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👉 Details: Legislative Audit Bureau Report 05-8: An Audit: Wisconsin Lottery, Department of Revenue

(FORM UPDATED: 08/11/2010)

WISCONSIN STATE LEGISLATURE ... PUBLIC HEARING - COMMITTEE RECORDS

2005-06

(session year)

Joint

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* Contents organized for archiving by: Stefanie Rose (LRB) (October 2012)



STATE OF WISCONSIN
Legislative Audit Bureau

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Madison, Wisconsin 53703
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Leg.Audit.Info@legis.state.wi.us

Janice Mueller
State Auditor

May 10, 2005

Representative David Cullen
216 North, State Capitol
Madison, Wisconsin 53702

Dear Representative Cullen:

Thank you for your letter, dated May 5th, in which you raise concerns about recent media reports of a Wisconsin couple winning multiple second-chance Wisconsin Lottery drawings. I am forwarding your letter to the co-chairpersons of the Joint Legislative Audit Committee for their information.

The Wisconsin Lottery is currently conducting an internal review to explain the circumstances surrounding the couple's participation in the second-chance game and their winnings. We will continue to work closely with Lottery staff as they proceed with their review, and we will carefully consider any actions the Wisconsin Lottery may take in response to it.

Please contact me with any questions.

Sincerely,

Janice Mueller
State Auditor

JM/JC/bm

Enclosure

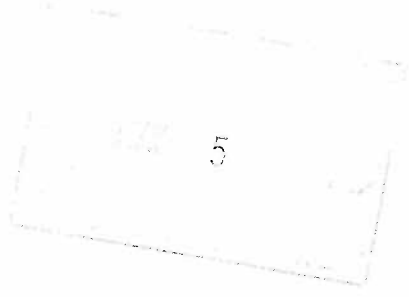
cc: Senator Carol A. Roessler, Co-chair
Joint Legislative Audit Committee

Representative Suzanne Jeskewitz, Co-chair
Joint Legislative Audit Committee

Michael J. Edmonds, Administrator
Division of Lottery



DAVID CULLEN
STATE REPRESENTATIVE



May 5, 2005

Ms. Jan Mueller
Wisconsin State Auditor
Legislative Audit Bureau
22 E. Mifflin Street, Suite 500
Madison, WI 53703

Dear Ms. Mueller,

Enclosed is a copy of payment records from the Wisconsin Lottery to Jeffrey and Lisa Hintz. These payouts begin on May 10, 2000 and culminate with winning the 2nd Chance game for the fifth straight week on April 29, 2005. The total amount won by the Hintz's is \$68,072.00.

As we discussed, please review this information with staff members who conducted the audit of the Wisconsin Lottery. As we await any internal investigation that is being conducted by lottery officials, I would appreciate any input you or your staff might have on these unusual circumstances.

If officials at the lottery fail to determine a reasonable explanation for the Hintz's large number of winning entries over the past five years, I request that you look into this situation immediately. State taxpayers generally and lottery players in particular need to have this cloud of suspicion that is hanging over the lottery removed as quickly as possible.

Thank you for your attention to this matter. I look forward to hearing from you.

Sincerely,

A handwritten signature in cursive script that reads "David A. Cullen".

DAVID A. CULLEN
State Representative
13th Assembly District

JEFFREY and LISA HINTZ PAYMENT RECORD
 January 1, 2000 through April 29, 2005

Date	Last Name	First Name	MI	City	ST	Type	Home Player/Super 2nd Chance/Sweet 16 Drawings	Money Game (\$Game)	Instant or Online Tickets
2000									
Dec 27 2000	HINTZ	JEFF	B	BONDUEL	WI	HPLR	\$1,500.00		
Jul 11 2000	HINTZ	JEFF	B	BONDUEL	WI	HPLR	\$1,500.00		
Jul 21 2000	HINTZ	JEFF	B	BONDUEL	WI	HPLR	\$1,500.00		
Nov 7 2000	HINTZ	JEFF	B	BONDUEL	WI	HPLR	\$1,500.00		
Jul 18 2000	HINTZ	JEFFREY	B	BONDUEL	WI	HPLR	\$1,000.00		
May 10 2000	HINTZ	JEFFREY	B	BONDUEL	WI	INST			\$1,000.00
Dec 5 2000	HINTZ	LISA	M	BONDUEL	WI	HPLR	\$750.00		
2001									
Dec 26 2001	HINTZ	JEFFREY	B	BONDUEL	WI	HPLR	\$1,200.00		
Jul 3 2001	HINTZ	JEFFREY	B	BONDUEL	WI	HPLR	\$900.00		
Jul 30 2001	HINTZ	JEFFREY	B	BONDUEL	WI	HPLR	\$1,500.00		
May 7 2001	HINTZ	JEFFREY	B	BONDUEL	WI	\$GAM			\$1,042.00
Jan 30 2001	HINTZ	LISA	M	BONDUEL	WI	HPLR	\$1,500.00		
Oct 1 2001	HINTZ	LISA	M	BONDUEL	WI	\$GAM			\$779.00
Oct 8 2001	HINTZ	LISA	M	BONDUEL	WI	\$GAM			\$1,052.00
Oct 15 2001	HINTZ	LISA	M	BONDUEL	WI	HPLR	\$1,500.00		
2002									
Aug 13 2002	HINTZ	JEFFREY	B	BONDUEL	WI	HPLR	\$1,000.00		
Dec 18 2002	HINTZ	JEFFREY	B	BONDUEL	WI	HPLR	\$1,000.00		
Dec 30 2002	HINTZ	JEFFREY	B	BONDUEL	WI	HPLR	\$1,000.00		
May 10 2002	HINTZ	JEFFREY	B	BONDUEL	WI	\$GAM			\$989.00
Aug 8 2002	HINTZ	LISA	M	BONDUEL	WI	HPLR	\$1,000.00		
Aug 30 2002	HINTZ	LISA	M	BONDUEL	WI	HPLR	\$1,000.00		
Dec 16 2002	HINTZ	LISA	M	BONDUEL	WI	\$GAM			\$1,500.00
Mar 28 2002	HINTZ	LISA	M	BONDUEL	WI	HPLR	\$3,000.00		
May 24 2002	HINTZ	LISA	M	BONDUEL	WI	HPLR	\$1,000.00		
2003									

Aug 14 2003	HINTZ	JEFFREY	B	BONDUEL	WI	HPLR	\$1,000.00		
Dec 15 2003	HINTZ	JEFFREY	B	BONDUEL	WI	\$GAM		\$3,000.00	
Nov 24 2003	HINTZ	JEFFREY	B	BONDUEL	WI	\$GAM		\$3,000.00	
Aug 11 2003	HINTZ	LISA	M	BONDUEL	WI	HPLR	\$1,000.00		
Dec 26 2003	HINTZ	LISA	M	BONDUEL	WI	HPLR	\$1,000.00		
Feb 7 2003	HINTZ	LISA	M	BONDUEL	WI	HPLR	\$1,000.00		
Jan 15 2003	HINTZ	LISA	M	BONDUEL	WI	ONLN			\$660.00
Mar 10 2003	HINTZ	LISA	M	BONDUEL	WI	\$GAM			\$1,500.00
Mar 17 2003	HINTZ	LISA	M	BONDUEL	WI	\$GAM			\$2,000.00
Mar 28 2003	HINTZ	LISA	M	BONDUEL	WI	\$GAM			\$2,000.00
May 13 2003	HINTZ	LISA	M	BONDUEL	WI	HPLR	\$1,000.00		\$2,000.00
Sep 18 2003	HINTZ	LISA	M	BONDUEL	WI	HPLR	\$1,000.00		

2004

5/21/04	HINTZ	LISA	M	BONDUEL	WI	Supr2nd	\$1,000.00		
8/30/04	HINTZ	LISA	M	BONDUEL	WI	Supr2nd	\$1,000.00		
10/26/04	HINTZ	LISA	M	BONDUEL	WI	SWT16	\$1,000.00		
11/1/04	HINTZ	LISA	M	BONDUEL	WI	Pick4			\$1,200.00
11/11/04	HINTZ	LISA	M	BONDUEL	WI	SWT16	\$1,000.00		
12/7/04	HINTZ	LISA	M	BONDUEL	WI	Pick4			\$5,000.00

2/23/04	HINTZ	JEFFREY	B	BONDUEL	WI	Supr2nd			2000
6/21/04	HINTZ	JEFFREY	B	BONDUEL	WI	Supr2nd	\$1,000.00		

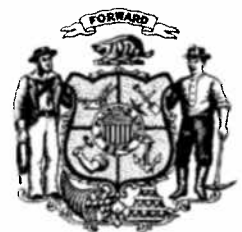
2005

1/3/05	HINTZ	LISA	M	BONDUEL	WI	Supr2nd	\$1,000.00	Draw 12/23/04	
2/16/05	HINTZ	LISA	M	BONDUEL	WI	Supr2nd	\$1,000.00	Draw 2/10/05	
4/1/05	HINTZ	LISA	M	BONDUEL	WI	Supr2nd	\$1,000.00	Draw 3/24/05	
4/8/05	HINTZ	JEFFREY	B	BONDUEL	WI	Supr2nd	\$1,000.00	Draw 3/31/05	
4/18/05	HINTZ	JEFFREY	B	BONDUEL	WI	Supr2nd	\$1,000.00	Draw 4/07/05	
4/25/05	HINTZ	JEFFREY	B	BONDUEL	WI	Supr2nd	\$1,000.00	Draw 4/14/05	
4/29/05	HINTZ	JEFFREY	B	BONDUEL	WI	Supr2nd	\$1,000.00	Draw 4/21/05	

Total Homeplayer/Super2nd Chance/Sweet 16
 Total Money Game (\$Game) \$41,350.00
 Total Instant or Online Tickets \$18,862.00
 Grand Total all Prizes \$7,860.00
 Grand Total all Prizes \$68,072.00



WISCONSIN STATE LEGISLATURE





STATE OF WISCONSIN
Legislative Audit Bureau

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DATE: May 10, 2005
TO: Karen Asbjornson and Pamela Matthews
Committee Clerks to the Joint Legislative Audit Committee
FROM: Julie Gordon, Financial Audit Director *JG*
Kate Wade, Program Evaluation Director *KW*
SUBJECT: Report 05-8: An Audit: Wisconsin Lottery

Janice Mueller
State Auditor

Enclosed is our audit of the Wisconsin Lottery, which is a division within the Department of Revenue. The report contains our annual financial audit and biennial program evaluation, both of which are required by s. 13.94(1)(em), Wis. Stats. We issued an unqualified opinion on the Wisconsin Lottery's financial statements for fiscal years (FY) 2002-03 and 2003-04.

Sales and expenses increased in both years, as did net proceeds of the Wisconsin Lottery available for property tax relief. In FY 2003-04, ticket sales reached \$482.9 million, their highest level since FY 1994-95. Property tax relief of \$131.6 million was made available from the Lottery and other gaming-related appropriations. We note that although Lottery officials project a decline in sales for FY 2004-05, largely because large Powerball jackpots have not materialized, they project sales to reach \$480.3 million in FY 2005-06.

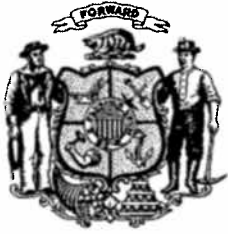
We reviewed the Lottery's process to award the most recent contract for gaming, telecommunications, and internal control systems, as well as selected management practices related to game selection and development. The Lottery administered two contested request for proposals (RFP) processes for its computerized gaming and internal control systems, and negotiated a final contract with GTECH that reduces estimated costs by approximately 26.4 percent. The Lottery should develop formal review criteria, consistent with the terms of the contract, to evaluate GTECH's performance. Similarly, the Lottery should develop a written methodology to ensure systematic analysis of the costs and revenues associated with the instant games it selects and develops. We note that games affiliated with a trademarked or copyrighted property are, on average, more costly to develop and generate less revenue than unaffiliated games.

Finally, the Lottery should have exercised more caution in deciding to participate in a special prize drawing that was related to the 2004 Super Bowl, and was arranged by a third party. Although the Lottery's loss was \$212,000, inclusion of performance bonds or similar contractual guarantees—a standard practice in contracts negotiated by the Lottery—would have protected the Lottery from this loss. The Secretary of Revenue indicated agreement with our recommendations in his response to the audit.

The report is scheduled to be released on Wednesday, May 11, at 9:00 a.m. Please contact us with any questions.

KW/bm

Enclosure

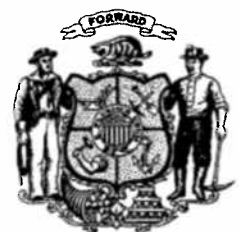


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State of Wisconsin - Legislative Reference Bureau
1 East Main Street, Suite 200
Madison, WI 53703



An Audit

Wisconsin Lottery

Department of Revenue

2005-2006 Joint Legislative Audit Committee Members

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Scott Fitzgerald
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Assembly Members:

Suzanne Jeskewitz, Co-chairperson
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Dean Kaufert
David Travis
David Cullen

LEGISLATIVE AUDIT BUREAU

The Bureau is a nonpartisan legislative service agency responsible for conducting financial and program evaluation audits of state agencies. The Bureau's purpose is to provide assurance to the Legislature that financial transactions and management decisions are made effectively, efficiently, and in compliance with state law and that state agencies carry out the policies of the Legislature and the Governor. Audit Bureau reports typically contain reviews of financial transactions, analyses of agency performance or public policy issues, conclusions regarding the causes of problems found, and recommendations for improvement.

Reports are submitted to the Joint Legislative Audit Committee and made available to other committees of the Legislature and to the public. The Audit Committee may arrange public hearings on the issues identified in a report and may introduce legislation in response to the audit recommendations. However, the findings, conclusions, and recommendations in the report are those of the Legislative Audit Bureau. For more information, write the Bureau at 22 E. Mifflin Street, Suite 500, Madison, WI 53703, call (608) 266-2818, or send e-mail to leg.audit.info@legis.state.wi.us. Electronic copies of current reports are available on line at www.legis.state.wi.us/lab.

State Auditor - Janice Mueller

Audit Prepared by

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CONTENTS

Letter of Transmittal	1
Report Highlights	3
Introduction	7
Property Tax Credit	8
Staffing Levels and Retailers	9
Financial Operations	11
Revenues	11
Ticket Sales	12
Expenses	13
Lottery Sales in Other States	14
Contract Award Process	15
Initial Request for Proposals Process	16
Second Request for Proposals Process	18
Final Contract	19
Lottery Game Management	21
Growth of Instant Games	21
Instant Game Development and Management	23
Affiliated Instant Lottery Games	24
Special Powerball Prize Drawing	26
Launching the Super Bowl Prize Drawing	27
Terminating Lottery Participation	27
Future Considerations	29
Audit Opinion	33
Independent Auditor's Report on the Financial Statements of the Wisconsin Lottery	
Management's Discussion and Analysis	35

Financial Statements

Statement of Net Assets as of June 30, 2004 and 2003	46
Statement of Revenues, Expenses, and Changes in Fund Net Assets for the Years Ended June 30, 2004 and 2003	47
Statement of Cash Flows for the Years Ended June 30, 2004 and 2003	48

Notes to the Financial Statements

51

Supplementary Information

Schedule 1—Reconciliation of Lottery General Operations Expenses to the Budgetary Basis of Accounting—FY 2003-04	66
Schedule 2—Statutorily Defined Lottery Administrative Expenses for the Years Ended June 30, 2002 through 2004	67
Schedule 3—Summary of Prize Expenses for the Years Ended June 30, 2000 through 2004	68

Report on Control and Compliance

69

Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance with Government Auditing Standards

Appendices

Appendix 1—National Lottery Sales
Appendix 2—Affiliated Instant Lottery Games

Response

From the Department of Revenue



STATE OF WISCONSIN

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Janice Mueller
State Auditor

May 11, 2005

Senator Carol A. Roessler and
Representative Suzanne Jeskewitz, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Roessler and Representative Jeskewitz:

As required by s. 13.94(1)(em), Wis. Stats., we have completed our annual financial audit and biennial program evaluation of the Wisconsin Lottery, which is administered by the Department of Revenue. We have issued an unqualified opinion on the Wisconsin Lottery's fiscal year (FY) 2002-03 and FY 2003-04 financial statements.

Total sales increased from \$406.7 million in FY 1999-2000 to \$482.9 million in FY 2003-04, or 18.7 percent. Both instant game and on-line ticket sales increased during this period. Approximately \$2.2 billion in property tax relief has been provided through gaming-related proceeds since the Wisconsin Lottery's inception in 1988.

Because instant game ticket sales account for the majority of the Wisconsin Lottery's revenues, we reviewed the process used to develop instant games, including those affiliated with copyrighted or trademarked properties. We include a recommendation to formalize game development and management practices and analyses. We also found that a loss of approximately \$212,000 was incurred in 2003 when participation in a Super Bowl prize drawing tied to the Powerball game was cancelled. We include a recommendation that the Wisconsin Lottery protect itself by ensuring that its contracts require a performance bond or similar guarantees.

We appreciate the courtesy and cooperation extended to us by Wisconsin Lottery staff in the Department of Revenue. The Department's response follows the appendices.

Respectfully submitted,

Janice Mueller
State Auditor

JM/KW/ss

Report Highlights ■

From FY 1999-2000 through FY 2003-04, total sales increased 18.7 percent.

We issued an unqualified opinion on the Wisconsin Lottery's financial statements for FY 2002-03 and FY 2003-04.

We make several recommendations for game and contract management.

The Wisconsin Lottery generates most of its revenues from the sale of instant and on-line game tickets. More than 4,100 retailer locations currently sell lottery tickets in Wisconsin. Approximately \$2.2 billion in property tax relief has been provided through the Wisconsin Lottery and other gaming-related proceeds since 1988.

As directed by s. 13.94(1)(em), Wis. Stats., we completed a financial audit and program evaluation of the Wisconsin Lottery. For the financial audit, we evaluated internal controls, substantiated account balances, and verified compliance with state laws and regulations. We issued an unqualified opinion on the Wisconsin Lottery's financial statements for the years ended June 30, 2003 and 2004.

For the program evaluation we:

- examined trends in revenues and expenses;
- reviewed the Wisconsin Lottery's process to award the most recent instant ticket, on-line gaming, telecommunications, and internal control systems contracts;
- reviewed the development and management of instant games offered by the Wisconsin Lottery, focusing on the development of instant games affiliated with copyrighted or trademarked products; and

- assessed participation in a 2003 special prize drawing tied to the Powerball on-line game.

Lottery Revenues and Expenses

Wisconsin's 2002-03 per capita lottery sales were fifth among seven midwestern states. From fiscal year (FY) 1999-2000 to FY 2003-04, total ticket sales increased from \$406.7 million to \$482.9 million, as shown in Figure 1, or 18.7 percent. Instant game ticket sales, which have consistently represented over 50 percent of the Wisconsin Lottery's total sales, increased 12.1 percent, while on-line game ticket sales increased 28.4 percent. Revenues from all sources reached \$483.2 million in FY 2003-04.

Figure 1
Lottery Sales
 FY 1999-2000 through FY 2003-04



Operating expenses increased 17.0 percent, to \$342.4 million, from FY 1999-2000 to FY 2003-04. Administrative expenses have not exceeded 10 percent of gross revenues, as required by statutes, and the Legislature has limited expenses for informational advertising to \$4.6 million annually since FY 1990-91.

Contract Award

In November 2003, the Wisconsin Lottery entered into a seven-year systems and services contract with GTECH Corporation. Two requests for proposals were issued for the contract; the first ended after appeals were filed contesting the Wisconsin Lottery's initial decision.

GTECH provides computer systems and services for instant ticket, on-line gaming, telecommunications, and internal control systems. We estimate that in FY 2004-05, payments to GTECH will total \$11.7 million. Under the terms of the previous contract, payments for similar services totaled \$15.9 million in FY 2003-04.

All new systems required under the terms of the current contract with GTECH were functioning in September 2004. However, the Wisconsin Lottery has not yet developed performance criteria for an annual review that is specified in the contract. Our report includes a recommendation for the development of formal review criteria.

Instant Game Development

The number of instant lottery games introduced each year increased from 37 in FY 1999-2000 to 59 in FY 2003-04.

In determining which instant games to develop and sell, the Wisconsin Lottery considers information from different sources, including studies that identify game player preferences, analyses of the effectiveness of informational advertising, in-house testing of potential games, and past sales from comparable games. However, we found that more could be done to formalize policies and procedures that would improve the game development process, ensure consistent application of policy, and maximize sales of individual games.

Affiliated Instant Lottery Games

As part of its sales strategy, the Wisconsin Lottery sells affiliated instant games that are associated with copyrighted or trademarked names or products. It must obtain permission from the party that holds the licensing rights to these properties and provide compensation through fees or by purchasing merchandise to be used as prizes. We found that affiliated instant games are more costly to develop than other instant lottery games. From FY 1998-99 through FY 2002-03, development costs were 56.2 percent higher for affiliated than for unaffiliated games. They averaged \$107,900 for affiliated and \$69,100 for unaffiliated games.

Lottery officials indicate that affiliated games are intended to generate interest and sales by appealing to individuals who may not typically purchase lottery tickets. However, the Wisconsin Lottery does not have formal procedures to analyze costs and revenues associated with affiliated games.

Special Prize Drawing

To generate awareness of the Powerball on-line game, the Wisconsin Lottery decided in 2003 to participate in a special prize drawing to provide ticket and travel packages to the Super Bowl game held in February 2004. It joined 17 other members of the Multi-State Lottery Association (MUSL), a nonprofit organization that operates multi-state on-line lottery games, in the special prize drawing. However, in response to a cease and desist letter issued by the National Football League to another MUSL member, the Wisconsin Lottery subsequently decided to withdraw from this special prize drawing. It was able to recover some costs it had already incurred, but others could not be recovered and an estimated \$212,000 was lost.

Before deciding to participate in this special prize drawing, the Wisconsin Lottery could have minimized its loss either by ensuring that the third party offering the prize package was contractually required to deliver the tickets, or by purchasing a performance bond to protect itself and its customers. Our report includes a recommendation for all vendor contracts to include guarantees that will protect the Wisconsin Lottery if products are not delivered.

Recommendations

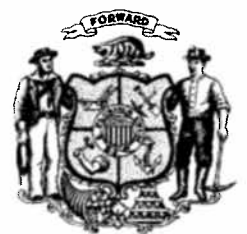
Our recommendations address the need for the Wisconsin Lottery to:

- ☑ develop formal review criteria to evaluate, on an annual basis, GTECH's performance in complying with the current systems and services contract (*p. 20*);
- ☑ develop a written methodology to analyze costs and revenues for all instant games, including affiliated games (*p. 26*); and
- ☑ require all vendor contracts to provide guarantees that will protect it in the case of nondelivery of products (*p. 28*).

■ ■ ■ ■



WISCONSIN STATE LEGISLATURE





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Janice Mueller
State Auditor

May 11, 2005

Senator Carol A. Roessler and
Representative Suzanne Jeskewitz, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Roessler and Representative Jeskewitz:

The report we released today, *An Audit: Wisconsin Lottery* (report 05-8), renders an opinion on the Wisconsin Lottery's fiscal year 2002-03 and 2003-04 financial statements and evaluates several management issues. However, it does not address recent reports of a Wisconsin couple winning multiple second-chance Wisconsin Lottery drawings, including five consecutive drawings in fiscal year 2004-05. That matter is currently being reviewed by the Wisconsin Lottery. We will continue to work closely with its staff and will carefully consider any actions the Wisconsin Lottery may take in response to their review.

Sincerely,

Janice Mueller
State Auditor

JM/JC/bm

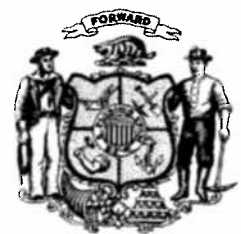
cc: Senator Robert Cowles
Senator Scott Fitzgerald
Senator Mark Miller
Senator Julie Lassa

Representative Samantha Kerkman
Representative Dean Kaufert
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Representative David Cullen

Michael J. Edmonds, Administrator
Division of Lottery



WISCONSIN STATE LEGISLATURE



Original URL: <http://www.jsonline.com/news/state/may05/324812.asp>

What are the odds? Two win 36 lotteries

State official asks for review in drawings

By **PATRICK MARLEY**
pmarley@journalsentinel.com

Posted: May 9, 2005

Madison - A state lawmaker has asked for an audit to determine how a Bonduel couple won three dozen second-chance state lottery drawings since 2000.

In 5½ years, Jeffrey B. and Lisa M. Hintz have won more than \$40,000 in second-chance drawings, including \$5,000 from five consecutive weekly drawings this March and April.

Since 2000, they've won another \$26,000 from scratch-off tickets, other lottery games and the lottery's since-canceled television game show. In all, they have collected more than \$68,000 during that time, according to records compiled by state Rep. David Cullen (D-Milwaukee).

Cullen said those winnings seem out of line and that an audit would ensure people maintain their faith in the lottery.

"You win that (second-chance drawing) for four or five weeks in a row, that becomes fairly improbable, (though) not impossible. . . . I just think the public needs to know that if we're running a lottery, that it's fair," he said Monday.

The couple's most recent winning streak started March 24, when they won \$1,000 from the Super Second Chance drawing. They won \$1,000 on each of the next four Thursdays.

WTMJ-TV (Channel 4) first reported the couple's spate of winnings last week. The Hintzes did not return calls.

Andrew Bohage, a lottery spokesman, said lottery officials started looking into the matter in April, after the couple won the second-chance drawing for the second straight week. No problems have been found, he said.

Agency employees have confirmed the winning entries are valid. Bohage said that they are reviewing internal procedures and checking with retailers to make sure no tickets have been stolen.

Cullen said he would prefer to see an independent review of the matter.

State Auditor Janice Mueller said she would wait until lottery officials concluded their inquiry before deciding whether to look into the matter.

Every week, the lottery randomly picks 10 people who mail in losing tickets, awarding each winner \$1,000. The person who draws the entries is blindfolded and is accompanied by a Capitol police officer and an independent auditor.

The lottery receives about 70,000 entries a week, meaning the chances of winning per entry per week are roughly 1 in 7,000. Winning multiple times is far less likely.

People can enter as often as they like, and with each entry their chances of winning rise. Each entry must include \$5 in losing tickets, so someone with \$20 in losing tickets could enter four times.

There is no prohibition on sending in tickets found on the street or in garbage cans, Bohage said.

People with access to numerous losing tickets, such as retailers, are not barred from entering the second-chance sweepstakes.

Bohage said that the second-chance drawings have a "niche audience" and that people often enter multiple times. Lottery officials have not checked how many entries the Hintzes submitted in recent weeks, he said.

Officials also have not determined whether others have won an unusually high number of second-chance games.

Cullen's records, which Bohage called accurate, show the Hintzes have won second-chance drawings 36 times since 2000, in amounts ranging from \$750 to \$3,000. While the Super Second Chance has only \$1,000 prizes, earlier second-chance games had prizes of other amounts.

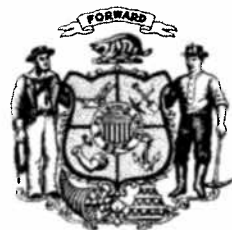
For other games, their largest single winning came in December 2004, when Lisa Hintz won \$5,000 on the Pick 4 game.

From the May 10, 2005, editions of the Milwaukee Journal Sentinel
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State lottery lost \$212,000 on promotion

NFL sidelined Super Bowl ads

By PATRICK MARLEY
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Posted: May 11, 2005

Madison - The state lottery bought Super Bowl tickets in 2003 but abandoned a plan to give them away after the NFL raised last-minute concerns, causing the lottery to forfeit more than \$200,000.

The promotional fumble was revealed Wednesday in the state's annual audit of the lottery.

After the promotion was under way in other states, the National Football League said advertisements could not mention the league or Super Bowl by name, said Chuck Strutt, the executive director of the non-profit group that runs the Powerball lottery across the country.

The 17 other lotteries participating in the Super Bowl game ultimately proceeded with their drawings without incident, said Strutt, who heads the Multi-State Lottery Association.

The group set up the deal through Wolever Management, which acquired the tickets from Lynn Swann, the former Pittsburgh Steelers wide receiver now toying with a run for Pennsylvania governor.

Wisconsin Lottery officials never reviewed the non-profit group's contract with Wolever or required Wolever to buy a performance bond to protect Wisconsin from such losses, as it does for other contracts it enters.

Lottery spokesman Andrew Bohage said the agency would apply those standards to all future contracts, including those entered through the lottery association.

"What happened here is that we had a person who approached an organization that administers a game largely for us, but also with us, who has a long history of providing this kind of service and who has a relationship with the National Football League that was and is beyond reproach," Bohage said, referring to Swann.

The lottery is contemplating suing to recover its losses, Bohage said.

Strutt said no one mentioned restrictions on how the giveaway could be advertised when the deal was struck. Swann denied that.

"To my knowledge, the people who organized this for all the states were informed from the beginning of what they could not do," Swann said.

In the summer of 2003, Wisconsin and the other lotteries signed up for the deal, which would have given winners two tickets to luxury suites at the February 2004 Super Bowl, airfare, hotel rooms, Super Bowl jackets, \$500 in cash and payment of federal taxes on the prize. Wisconsin bought nine of the prizes, valued at \$26,000 each, and planned to enter into a drawing anyone who purchased \$10 in Powerball tickets.

Days before the Wisconsin Lottery launched its October advertising campaign, the NFL ordered the Colorado Lottery to stop its advertising campaign because of trademark concerns.

The Wisconsin Lottery canceled its drawing, sold the tickets and gave the jackets to retailers as prizes. Its total losses amounted to \$212,000, auditors found.

Colorado and the other states decided to hold the drawings anyway.

Unlike Wisconsin, their ad campaigns were already under way when the NFL intervened, Strutt said. Because of that earlier advertising, people generally understood what the lotteries were giving away even though later ads contained no references to the Super Bowl.

But because Wisconsin had not run ads, it would have been difficult to communicate what people could win, said Bohage. The lottery was forced to "make a decision between bad alternatives," he said.

The audit also found:

- From fiscal 2000 to fiscal 2004, lottery revenue rose 18.8%, to \$483.2 million. During that period, expenses increased 17%, to \$342.4 million, which includes \$275.2 million in prizes.
- Wisconsin ranks fifth among seven Midwestern states in per-capita lottery sales. In fiscal 2003, Wisconsin sold \$79.20 tickets per capita, compared with a high of \$182.30 in Ohio and a low of \$64.80 in Iowa.

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Poor get poorer in lottery land

Higher-poverty areas win less

By **AMY RINARD**
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Posted: July 5, 2005

Nearly one-third of all state lottery tickets sold in southeastern Wisconsin last year were sold in poor neighborhoods, and players in these areas hoping to strike it rich have not seen as many big payoffs as the rest of the region, a Journal Sentinel analysis shows.

Longtime lottery player Tim Butler, who lives on Milwaukee's west side, didn't need to see the numbers to know that he and his neighbors are not exactly reaping big rewards from their investment in lottery tickets.

"I have never won any decent amount of money with tickets I bought in the inner city," said Butler, a Milwaukee County bus driver, shortly after returning home with another \$20 worth of Pick 3 and Pick 4 tickets.

He said in the seven years he has been buying lottery tickets - usually several every day - his biggest prize has been \$500 won in the Super Cash game with a ticket, he makes a point of noting, that he purchased on the city's south side.

"I'm going to keep playing, hoping things will change," Butler said. "And all the money I lost, I stand a chance of recouping."

Butler lives in the 53210 ZIP code, where, according to U.S. Census data, almost 25% of residents live below the poverty level. In that area, a total of \$3.3 million worth of lottery tickets were sold during the 2003-'04 fiscal year.

Yet, residents of that area won only about \$145,000 in prizes of more than \$600 each. That's about 4 cents for every \$1 spent in lottery tickets. Only prizes greater than \$599 are tracked by the lottery by winner because those winning tickets must be taken to a state lottery validation center to be cashed.

Most other high-poverty areas of southeastern Wisconsin had similar ratios of lottery sales to winnings.

In the 53233 ZIP code area - bounded roughly by Highland Ave., the Menomonee Valley, 27th St. and 6th St. - where the poverty rate is more than 47%, neighborhood retailers sold \$1.1 million in lottery tickets while residents won only a total of \$11,100 in prizes of \$600 or more.

Overall, in 18 ZIP code areas of southeastern Wisconsin with the poverty rates of 10% or more, a total of \$54.8 million worth of lottery tickets were sold. That's 32% of total sales in the entire region of \$171 million during 2003-'04. Lottery sales statewide that year totaled \$483 million. The statewide poverty rate was 8.7% in 2000.

In those higher-poverty ZIP codes, the return in big payouts of residents' ticket purchases was

Lottery Tickets

By the Numbers

6 cents on the dollar
 Winnings in the 18 high-poverty ZIP codes of southeastern Wisconsin for residents who played the lottery.

10 cents on the dollar
 Winnings in the other 76 ZIP code areas of southeastern Wisconsin.

Quotable

“It's all random. There's no way I, or anybody at the lottery, could influence the location of winners.”

- Mike Edmonds,
 Director, Wisconsin
 Lottery

Poverty and the Wisconsin Lottery

about 6 cents on the dollar (though a couple of ZIP codes had much higher winning rates - in 53212, with a 36% poverty rate, it was 22 cents on the dollar, for example).

In the other 76 ZIP code areas that make up southeastern Wisconsin, the lottery paid out more than 10 cents for every dollar spent on tickets.

And in wealthiest ZIP codes areas in southeastern Wisconsin, the proportion of winnings to tickets sold is more than double that of the poorest areas.

Residents living in the 20 ZIP codes with the highest median household incomes won \$3.1 million in 2003-'04 with \$21.7 million worth of tickets sold in those areas. That's 14 cents in winnings for every dollar in lottery sales.

For example, in the 53045 ZIP code in Brookfield, where the median household income is about \$85,000, there were \$1.2 million worth of lottery tickets sold in 2003-'04. Residents of that ZIP code won more than \$520,000, about 45 cents for every dollar spent on tickets.

Of course, people who live in one ZIP code area do buy lottery tickets outside their own neighborhoods, which somewhat skews both total sales and total big prize payout statistics by individual ZIP code.

But the Journal Sentinel's analysis of figures supplied by the Wisconsin Lottery uses the best method available for comparing lottery sales with the household incomes of ticket buyers, many of whom make ticket purchases close to home. And the lottery's data is the only way to track where the winners live.

Mike Edmonds, director of the Wisconsin Lottery, said he's not sure the available data supports any hard-and-fast conclusions about lottery sales or about where winners live. Just because someone buys a lottery ticket in a high-poverty area doesn't mean they live there, he said.

Despite the strong feelings of Butler and other Milwaukee lottery players, Edmonds flatly rejects the notion that where people live and buy lottery tickets determines who wins larger prizes.

He said he hears this theory recited all over the state.

"When I'm outside of Milwaukee County, people say, 'All your winners are in Milwaukee,' and when I'm in Milwaukee County people say, 'All your winners are outstate,'" said Edmonds. "That's a common complaint; but, in the end, it's all random. There's no way I, or anybody at the lottery, could influence the location of winners."

Edmonds also noted that one of the most popular games in Milwaukee County is the Pick 3 game, which has a top prize of \$500 - prizes that are not recorded and tracked by the lottery. Of the \$23 million in Pick 3 sales statewide last year, he said, half of those sales were in Milwaukee County.

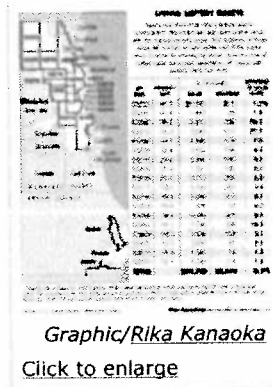
But Sen. Spencer Coggs (D-Milwaukee), whose district includes many of the ZIP code areas with high poverty rates, including the poorest - 53233 - sees reason for concern in the analysis of lottery data.

He said the sales data are likely to be a good reflection of where people living in poor neighborhoods buy lottery tickets because they often lack transportation and are likely to walk to the nearest gas station or convenience store to buy tickets.

Coggs said he was troubled by the large lottery sales figures in poor neighborhoods, but understands why poor people buy lottery tickets even though the cost represents a higher percentage of their incomes than it would for others.

"They feel themselves in poverty and they don't feel a way to get out and this lottery presents this almost-impossible chance of getting out of poverty," he said. "Poor people tend to feel more desperate about these kinds of things, and they take that one-in-a-million chance more than a middle- or upper-middle income person."

Coggs said for years he has heard complaints from his inner city constituents about the lack of big lottery winners from predominantly African-American neighborhoods.



The conclusions of the Journal Sentinel analysis, he said, were startling and might cause his constituents to rethink their lottery habits.

"I honestly believe people seeing these statistics might want to reconsider throwing their money away," said Coggs. "My view is 'buyer beware.' But if I was buying lottery tickets and I see that low numbers of people from my neighborhood are actually winning, I would think twice about playing."

Ashif Maher has worked at the Mobil station near W. National Ave. and S. Layton Blvd. in the 53215 ZIP code, since 2001. Each day, he said he sells about \$800 in lottery tickets in this area, where the poverty rate is 20%, and hands out around \$200 to those lucky enough to win.

Many of the players are elderly or poor, he said. Most of them lose, and many of the winners take home only a dollar or two.

"No, I don't think it's fair at all," Maher said. "People play like it's like the casinos."

Sue Robinson, who lives on the city's southwest side in ZIP code area 53215 and who said she buys Powerball tickets once or twice a month at her corner convenience store, admits that the numbers on winners are not very encouraging.

In her ZIP code, a total of \$5.2 million in lottery tickets were sold in 2003-'04 while prize payouts of \$600 or more totaled just \$202,000 - less than 4 cents on the dollar.

"Every time I go, I see people who probably shouldn't be buying lottery tickets," she said. "If you really can't afford it, that's where that hope thing comes in."

Robinson said despite what she called "a real lousy return" on her investment in lottery tickets - the most she ever won in five years was \$7 - she's not going to stop playing.

"I'm at the stage where a buck or two isn't going to hurt me. It's that little glimmer of hope of getting away from my wage-slave job," she said.

"You do hear about people winning; you might beat the odds, you never know."

Steven Walters and Chase Davis of the Journal Sentinel staff contributed to this report.

From the July 6, 2005, editions of the Milwaukee Journal Sentinel
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