



NEWS ADVISORY

State of Iowa Citizens' Aide/Ombudsman

April 21, 2009

Citizens' Aide/Ombudsman
Ola Babcock Miller Building
1112 East Grand Avenue
Des Moines, IA 50319-0231

Investigation of Iowa Lottery Critical Report and News Conference

For more information, contact:

Bill Angrick or Jeff Burnham at (515) 281-3592 or 1-888-IA-OMBUD (1-888-426-6283) toll free

DES MOINES – The Iowa Lottery has failed to adequately protect its customers from fraud and theft by retailers.

That is the key conclusion of the Iowa Citizens' Aide/Ombudsman in a critical report released today. The 210-page report, which makes 60 recommendations to the Lottery, is the culmination of a year-and-a-half-long investigation into how the Lottery polices and prevents retailer fraud and theft.

The Lottery has not said which of the recommendations it will adopt.

Ombudsman William P. Angrick II will hold a news conference on his report on Wednesday, April 22, at 10 a.m. at his office in the Ola Babcock Miller Building, 1112 E. Grand Ave., in Des Moines.

The Ombudsman's investigation was triggered by developments in Canada, where independent investigators found that lottery retailers were winning a disproportionately large number of prizes, sometimes by defrauding customers. Angrick found that customer safeguards in Iowa fell well short of those in place in Canada, despite the Iowa Lottery's public claims to the contrary.

In his review of three years' worth of Lottery investigations, the Ombudsman found numerous customer complaints where leads went unexplored and potential crimes were not pursued. "Many of these were the types of cases where the Lottery investigator would need to 'make the case,'" the report says. "Most of the time they didn't even try."

Even when the Lottery substantiated complaints against retailers for fraud or theft, those retailers were in many instances not held accountable. On three separate occasions, retailers improperly withheld hundreds of dollars in prize money from customers trying to redeem a \$1,000 winning ticket. Two of those retailers claimed several other major prizes in the months before and after these incidents. None of those prize claims were investigated by the Lottery, and none of the retailers in question were sanctioned or charged.

The Ombudsman also found problems with the Lottery's response to eight customers who said they were sold tickets that appeared to have been tampered with. The Lottery either declined to investigate or discontinued its investigations after gathering evidence that appeared to support the customers' claims.

Customers were not the only ones whose complaints were not properly responded to. The owner of a retail store reported the systematic theft of some \$86,000 in Lottery tickets by four employees. The Lottery investigator backed out of the probe without interviewing key witnesses and mistakenly claimed a lack of jurisdiction.

The Iowa Lottery licenses approximately 2,500 convenience stores, grocery stores and other outlets to sell its products and to pay out the vast majority of Lottery prizes. Iowa law allows these retailers and their employees to play Lottery games with little or no oversight, even as they handle Lottery transactions for customers. Clerks also may continue to sell Lottery tickets even if they have been convicted of Lottery fraud or theft.

The Ombudsman discovered at least nine Iowa retailers and store employees who have collected five or more major wins, otherwise known as "high-tier" prizes. The odds of winning a high-tier prize, on average, are about one in 67,450. Among the retailers who have numerous high-tier wins were:

- A store owner and clerk who each claimed \$250,000 prizes in 2007 within three months of one another. The store clerk won an additional \$16,000 in less than one year's time.
- A retailer who has claimed 67 prizes for \$100,626 since 2005.
- A convenience store manager who claimed 17 prizes totaling \$33,290. The manager was charged with first-degree theft in connection with the 2007 theft of \$45,204 in tickets and cash from a Pull-tab vending machine. Despite the charges, the Iowa Lottery investigated none of his prior prize claims.

In interviews with the Ombudsman, Lottery investigators agreed that retailer players have several inherent advantages and should therefore be held to a higher standard than the general public. Lottery investigators acknowledged, however, that retailers receive no more scrutiny than customers.

High-ranking Lottery officials dismissed the idea that retailers should have to identify themselves as such when they claim prizes, as happens in several Canadian lotteries. When we said that we did not see the harm in such a practice, one official told us: "You don't see the harm. I don't see the advantage."

Records reviewed by the Ombudsman indicate that the Lottery has never, in its 24-year history, issued a license sanction against a retailer for fraud or theft.

The Ombudsman also found that the Iowa Lottery:

- Has routinely failed to seek recovery of prize money from thieves who cashed stolen Lottery tickets, or to even determine how much prize money those thieves obtained.
- Has allowed store owners to determine whether clerks who steal tickets or swindle customers should be referred for criminal prosecution, even though the Lottery is mandated by law to refer all suspected violations.

- Did not provide its investigators with an electronic database for cataloging and searching their casework from the mid-1990s until 2007.

In general, the Ombudsman found that the Lottery has maintained a weak, reactive enforcement system that fails to detect retailer dishonesty independently of customer complaints. This means that there likely have been instances of fraud – possibly large-scale fraud – that have gone undetected.

“What our investigation revealed is a pattern of indifference and incuriosity in an area where customers depend on the government to protect their interests,” Angrick said. “Unfortunately, when we sought to learn what was being done to prevent and police theft by Lottery retailers, the answer we arrived at was, ‘Not much.’”

“I am pleased to see that the Lottery has begun to enact some changes in its security procedures since we began asking questions more than a year ago. These are positive developments worthy of cautious optimism. However, because the Lottery’s response to my report minimizes the significance of its deficiencies, I remain concerned that customers could still be at risk.”

The Ombudsman’s examination marks the first time the Iowa Lottery’s investigative files have been audited by an outside authority. It also appears to be the first full-scale investigation of its kind in the United States.

The Ombudsman’s report was transmitted to the Governor and the Iowa General Assembly and made available online to the media and the public today. Copies of Angrick’s report are available at the Ombudsman’s website at www.legis.state.ia.us/ombudsman.

The Office of Citizens’ Aide/Ombudsman investigates the administrative actions of most state and local government agencies in Iowa, in response to complaints or on his own motion. The Ombudsman may also help people effectively raise their concerns to government agencies or understand why an action was taken.

Iowans can contact the Ombudsman at (515) 281-3592. Callers living outside the Des Moines area can call toll-free at 1-888-426-6283. The office has a TTY that can be reached using the toll-free number, or at (515) 242-5065. The fax number is (515) 242-6007. The office email address is ombudsman@legis.state.ia.us.