

Comment on Report by Office of the Inspector General Re: Massachusetts State Lottery Cash WinFall Game

We commend and thank the Office of the Inspector General (OIG) for their swift and thorough response to our request to investigate the Lottery's now-defunct "Cash WinFall" game.

The inquiry was prompted by reports in *The Boston Globe* during 2011. Treasurer Steven Grossman and the Massachusetts State Lottery asked OIG to conduct a full review of the game's design and the way it was administered by the Massachusetts State Lottery.

Since taking office and appointing his own Lottery management team in January 2011 led by Executive Director Paul Sternburg, Treasurer Grossman has been committed to a reform agenda at the Lottery. This has included a major effort to implement clear and consistently executed rules and regulations for the Lottery. Where the Lottery fell short in that regard with respect to Cash WinFall, we regard this as a teachable moment for Lottery personnel, and we will use it to further refine our procedures and training.

Among OIG's key findings were:

- The game's design was not flawed, and it worked as intended. Cash WinFall was a specialized game played via the Lottery's terminal network that rather than being driven by large jackpots was designed to "roll-down" the betting pool to lower-tier prizes once the pool reached \$2 million. By design, playing the game during a roll-down draw was more lucrative than during regular draws.
- OIG found no evidence of any illicit activities or collusion among bettors, Lottery officials, or Lottery agents with respect to Cash WinFall.
- No players were disadvantaged by the game – everyone received the same odds and was eligible for the same payouts.
- The game was profitable for the Lottery and the taxpayers benefited from those profits, which were returned to the Commonwealth's General Fund for unrestricted local aid and other purposes.

We would also note that Mr. Sternburg and his team, soon after assuming their positions and before the *Globe* series appeared, had analyzed the Lottery's entire portfolio of games to determine where improvements could be made to maximize revenue generation. It was evident that Cash WinFall was underperforming after seven years in the marketplace and the Lottery immediately began developing a replacement for it: the highly successful "Lucky for Life" game launched in the Spring of this year in partnership with the other New England states.

However, less commendably, the OIG report also found:

- Four identified syndicates discovered the advantages of betting heavily during roll-downs and developed strategies for making extraordinarily large purchases of Cash WinFall tickets during those draws. While this did not directly disadvantage the average bettor in the sense of changing the game's odds, the sheer volume of the syndicates' bets meant that they were likely to claim an inordinately large share of the prize money.
- Moreover, the syndicates were aided by Lottery retailers – with the assent of some Lottery officials – who bent or broke the rules to allow them to make the high-volume bets. This included such practices as allowing syndicate members to operate Lottery terminals themselves, retailers becoming members of the betting syndicates, extending hours to accommodate the syndicates, and the Lottery granting outsized waivers of limits on the amount that could be wagered at any specific Lottery sales outlet.
- While the steps the Lottery took in the wake of the *Globe* series to block the syndicates shut down the syndicate betting for the remainder of Cash WinFall's life, the fact is that until the newspaper brought the matter to light, the Lottery was passive in its response to the problem even though it was well aware of the syndicates' activities.
- The measures that were taken included:
 - Halting waivers of the \$5,000-per-day betting limit per each Lottery terminal (and then tightening the limit to \$2,500 per day for Cash WinFall), and
 - Suspending the licenses of agents who had inappropriately assisted the syndicates.

These steps should have been taken much sooner.

We commend *The Boston Globe* for its initiative on Cash WinFall, but it should not have taken public exposure by a newspaper to trigger a response to the syndicate betting. We cannot speak for our predecessors on this matter, but with respect to what happened on our watch neither the fact that Cash WinFall was slated for replacement nor the fact that syndicate sales boosted profits in any way justifies unclear rules and regulations or inconsistent enforcement.

Accordingly, we have expanded our reform process to correct the systemic problems exposed by the Cash WinFall controversy to ensure that there are no gaps in the Lottery's regulatory structure that clever players, individually or in syndicates, can exploit. We are constantly examining our regulations to determine if there are ambiguities or gaps and strengthening our regulatory and enforcement processes. We are engaged in further training of Lottery personnel and retailers to ensure that both the letter and spirit of our rules are followed.

The Lottery is a business with \$4.74 billion in annual revenues that generated \$981 million in profits in the 2012 fiscal year. It is the largest single source of unrestricted local aid for the Commonwealth's 351 cities and towns. We regard it as essential that we protect the integrity of the Lottery and avoid even the appearance of impropriety.

Regrettably that did not happen with Cash WinFall. We apologize for it and are taking every possible action to avoid such missteps in the future.