

PERFORMANCE AUDIT REPORT

Paying Lottery Game Winners

**A Report to the Legislative Post Audit Committee
By the Legislative Division of Post Audit
State of Kansas
April 1988**

PERFORMANCE AUDIT REPORT

PAYING LOTTERY GAME WINNERS

OBTAINING AUDIT INFORMATION

This audit was conducted by Leo Hafner, Senior Auditor, and Allan Foster, Auditor, of the Division's staff. If you need any additional information about the audit's findings, please contact Mr. Hafner at the Division's offices.

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PAYING LOTTERY GAME WINNERS

Summary of Legislative Post Audit's Findings

How long does it take for winners in instant lottery games to receive their winnings? More than 99 percent of all lottery winners can receive payment instantly by presenting their winning ticket to the retailer who sold them the ticket. For some of the larger prizes which are not paid directly by retailers, it takes an average of about six days for the Lottery to process the claim and mail a State warrant to the winner. The Lottery's processing procedures account for about four of those days. The other two days are taken up by the Division of Accounts and Reports generating the warrants and checking to see if the winners owe any debts to the State. More than 90 percent of the winners the auditors contacted said that they thought the length of time they waited to receive their prize money was reasonable. However, some commented that they felt that all \$50 tickets should be paid instantly.

How do other states handle payments for winners in their instant lottery games? Of 17 states the auditors contacted, officials from 10 indicated that they pay all winners in a day or less if the winning ticket is hand-carried to a lottery office. For tickets that are mailed in for processing, only seven of the 17 states indicated that they could match or beat the six days it takes to pay a winner in Kansas. Officials from 13 of the 17 states indicated that they have authority to write their own checks. In addition, eight states said they have some sort of debt set-off program. Arizona was the only state contacted that paid claims immediately and also had a debt set-off program. This was made possible by having on-line computer terminals in the lottery offices with information from the set-off program readily accessible.

PAYING LOTTERY GAME WINNERS

The Kansas Lottery was created as an independent State agency in 1987 after Kansas voters approved a constitutional amendment authorizing lottery games in the State. At present, the Lottery is conducting its third instant lottery game and is participating in an on-going multi-state lottery game.

Legislation that would change the way lottery prizes are paid is currently in conference committee . Recently, legislative questions have been raised about how long it takes lottery winners to receive their winnings, and about how other states handle payments for winners in instant lottery games. To address these concerns, the Legislative Post Audit Committee directed the Legislative Division of Post Audit to conduct a 100-hour performance audit addressing the following specific questions.

- 1. How long does it take for winners in instant lottery games to receive their winnings?**
- 2. How do other states handle payments for winners in their instant lottery games?**

To answer these questions, the auditors reviewed agency procedures for paying prizes in instant games. They reviewed payments made to a sample of winners to determine how long it took the Lottery to pay the prizes. In addition, they interviewed some of those winners to determine their feelings about how long it took to receive their winnings. Finally, they contacted lottery officials from 17 other states to determine how they handle the payment process.

In general, the auditors found that on average it takes about six calendar days from the time a winning ticket is received by the Lottery until a warrant is mailed to the winner. Most winners contacted felt that the amount of time they waited to receive their money was reasonable. Most indicated they plan to continue to play the lottery. The majority of the other states contacted—10 of 17—indicated they have the capability of paying any prize within a day or less if the winning ticket is brought into the lottery office. Currently Kansas Lottery offices can only issue immediate payment on small prizes under \$5. These and other findings are discussed in more detail in the sections that follow.

How Long Does It Take For Winners In Instant Lottery Games To Receive Their Winnings?

To answer this question the auditors reviewed State statutes and rules and regulations governing the payment of winning lottery tickets. They reviewed the Lottery's written procedures for processing winning tickets and observed the processing of tickets at the Lottery headquarters. They selected a sample of winning tickets from "Match Three," Kansas' second lottery game, and verified the length of time it took to process the winners' claims for payment. Finally, they contacted a sample of those

winners to verify the length of time it took to receive payment, and to determine if they encountered any special problems in collecting their prize money.

The auditors found that it takes an average of about six days from the time a ticket is received at the Lottery headquarters until the warrant is mailed to the winner. Allowing for mail time, most winners should receive their money in 7 to 10 days. More than 90 percent of the winners the auditors called said they felt the time it took to receive their payment was reasonable. About 98 percent said they plan to continue to play the lottery.

Most Lottery Winners Receive Payments Instantly

The majority of lottery winners can receive instant payment for their winning tickets by taking them back to the retailer who sold them the ticket. Kansas Lottery regulations have several different options for payment based on the denomination of the winning ticket. The regulations for the second lottery game "Match Three" which ran from December 30, 1987 to March 2, 1988 are summarized in the box below.

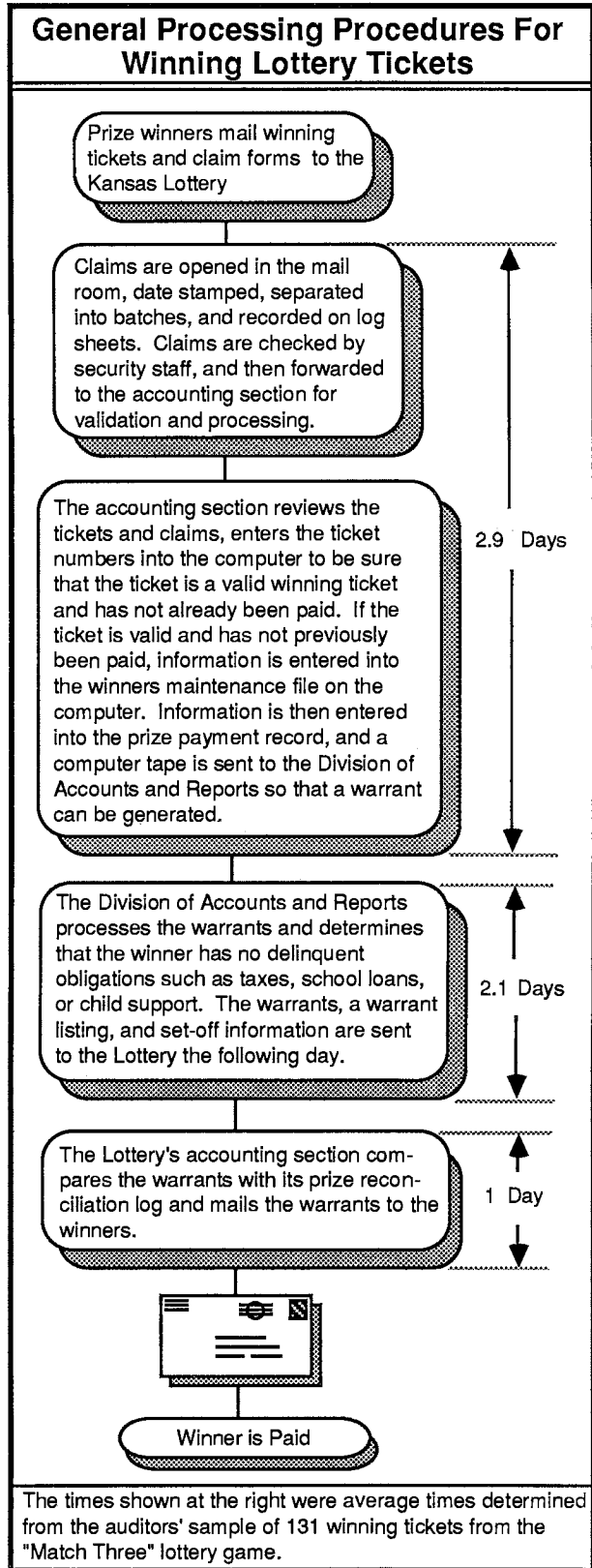
As the table shows, more than 99 percent of all lottery tickets can be redeemed instantly at the retail location where the ticket was purchased. Free tickets and \$2

<u>Prize Denomination</u>	<u>Percent of Prizes</u>	<u>Options for Receiving Payment</u>
Free Ticket	50.7%	<ul style="list-style-type: none"> a. Present the ticket where you purchased it and receive instant payment. b. Bring the ticket to any regional Lottery office and receive instant payment. c. Mail the ticket to the Lottery headquarters and receive payment in 7-10 days.
\$2	42.2%	
\$10	6.8%	<ul style="list-style-type: none"> a. Present the ticket where you purchased it and receive instant payment. b. Bring or mail the ticket to any Kansas Lottery office and receive payment in 7-10 days.
\$50	.28%	<ul style="list-style-type: none"> a. Present the ticket to the retailer who sold it to you. The retailer has the option of paying the ticket instantly or requiring you to bring or send it to a Kansas Lottery office for verification and payment. b. Bring or mail the ticket to any Kansas Lottery office and receive payment in 7-10 days.
\$500	.02%	<ul style="list-style-type: none"> a. Bring or mail the ticket to any Kansas Lottery office and receive payment in 7-10 days.
\$5,000	.002%	

winning tickets can also be brought to any regional office of the Lottery and a check will be immediately issued to the winner. For the \$10 tickets, the winner must go to the retailer if he or she wants to receive cash instantly. Otherwise, the ticket can be brought or sent into a Lottery office and a check will be mailed to the winner. For \$50 dollar tickets, the retailers have the option to pay the winner instantly or they may require the winner to bring or send the winning ticket to the Lottery. All \$500 or \$5,000 winning tickets must be brought or sent in to the Lottery for verification and payment.

Winners who mail their tickets in for payment should generally receive their money in 7-10 days. The auditors found that winning lottery tickets presented to the Lottery for payment are logged in, verified and entered into the computer. A computer tape of the winning tickets processed each day is sent to the Division of Accounts and Reports so that State warrants can be generated for payment, and so that the winners can be checked for delinquent debts such as taxes, child support payments, or student loans. The warrants are then returned to the Lottery and mailed to the winners. That process is depicted in the box at the right. The procedures shown in the box reflect the general flow for a lottery ticket when no problems are encountered. It does not reflect many of the detailed procedures Lottery staff perform in conjunction with processing winners such as charging a retailer's account when the Lottery pays a ticket which could have been paid by the retailer.

To determine how long the payment process generally takes, the audi-



**Current Processing of
Lottery Tickets Involves
Time-Consuming Procedures**

When mail is picked up by the lottery each day, winning tickets are sorted from general correspondence and from losing tickets sent in for the grand prize drawing. After the envelopes are opened, the lottery tickets are checked for agreement with the the attached prize claim forms and individually date stamped. If a claim form is not attached, a blank form must be attached to the tickets. Any problem or suspicious-looking tickets are set aside for security staff to review. The winning tickets are then sorted by lottery game and by prize category. The mailroom staff scratches off the covering on the "void if removed" number on the lottery tickets. Mailroom staff also record the ticket numbers for each game and prize category on separate log sheets. Security staff checks the tickets before taking them to the accounting section for validation and processing.

tors selected a random sample of \$50, \$500, and \$5,000 winning tickets from the "Match Three Lottery Game." The auditors reviewed the date the Lottery received each ticket in the mail, the date the Lottery processed each claim, and the date the Division of Accounts and Reports generated a warrant for payment. In all, the auditors selected 162 winning tickets for this review. Three of those tickets were removed from the sample because they were caught by the State's debt set-off program and did not progress through the payment process at a normal pace. Another 28 were not used to compute average processing time because the claim forms were not stamped with the date the Lottery received them. In the timeframe allowed for this audit, the auditors were unable to trace these 28 claims back to the daily logsheets to determine when the Lottery received them.

For the 131 claims remaining in the sample, the average time from the date the claim was received until a warrant was put in the mail was six days. About three of those days were spent at the Lottery logging and validating tickets and entering data so that the Division of Accounts and Reports could create warrants to pay the winners. The Division of Accounts and Reports accounted for an average of about two days to create the warrants and to check the winners against the State's debt set-off program. During the final day of the process, the Lottery checked the warrants against the winners' list and mailed out the warrants to the winners. The table below shows the number of days it took to process claims examined by the auditors.

**Number of Days
To Process Claims In the Auditors' Sample**

<u>Calendar Days Elapsed From Date Claim Received Until Warrant Mailed</u>	<u>Number of Claims</u>	<u>Percent of Total Sample</u>
3 days	7	5%
4 days	31	24%
5 days	8	6%
6 days	39	30%
7 days	21	16%
More than 7 days	25	19%
	<u>131</u>	<u>100%</u>

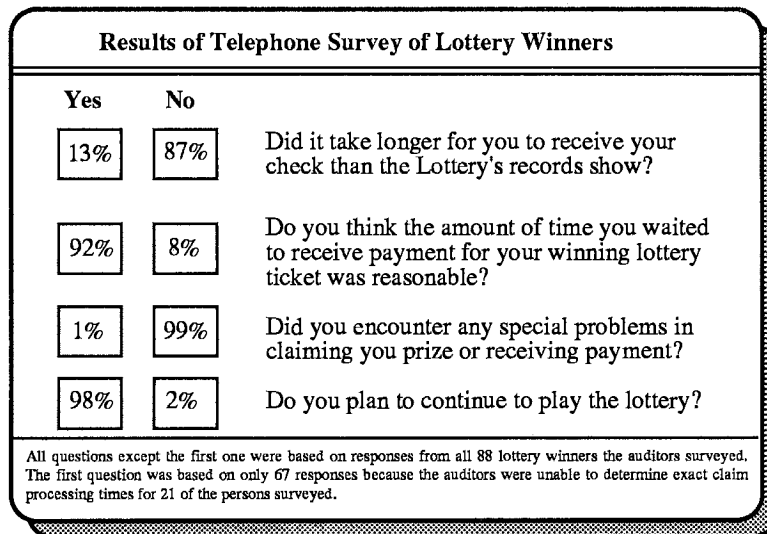
The shortest processing time for any of the claims reviewed by the auditors was 3 days, and the longest was 13 days. As the table shows, about five percent of the claims were processed in the shortest time. The Lottery mailed checks to 81 percent of the winners in seven calendar days or less.

The date a claim is received can affect the amount of time it takes to get the check to the winner. For example, several claims which took a total of 11 days before the warrant was mailed were affected by the day of the week they came into the Lottery's headquarters. These particular prize claims came in on a Friday, February 26. Claims coming in on a Friday generally will not reach the accounting section for verification and processing until the following Monday. These claims were validated and processed over the next several days, and a warrant was generated by the central accounting system on Friday, March 4. Warrants generated on Fridays will generally not be available to the Lottery until the following Monday. Therefore, although the total time elapsed appears to be 11 days, four of those days were the result of two weekends being included in processing times.

Payment time may also be lengthened slightly for higher denomination winning tickets taken or sent to a regional office rather than the Lottery's main office. The reason for this is the time it takes to forward the tickets from the regional office to the main office for processing.

Most Lottery Winners Consider Processing Times Reasonable

To determine what lottery winners thought of the length of time it took to receive their winnings, the auditors contacted 88 winners who appeared in their sample of winning tickets. The winners were asked to verify the length of time it took to receive their winnings. They were also asked if they felt the wait was reasonable and if they encountered any special problems in claiming their prize. Finally, the winners were asked if they planned to continue to play the lottery. The majority of the respondents had positive comments about the Lottery. The figure below summarizes the auditors' findings.



As the figure shows, most of the respondents agreed with the amount of time it took to receive the check for their winnings. In a few cases, persons indicated that it took from 3-6 weeks to receive their checks, even though the Lottery's records indicated that the check was mailed within a week-to-10-days after the claim was received. In an attempt to explain some of these differences, the auditors reviewed the postmarks on mail coming into the Lottery. On the day this review was conducted, the oldest postmark was three days old. Therefore it does appear that the mail can add as much as three days in each direction. However, this would generally not account for several weeks difference.

Another possible explanation is that the winners do not mail their claim forms promptly, but measure time from the date they bought the winning ticket rather than the date they mailed it. On the day the auditors reviewed the mail they noted several claim forms that were dated as much as a week prior to the postmark date appearing on the envelope. Thus it appears that some of the winners fill out the forms promptly but do not always get them in the mail right away.

The figure also shows that 98 percent of the winners surveyed felt the time it took to receive their money was reasonable. Many indicated surprise that it came as fast as it did. However, some people who thought the wait was reasonable commented that they thought the payment should be instant on smaller amounts like \$50.

Only one respondent indicated any problem in obtaining payment for a winning lottery ticket. This respondent indicated displeasure that the retailer where he purchased the \$50 ticket refused to pay and that he had to go to the regional office in Wichita to submit it for payment. On \$50 tickets retailers have the option of paying but are not required to do so.

Finally, the survey showed that about 98 percent of the winners intend to continue playing the lottery. Several people indicated they had won additional prizes since submitting the winning ticket that resulted in the auditors calling them for the survey.

How Do Other States Handle Payments For Winners In Their Instant Lottery Games?

Besides Kansas, 26 other states operate instant lottery games. The auditors were able to contact lottery officials in 17 of these other states. They found that most states award prizes faster than Kansas does if tickets are brought to the lottery office. However, Kansas pays faster than most other states when tickets are mailed to the lottery office. Eight other states besides Kansas submit names of large winners to a state set-off program. All the states contacted by the auditors except Maine operate instant games in a manner generally similar to Kansas. The table on the facing page shows the results of the auditors' survey.

Instant Game Prize Payment In Other States

<u>State</u>	<u>Prizes Paid by Retailers(1)</u>	<u>Prizes that Must be Processed By Lottery</u>	<u>Average Time For Payment</u>		<u>Prizes Subject To Set-off</u>	<u>Can Write Checks</u>
			<u>Ticket Brought To Lottery</u>	<u>Ticket Mailed To Lottery</u>		
Arizona	\$2 - \$20	\$50 - \$2,000	Immediately	1 - 2 days	Yes	Yes
California	\$1 - \$10	\$50 - \$10,000	3 - 6 weeks	3 - 6 weeks	Yes	No
Colorado	\$1 - \$100	\$1,000	Immediately	1 week	No	Yes
Connecticut	\$2 - \$50	\$1,000 - \$5,000	Immediately	2 weeks	No	Yes
Delaware	\$1 - \$70	\$700	1 day	1 day	No	Yes
Florida	\$2 - \$50	\$5,000	4 days	4 days	Yes	Yes
Illinois	\$1 - \$100	\$100,000	2 - 3 weeks	2 - 6 weeks	Yes	Yes
Iowa	\$1 - \$70	\$700 - \$7,000	1 day	1 day	Yes	Yes
Kansas	\$1-\$50	\$500-\$5,000	6 days	6 days	Yes	No
Maine	\$2 - \$500	None	Not Applicable	Not Applicable	No	No
Maryland	\$2 - \$500	\$25,000	Immediately	2 - 3 weeks	No	Yes
Missouri	\$2 - \$50	\$1,000	1 - 2 weeks	1 - 2 weeks	Yes	No
New York	\$1 - \$100	\$500	4 - 6 weeks	4 - 6 weeks	Yes	Yes
Oregon	\$1 - \$600	\$1,000	Immediately	1 day	No	Yes
Pennsylvania	\$2 - \$100	\$50,000	2.5 - 3 weeks	2.5 - 3 weeks	Yes	No
Rhode Island	\$2 - \$100	\$500 - \$1,000	Immediately	Within 10 days	No	Yes
Vermont	\$2 - \$100	More than \$100	Immediately	1 - 5 days	No	Yes
West Virginia	\$2 - \$600	More than \$600	1 day	1 day	No	Yes

(1) These figures are based on current or recent games conducted by these states.

As the table shows, most states award prizes faster than Kansas does if tickets are brought to the lottery office. Seven states award prizes immediately, three states award prizes within one day, and one state awards prizes within four days. All of these states are authorized to write their own checks. Colorado, in addition to being able to write checks, has the authority to pay prizes in cash. In Maine, the lottery office does not pay prizes because all prizes are paid by the retailers selling lottery tickets. The other five states take one to six weeks to award prizes.

Kansas awards prizes faster than most of the states when tickets are mailed to the Lottery offices. Only seven of the states awarded prizes in less than the six days it takes the Kansas Lottery to award prizes. Three of the five states with the slowest payment times reported that they receive a large number of complaints.

Of the states contacted by the auditors, eight states besides Kansas submit names of large prize winners to a state set-off program to collect money owed the state by the winners. Arizona was the only state that paid prizes immediately that also had a set-off program. It is able to pay immediately by having access to the set-off program through computer terminals in the lottery offices.

All the states contacted by the auditors except Maine operate instant games in a manner similar to Kansas. Retailers generally must pay small prizes and the lottery

must pay the largest prizes. In many states there are mid-range prizes that can be paid by either the retailers or the lottery. The table above shows the prizes that may be payed by the retailer and the prizes that must be paid by the lottery. As the table shows, the minimum prize that must be paid by the lottery ranges from \$50 to \$100,000.

Conclusion

On average, it takes the Kansas Lottery about six calendar days to get a check in the mail to an instant game winner. The Lottery's procedures account for about four of those days and the warrant generation and set-off procedures at the Division of Accounts and Reports account for about two days. Most lottery winners feel that the amount of time they wait to receive their lottery prizes in Kansas is reasonable. Of 17 other states the auditors contacted, 11 pay prizes more quickly than Kansas if tickets are brought in to the Lottery office. This is because those states' lotteries have the authority to write their own checks. On the other hand, for prizes that have to be paid through a lottery office, Kansas pays lottery prizes faster than most other states.

APPENDIX A

Agency Response

On April 20, 1988, a copy of the draft audit report was sent to the Kansas Lottery for review and comment. The Lottery's written response is included in this appendix.

April 21, 1988



Kansas Lottery

Mike Hayden
Governor

Larry Montgomery
Executive Director



Mr. Meredith Williams
Legislative Post Auditor
109 West 9th, Suite 301
Topeka, Kansas 66612

Dear Mr. Williams:

Thank you for the opportunity to respond to the Legislative Post Audit review of payment for lottery game winners. The Lottery concurs with your findings.

We were not aware Kansas is paying prizes faster than most other states, for prizes paid by mail-in through a lottery office. The credit goes to dedicated employees at the Lottery and in the Division of Accounts and Reports.

Unfortunately, with the exception of Maine, where retailers pay all instant prizes, your report indicates only three states, other than Kansas, do not have authority to write their own checks for walk-in customers. Your report also disclosed that most lotteries do write checks for walk-in winners, and, as a consequence, the majority of states pay walk-in winners faster than does Kansas. As you know, we are attempting to rectify this situation with legislation currently before a House and Senate conference committee. Should that legislation be approved, we would endeavor to have as many satisfied walk-in customers as your report indicates we currently have with mail-in customers.

As you indicated, current mail-in ticket processing is a time consuming process. Although early procedures only required use of log-in sheets, our current procedures also require date stamping for improved tracking.

Our staff appreciated the professional but courteous manner in which your staff conducted themselves during this review.

Sincerely,



Larry Montgomery
Executive Director

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