions and Lucky for Life. These games are sold in Maine, New Hampshire and Vermont. A player purchases a ticket and selects the numbers for the ticket or the computer will randomly generate the numbers for the ticket. A player can bet from 50 cents to \$5 per ticket and select different types of number formations: Box, Straight, Front Pair, Middle Pair, etc. – that can earn a larger prize if the numbers are drawn in a certain order. Each different number formation requires an additional payment of \$.50 to \$5. For Pick 4, the four-digit number can only be selected a maximum number of 8 times for each draw. Because the maximum value of a ticket is limited to \$5, a player needs to purchase multiple tickets with the same numbers to bet a larger amount of money.

There are two draws each day, seven days per week for Pick 3 and Pick 4. The Vermont Lottery has no role in awarding prizes for Pick 3 and Pick 4. The draws are managed and conducted independently by the New Hampshire Lottery under the supervision of a Certified Public Accounting firm. Each draw has three witnesses in addition to the independent accountant. The draws are conducted in a draw room that is under lock and key, and only opened to conduct the draw. The room has video cameras to record each draw. In addition, there is a pre-test draw done to ensure that the numbers are coming up randomly and that the draw machine is operating properly. A post-test draw is conducted to ensure that the machine is operating properly, and the numbers were drawn randomly.

Pick 3/Pick 4 draw games are appealing to players because the odds are designed to be better than most games and for a small bet of 50 cents, a player has a chance to win \$104. If a player selects a ticket with a maximum of \$5 bet, then the winning amount would be \$1,040. If the player selected multiple \$5 tickets with the same numbers, then each ticket could win \$1,040.

The lottery is a game of chance. Playing the games is not a “skill,” nor do games rely on the outcome of a sporting event. Every game is designed to have a predetermined number of winners before the game is pulled from the market.

TICKET MANUFACTURER SECURITY FEATURES FOR LOTTERY GAMING PRODUCTS

Ticket Security

As noted above, Pollard is the instant ticket vendor and is the second largest manufacturer of instant tickets in the world. Below are some of the non-confidential procedures that are utilized to ensure that the tickets produced for each game are not compromised. There are certain security measures that are confidential for several reasons to include trade secrets and countermeasure prevention. However, these methods include: image security, printer security, game design, prize distribution, and validation and redemption security.

Facility security

Access control: key activities in the production of instant games are physically and electronically separate. For example, Game Generation and Computer Operations groups are separate from one another within the facility. Those groups are separate from the groups responsible for creating fonts and auditing game data. Separate servers make it practically impossible for any individuals to gain access to data or information for which they do not have access privilege.

Employees receive access only to the areas they must be in to perform their jobs.

Secure validation files

Files of winning validation numbers are provided to the Vermont Lottery. These files identify winning tickets by validation number and prize amount, however, no location information is supplied to the Lottery. Without the necessary computer files, there is nothing in the validation number that identifies a ticket as a winner or non-winner.

Redemption security

Barcodes used to identify the game and to encode the book number, ticket number and validation number are securely imaged at the same time as the variable game data.

Anti-counterfeiting safeguards

Pollard’s tickets are created with advanced anti-counterfeiting and validation-security features, which minimize and prevent successful attempts at compromise. Their labs perform an exhaustive variety of experiments on the printed tickets to ensure the performance of these security features.

The first spool of every game is subject to a full security evaluation. If the lab identifies any print flaw that may impact security, they generate an electronic Lab Inspection report that is then tracked to ensure an action has been performed.

Five methods of testing are conducted: mechanical, electrical, chemical, optical and environmental.

1. Mechanical Methods

These typically involve the use of tools or objects to compromise a ticket's security, including:

Lifting and replacing scratch-off using various tools, such as razor blades, paint scrapers, scalpels, etc. Microsurgery or micro-scratching to read game data. Tape-assisted lifting, spray varnish, or chemical solvent assisted lifting methods are also used in attempts to lift the scratch-off material without obvious signs of tampering.

2. Electrical Methods

Using electrostatic testing in combination with various chemicals, Lab personnel determine whether it is possible to read game data through the scratch-off material by running an electric charge over the ticket surface.

3. Chemical Methods

Pollard's lab tests tickets by simulating invasion attempts and allowing common commercial compounds in liquid or vapor forms to contact the tickets. Invasion tactics using these chemicals should ideally result in tickets that are substantially damaged, making ticket invasion attempts obvious.

4. Optical Methods

Lab personnel use high-intensity light through various filters, as well as ultraviolet light, to determine whether game data may be seen through the ticket or the protective overprints.

5. Environmental Methods

Tickets undergo tests in various environmental conditions— such as humidity and thermal tests—to determine ticket reaction. The lab also scrutinizes all products for flaws or discrepancies in certain components, which might allow for picking out or identifying winning tickets.

Ticket storage security

Pollard has secure storage areas for the tickets which are located within their facility based on their stage in production. The areas are locked, restricted-access rooms requiring card key for entry, and are constantly monitored under CCTV surveillance. Ticket stock with "live" game data is covered with multiple layers of voided stock ensuring no live tickets are visible.

Delivery security

Pallets of sealed cartons are stored within a secure area. Tickets are shipped from Pollard to the Vermont Lottery in "exclusive-use" trucks equipped with GPS tracking. Pollard employees load the truck, sealing the truck with a uniquely numbered seal. A bill of lading, which includes the seal number, is then sent to the Lottery so that it can be confirmed when broken upon delivery.

Distribution and packing from the Lottery:

Each box of tickets is off-loaded from the pallet in a defined order. Ticket books are randomly pulled from the boxes and packed in bags/boxes to fulfill Agent's orders. Most of the tickets are shipped via UPS and the remaining tickets are delivered in person by a Lottery Field Sales Representative. There is no person in Vermont or at the manufacturing facility that knows the location of a box or book containing a winning ticket or a top-prize ticket. The winners are randomly placed among the ticket run (ticket quantities or run vary from 180,000 to 600,000) for one game and blindly distributed throughout the state to the 650 agent locations. Not every store is guaranteed of receiving a winning ticket or a mid- or top-tier prize, but every game will award 62%-74% of its sales to winning tickets. The only guarantee is that no one knows where the winning tickets are or where the winning tickets are going.

Distributions of winners- games are distributed throughout the state in no order. Tickets from the same box will end up in multiple locations.

A person must go to the store to purchase the ticket from an agent. This is a random and unpredictable event.

The tickets are tracked electronically throughout the delivery and sales process, much like a UPS or FedEx package. The tickets do not have a cash value until they are activated by a bar code scanner. Each night, the agents are advised to deactivate their entire inventory to prevent theft. Stolen tickets can be flagged to avoid cashing stolen tickets and preventing monetary loss for the lottery or agent.

LOTTERY AGENT/ EMPLOYEES SECURITY REQUIREMENTS

Lottery Agent Security

On the inventory tracking system, the lottery tickets are described as "In-transit" until the tickets are scanned received by the agent. The tickets are not activated by the agent until the tickets are placed in the display counter and are ready for sale. Each evening or at the close of business, the tickets should be deactivated by the agent to avoid monetary loss to the agent. We are proposing to make this requirement mandatory through a revision to our agent contract.

Vermont Agent Win Statistics

The Vermont Lottery asks each claimant of \$500 if they are a lottery retailer, related to a retailer or an employee. If an individual wins while they are not an employee and then wins the next year when they are an employee, both wins would be considered agent wins. The same would be true if a winner wins as a clerk of a store, and the next year they win while they are not employed, both winnings would be considered an agent win.

Currently, the Lottery does not ask the winning agent/employee where they purchased the winning ticket, where they were employed, or if they are a relative of a lottery retailer and live in the same household. Therefore, the claim amounts in the table below are an estimate. The totals include both instant and online tickets. The Vermont Lottery has requested that the gaming vendor modify its program to associate the agent win with the claim instead of the individual. This change will ensure that future queries of agent win totals would be more accurate. The amounts below and the percentages calculated were from all claims where a check was issued to winner. Most of the claims

were \$500 and greater. However, there were instances when a check was issued for smaller claims processed.

Second Chance Winners

2nd Chance drawing allows the player to enter a non-winning ticket into a quarterly drawing for some large cash prizes. The prizes can be as much as \$200,000. Before September 11, 2018 each player was limited to entering 100 tickets per day into the 2nd Chance website. These are non-winning instant tickets that a player can submit to enter the second chance drawing, winning tickets are not eligible. To increase their chances of winning, players collect non-winning tickets in several ways, including garbage picking and solicited non-winning tickets from other players to submit for second chance prizes. This allows people to submit thousands of tickets for the quarterly drawings. There are multiple prizes given out. The tickets are entered through player's accounts that are accessed through our website. The drawings are conducted by our instant ticket vendor, Pollard.

The 100 ticket per day submission was established in approximately 2014. The Lottery staff decided to lower the daily limit of ticket submissions from 100 to 10. It was agreed by the Department that the 100-ticket limit was too high. This change will help limit the ticket stuffers that are entering the drawings and level the odds for all the second chance players. The new submission limits went in effect starting September 11th, after they were messaged to the players and agents.

The Lottery currently does not have the ability to determine if a prize was a 2nd Chance win or if it was the result of a winning ticket. The claim is recorded, and the prize is paid out. However, the Lottery believes that by reducing the 2nd Chance entries (by 90%) down to 10 per day that it will mitigate the advantage for 2nd Chance entries that agents and their employees have over the typical player. The agent/cashier can collect discarded tickets from the store that they work at and enter these tickets in 2nd Chance. The typical player usually submits tickets that they purchased, not tickets that have been discarded. The modification to the 2nd Chance game will reduce agent wins.

Lottery Mobile Application

The development and deployment of a lottery mobile application will improve the player experience in many ways. The immediate and most important way will be increased security. The App will serve as a personal check a ticket (CAT) machine. The app will potentially remove any question of the value of a winning ticket. Currently, CATs will not display or announce the amount of the winning ticket because the ticket is a bearer instrument. The Lottery does not wish to expose the winner to potential criminal behaviors of those individuals that are within the vicinity of the CAT. The app will allow the player to privately verify the winning amount and bypass the cashier or the risk of the cashier stealing the ticket.

Agent play legislation restrictions

In Vermont there is no state statute that prohibits an employee of an agent or an agent from playing the lottery. When a claim of \$500 or more is being processed, Lottery staff will ask winners, under penalties of perjury, "Are you a Vermont Lottery retailer, related to one, or do you work at a location that sells Vermont Lottery tickets?" The responses to these questions are associated with the player. The information is used by the Vermont Lottery Security to review agent winnings and unusual claim patterns.

Based on our recent survey results the clear majority of our Lottery retailers place their own restrictions on employees, such as, only permitting employees to play the lottery on their premises during their off-duty hours.

Vermont Lottery employees and family members are not permitted to play the Vermont Lottery, multi-state games or Tri State games within Vermont. The prohibition for family members only extends to family members that reside within the same household. Therefore, employee's siblings, adult children, ex-spouses, etc., are all permitted to play the lottery if they do not live in the same household.

In June 2017, the North American Association of State and Provincial Lotteries (NASPL) conducted a poll of US member lotteries to determine the limitations that were placed on employees of lottery retailers. Responses were obtained from 44 US lotteries. Three states placed restrictions on employees from playing instant tickets:

Arizona: Lottery rules state retailers may not play during work hours. Also, retailers and their employees are asked to declare their winnings on a claim form for any prizes of \$600 or more. Lottery staff will review the claim.

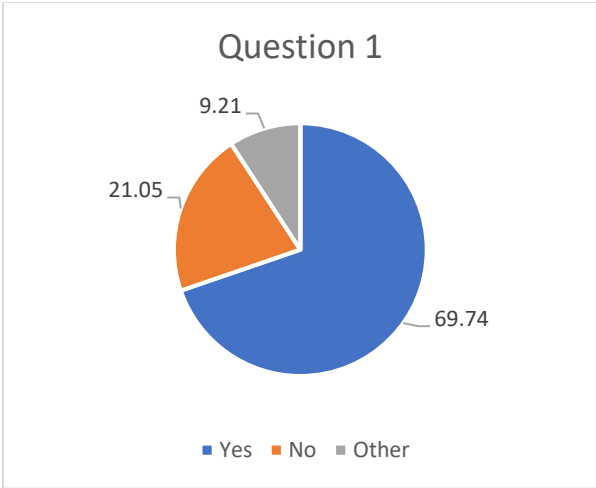
New Hampshire: As part of the state's lottery retailer agreement, retailers and retailer's staff shall not play lottery games during their working hours.

Indiana: Retailer employees and relatives living in the same household may not make lottery purchases where they work.

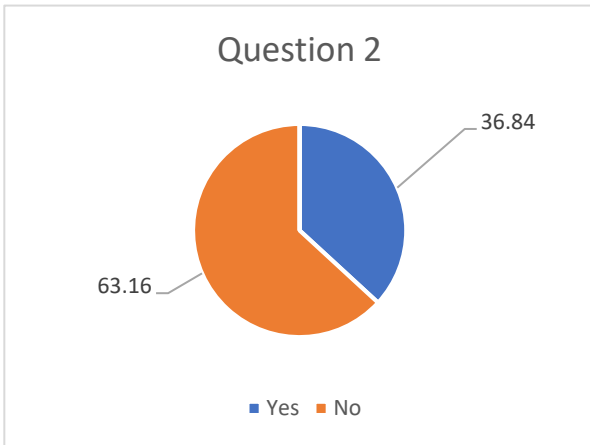
AGENT SURVEY RESULTS

A survey was recently conducted with all of Vermont Lottery's Agents. A terminal message was sent to all Vermont Lottery retailers. 9 questions were asked of those 7 were security related. Vermont currently has 626 retailers, of those, 76 responded and completed the survey. The results of the survey are posted below.

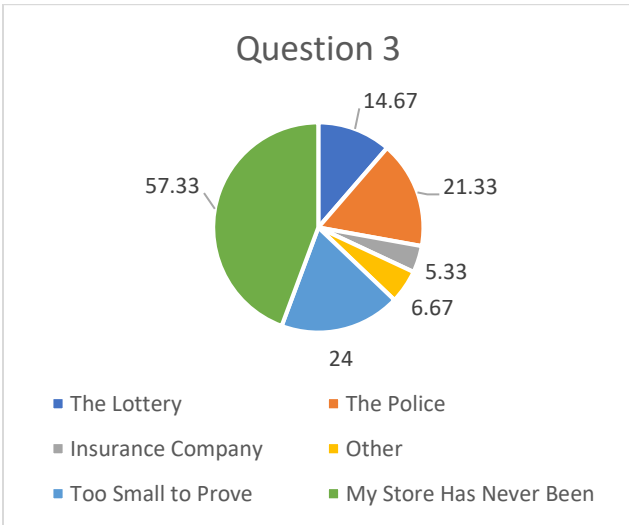
- ✚ Question 1. Is it your store policy to deactivate lottery tickets at the close of business each day? The respondents that answered in the "other" category were 24/7 operating stores.



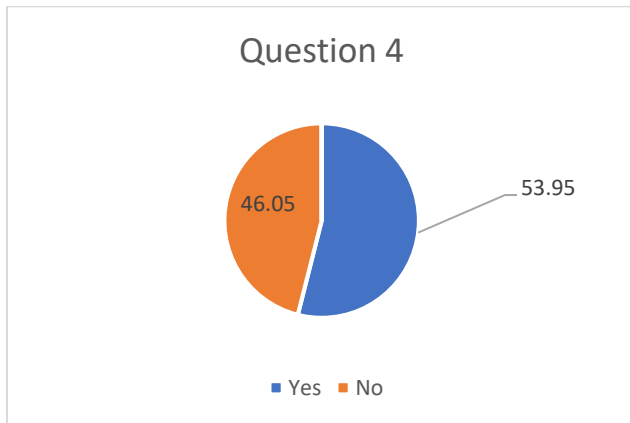
✚ Question 2. Has your store ever been victimized or an employee suspected of a crime involving lottery tickets?



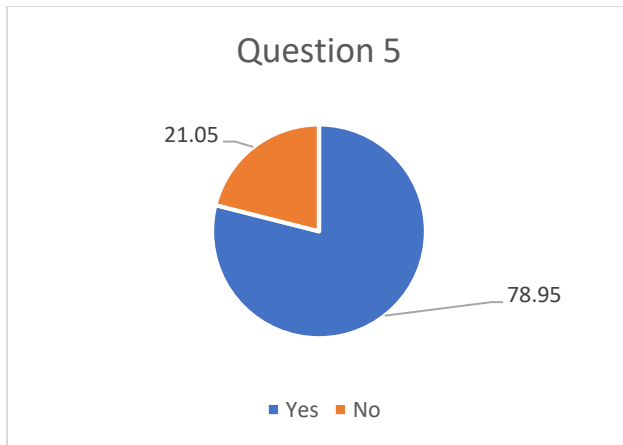
✚ Question 3. If yes, did you report it to (indicate all that apply):



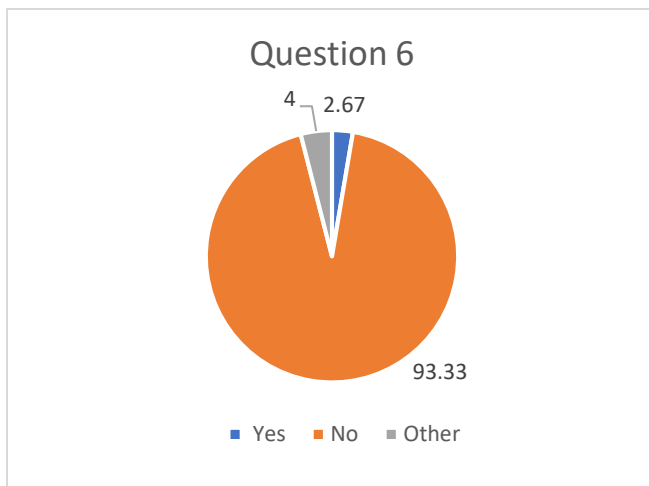
✚ Question 4. Are you aware of who to contact at the Vermont Lottery, if your store is victimized?



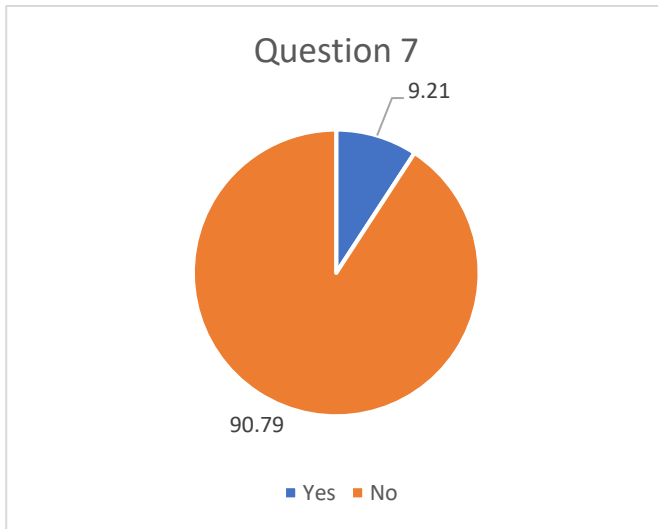
✚ Question 5. Do you allow employees to purchase lottery tickets at the location where they work?



✚ Question 6. If yes, are employees permitted to purchase tickets while working?



Question 7. Are employees permitted to purchase or validate/cash their own lottery tickets?



The review of internal Lottery policies and procedures has resulted in the following modifications:

COMPLETED

Instituted procedures to more frequently review prizes claimed by Lottery agents and their employees.

Utilizing an expanded claim form for agent/employee/immediate family wins to collect information about any relationship a claimant might have with Lottery agents and their employees.

Reduced the 2nd Chance player limits from 100 entries to 10 entries per day per person.

Reviewing all top prizes greater than \$25,000. This policy aligns our procedures with the policies and procedures that are used by the Multi-State Lottery Association.

The DOL recently completed a project with gaming vendor to attach the agent/employee status to each claim instead of the individual claimant.

The DOL recently updated the messaging on its customer facing self- service ticket checkers in all our agent locations to better inform players on where to redeem winning tickets over \$499.

Implemented a social media campaign offering bi-weekly player protection tips on Facebook, Twitter, and Instagram.

IN DEVELOPMENT

Set a standard where the individuals that win multiple times and above a certain amount will trigger a closer inspection by VLC Security.

Adopt best practice Lottery training for agent employees handling Lottery products and incorporate it into DLL certification training on and off- line programs.

Modify our current lottery retailer license agreement to:

cite an anti- ticket discounting policy (to be written) in new licensing. Ticket discounting is a practice where individuals and agents find a third party to cash their winning tickets to avoid criminal restitution or owed child support payments.

Conduct an annual survey of Lottery retailers to determine if they have had any type of ticket thefts within the past year?

Conduct a periodic survey of retailers regarding suggested security enhancements that they would like to see in our new gaming policies.

The Vermont Lottery is working with our instant ticket vendor to provide a mobile application that will permit players to check the winning status of their own tickets. It will become available by the end of the year.

Have gaming vendor issue an email alert to Vermont Lottery Security for unusual validation patterns.

Conclusions

The recent article that was published by a local media outlet could be fairly described as sensational and troubling; if the assertions had been proven to be true. The responses, as presented in the media report, from senior managers at the Lottery were disturbing and inappropriate considering the

seriousness of the accusations. I cannot speak to the circumstances that surrounded either the article or the responses from Lottery leadership because its release preceded my affiliation with the DOL.

The assertions presented in the article did serve as a catalyst for the Vermont Lottery Division to launch a thorough investigation of the individuals and businesses highlighted in the article. I would like to acknowledge the thorough and professional investigation of these accusations by past Executive Director Danny Rachek. The report was compiled and presented at a level that I would have expected from a past F.B.I. professional with over 20 years of investigative experience. The article did encourage the Division of Lottery to take a close look at its policies and procedures with an eye towards improvement

I was encouraged that the findings of the internal investigation refuted the suggestion that the Vermont Lottery and its retailer partners were in some way flawed and compromised. My personal review of Lottery's history, practices and procedures, an examination of the multitude of security features throughout the ticket manufacturing, distribution and retail channels was very enlightening. The results of this in-depth review have provided me with assurances that the Vermont Lottery provides all players with fair and uncompromised opportunities to recreate and win at all our games of chance.

The investigation and creation of this report has also provided affirmations that the Vermont Lottery Division is operated by a very professional and committed group of State employees. This group of dedicated individuals insure that the Division consistently operates within State statutes and regulations, and consistently exceeds all industry standards and procedures. This consistency of approach ensures that all Vermonters, that choose to play the lottery, can do so with the assurance that the Lottery games are not compromised in any way.

The article never clearly states any specific winning advantages that store owners and their employees had when purchasing lottery tickets. However, it does describe scams that had occurred in other states without offering evidence that they have ever occurred within Vermont. The article suggests but does not offer any evidence that any of the winners have done anything illegal or fraudulent in winning but claims that the dream of winning is more likely "if you own or work at one of the state's lottery agents."

There has not been any demonstrated advantage by agents or their employees to playing an online/terminal game from the store where they are employed. All terminal/online games have a drawing that is conducted outside of Vermont that is administered by another lottery. Each of these drawings has specific draw policies in place and are observed by independent auditors. The numbers from each draw are selected by a computerized random number generator or from draw balls randomly selected. It is impossible that any agent/employee/immediate family member would be able to independently manipulate the outcome of one of the multi-state drawings.

The citizens of our great State should recognize the consistent level of commitment and professionalism demonstrated by the team that runs the Division of Lottery and acknowledge their contributions to funding an education system serves our entire statewide community.

