

Questions About Connecticut Lottery Corporation

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Issue

Questions for Connecticut Lottery Corporation officials.

The Connecticut Lottery Corporation (CLC)

CLC operates the Connecticut state lottery.

The statewide lottery was legalized in 1971 (PA 865), and lottery operations began in 1972 with a weekly game. Initially, the Commission of Special Revenue, later renamed the Division of Special Revenue, administered the lottery. Since July 1, 1996, it has been administered by CLC, a quasi-public agency created by [PA 96-212](#).

CLC is charged with serving a public purpose, specifically (1) operating and managing the lottery in an entrepreneurial and business-like manner, (2) increasing lottery revenue by “being responsive to market forces and acting generally as a corporation engaged in entrepreneurial pursuits,” and (3) operating the lottery with integrity and for the public good ([CGS § 12-806](#)).

CLC is governed by a 13-member board of directors, including the state treasurer and Office of Policy and Management secretary, who both serve ex-officio. The governor appoints five of the members, who must be confirmed by the legislature in the same way as department heads, and the chairperson from among the membership. The six top legislative leaders appoint six members, four of whom must have skill, knowledge, and experience in management, finance, or private sector

operations. The board appoints a president, who is responsible for the day-to-day management of the corporation.

The court may remove directors for misfeasance, malfeasance, or willful neglect of duty. Anyone so removed becomes ineligible for reappointment ([CGS § 12-802](#)).

The Department of Consumer Protection (DCP) has regulatory oversight of the corporation ([12-806\(b\)\(13\)](#)). This function includes licensing lottery employees and lottery agents, among others; assuring the integrity of the lottery, including the computer gaming system, computer internal control, and system testing; and limiting advertising and marketing content to ensure the prohibition of ticket sales to minors ([CGS § 12-568a](#)).

5 Card Cash Game

In 2015, the CLC suspended (and later terminated) the 5 Card Cash game after it discovered that lottery agents were manipulating the computer system to produce a disproportionate number of winning tickets. DCP is investigating.

1. Please describe the 5 Card Cash game to the committee.
2. What was the nature of the 5 Card Cash game scam? How were lottery agents able to manipulate this game?
3. Published reports indicate that CLC knew about the computer security issue that enabled the scam for months before CLC took action. Is this true?
4. How and when did CLC learn that there were problems with the game?
5. When did CLC shut the game down?
6. Did CLC shut the game down on its own initiative or on DCP's order?
7. What action did CLC take between the time it learned about the problem and the time it suspended the game?
8. How much money did CLC lose as a result of the scam?
9. How many machines were involved in the scam?
10. How many agents were involved in the scam? Has DCP's investigation implicated anyone beside lottery agents?

11. Have there been any previous problems with the lottery agents who were involved in the scam?
12. To what kind of security review and testing are the games and machines subject, if any? Who is responsible for this?
13. What kind of security review and testing have been conducted on the other machines and games to determine if they are susceptible to the same type of manipulation as the 5 Card Cash game?
14. Under normal circumstances, what percentage of the 5 Card Cash game tickets sold were winners? How did this percentage change during the scam?
15. Published reports say this is not the first time there have been problems with the 5 Card Cash game. Is this true?
16. Does any other state offer the 5 Card Cash game? If yes, are you aware of any problems with the game in those states?
17. Whose responsibility is it to determine when there is a problem with a game? Whose responsibility is it to shut down or suspend a problem game?
18. CLC originally sought as much as \$4.2 million in damages from Scientific Games Corporation, the vendor of 5 Card Cash game, but ultimately settled for between \$500,000 and \$600,000. What was the reason for such a large difference in the requested amount and the settlement?
19. Of the settlement amount, \$300,000 must be used to upgrade the lottery's computer system that operates the game. What type of upgrades will be made?
20. After all of the problems with the 5 Card Cash game, will CLC continue to use Scientific Games as its vendor?
21. Has any CLC employee been disciplined or held accountable for the scam?

Lottery Revenue

CLC has the power to (among other things) introduce or modify lottery games; determine distribution channels for lottery tickets; and, to the extent authorized by DCP, introduce instant ticket vending machines, kiosks, and automated wagering systems and machines ([CGS § 12-806](#)).

1. What games does CLC currently offer?
2. How much revenue did the games generate last fiscal year and in the last five fiscal years? How much revenue was transferred to the General Fund in the last five years?
3. Which games generate the most revenue?
4. How much revenue has keno generated since its introduction? What percentage of total lottery revenue does this represent?
5. How did keno sales affect other traditional lottery products?
6. Anne Noble, former CLC president and CEO, told the Finance, Revenue and Bonding Committee (April 15, 2015) that in the first three years of operation keno [was] projected to increase gross lottery sales by \$25 million, \$50 million and \$75 million respectively, more after that, and likely eventually eclipse sales of Powerball." Has keno revenue met these projections? If not, were the projections overly optimistic, or is there something else at play?
7. Discussions are underway for a possible third Connecticut casino. How would another casino affect lottery revenue?
8. Lottery revenue is bound to peak at some time. What are the telltale signs that revenue is peaking? Are any of those signs present now?

Lottery Agents

All lottery sales agents must be licensed annually by DCP. A prospective agent must undergo a criminal background check, a financial suitability assessment, and be approved by DCP.

1. How many lottery agents are there in the state? Would you consider this to be an optimum number of agents?
2. Are agents periodically evaluated to determine their continued eligibility? If yes, how frequently?
3. How much commission are lottery agents paid?
4. When was the last time the commission was increased? Is an increase justified? How would an increase affect lottery revenue? How does the commission compare to what other states pay their lottery agents?

5. Is delinquency a big problem for lottery agents? What percentage of agents is delinquent? How much do these delinquent agents owe the state?
6. In the last five or so years, how many lottery agents have had their contracts terminated by CLC? What are the typical grounds for termination?

Employee Compensation

By law, "in any arbitration regarding any classification of entrepreneurial sales employees, the arbitrator shall include a term awarding incentive compensation for such employees for the purpose of motivating employees to maximize lottery sales" ([CGS § 12-802\(h\)](#)).

1. Which employees are eligible for bonuses, and how are the bonuses calculated?
2. Approximately how much did employees earn in bonuses last year? What was the average bonus paid? What was the most paid to an employee?
3. Some people have criticized the bonus payments as excessive. Some people have even suggested that the legislature dissolve CLC as a quasi-public entity and return lottery operations to a government agency. What are the pros and cons of maintaining the lottery as a quasi-public corporation?

Compulsive Gambling

1. CLC is charged with operating the lottery for the "public good." But the lottery is one of the games of choice of compulsive gamblers. How can we resolve what appears to be an inherent conflict between the organization's purpose and its role in compulsive gambling?
2. CLC has repeatedly said that it takes seriously its commitment to market games responsibly. What are the elements of a responsible marketing campaign?
3. Do all CLC advertisements contain a warning about problem gambling?
4. Do you have any evidence to indicate that advising people to play responsibly in an advertisement aggressively promoting the lottery will deter compulsive gamblers from playing?

5. Is there any evidence that teenage gambling is a problem in Connecticut? If yes, is the state doing enough for teenage compulsive gamblers? What would you consider a comprehensive gambling treatment program for such gamblers?
6. How much did CLC contribute to compulsive gambling programs last year?

Management, Oversight, and Other Issues

1. Some people say that CLC is not subject to sufficient legislative oversight. What would you consider the optimum level?
2. What do you consider to be an appropriate state gambling policy? What should be its main goals?
3. Despite questions over legal and security issues, online gambling is pervasive. What are the most useful initiatives CLC should pursue with regard to online gambling?
4. What is the next frontier in lotteries?
5. What are the major challenges you think CLC will face in the next few years? What strategies should it adopt to deal with them?
6. What are the most useful initiatives the legislature should pursue with regard to the lottery?

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