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United States Senate

COMMITTEE ON COMMERCE, SCIENCE,
AND TRANSPORTATION

WASHINGTON, DC 20510-6125

WEBSITE: <http://commerce.senate.gov>

June 22, 2016

Gary Grief
President
Multi-State Lottery Association
Post Office Box 93312
Des Moines, Iowa 50393

J. Bret Toyne
Deputy Executive Director & Chief Financial Officer
Multi-State Lottery Association
4400 Northwest Urbandale Drive
Urbandale, Iowa 50322

Dear Mr. Grief & Mr. Toyne:

I am writing regarding the Multi-State Lottery Association's (MUSL) efforts to address fraud in the lottery system. In particular, I seek information regarding MUSL's efforts to protect the integrity of multi-state games such as Powerball and Hot Lotto.

Currently, 44 states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands operate lotteries.¹ In 2015, lottery ticket sales in the United States exceeded \$73 billion.² As you know, MUSL is a non-profit government-benefit association formed in 1987 and owned and operated by member lotteries in 37 states and territories as well as the District of Columbia.³ Each MUSL member is required to offer at least one of the games administered by MUSL and retains profits to fund projects approved by its legislature, ranging from education and health care to infrastructure improvements and tax relief.⁴

Multi-state game jackpots have soared to world record-breaking levels, dramatically increasing public interest and revenues.⁵ In January 2016, the jackpot for Powerball, the top lottery game in the United States, broke the \$1 billion mark for the first time ever. This \$1.58 billion jackpot—the largest in history—was more than double the next largest jackpot, a 2012 Mega Millions drawing of \$656 million.⁶ For every \$2 ticket sold, approximately 34 percent is allocated to the

¹ Council of State Governments, State Lotteries, http://knowledgecenter.csg.org/kc/system/files/cr_lotteries_.pdf (last visited June 22, 2016).

² North American Association of State & Provincial Lotteries (NASPL), Frequently Asked Questions, <http://www.naspl.org/faq> (last visited June 22, 2016).

³ Multi-State Lottery Association (MUSL), <http://www.musl.com> (last visited June 22, 2016).

⁴ *Id.*; see e.g., South Dakota Lottery, Where The Money Goes, <http://lottery.sd.gov/about/where/> (last visited June 22, 2016).

⁵ Niraj Chokshi, *A Jackpot-Rigging Scandal is Forgotten as Powerball Fever Sweeps the United States*, WASH. POST, Jan. 10, 2016, <https://www.washingtonpost.com/news/post-nation/wp/2016/01/09/the-company-that-runs-powerball-had-a-16-5-million-jackpot-rigged-by-a-former-employee/>.

⁶ Ashley Southall, *Powerball Has 3 Big Winners, in California, Florida and Tennessee*, N.Y. TIMES, Jan. 13, 2016, <http://www.nytimes.com/2016/01/14/us/numbers-chosen-for-powerball-with-biggest-jackpot-ever.html>.

jackpot pool.⁷ One estimate of more than one billion tickets sold for the record-breaking Powerball jackpot indicates that nationwide revenues may have exceeded \$2 billion.⁸

Given their popularity and the large sums of money involved, recent allegations of fraud in multi-state lottery games raise serious concerns. According to authorities, a lottery vendor who served as the security director for MUSL manipulated drawings by installing software code into the random number generators used by MUSL to select winning numbers that allowed him to “predict” winning numbers on specific days of the year.⁹ Six multi-million dollar prizes have been linked to the accused lottery vendor.¹⁰

In October 2015, as the scope of this jackpot-fixing scandal spread, MUSL placed Charles Strutt, executive director since its founding, on administrative leave and relieved him of his duties.¹¹ Reports indicate that the board believed new leadership would benefit the rebuilding of the association, and Strutt’s retirement became effective March 31, 2016.¹² As of the date of this letter, I understand the search for a new executive director is still ongoing.¹³

Also in October 2015, MUSL approved a series of rule changes that make it much harder to win the jackpot in a multi-state lottery.¹⁴ The new rules lowered the odds of winning Powerball jackpots from one in 175 million to one in 292 million, but improved the odds of winning smaller prizes.¹⁵ The rule aims to boost jackpots, which in turn increase ticket sales.¹⁶

Other than seeking new leadership, it is unclear what additional measures MUSL is implementing to provide effective oversight to ensure the integrity of lottery games. Indeed, some have suggested that the excitement about increasingly large jackpots has eclipsed reports of

⁷ See Florida Lottery, <http://www.flalottery.com/powerball-faq> (last visited June 22, 2016).

⁸ Walt Hickey, *Everyone Is Freaking Out About The \$1.5 Billion Powerball, And The Stats Agree*, FIVETHIRTYEIGHT, Jan. 12, 2016, <http://fivethirtyeight.com/features/billion-dollar-powerball-lottery/>.

⁹ Ryan J. Foley, *Code Let Lottery Vendor Predict Winning Numbers, Police Say*, ASSOC. PRESS, Apr. 6, 2016, <http://bigstory.ap.org/article/02fd5ec67d794105a877e4d165b3b95a/lottery-insiders-brother-arrested-jackpot-fixing-scandal>.

¹⁰ *Id.*

¹¹ Ryan J. Foley, *Key Lottery Leader Out Amid Jackpot-Fixing Case*, ASSOC. PRESS, Dec. 23, 2015, <https://www.yahoo.com/news/apnewsbreak-key-lottery-leader-amid-jackpot-fixing-case-181255390.html?ref=gs>.

¹² Public Gaming, *Lottery News*, http://www.publicgaming.com/index.php?option=com_content&view=article&id=20053:charles-chuck-strutt-has-decided-to-retain-as-executive-director-of-the-multi-state-lottery-association-musl-effective-march-31-2016&catid=30:us-lottery&Itemid=30 (last visited June 22, 2016).

¹³ See Job Announcement, Exec. Dir., MUSL, http://www.musl.com/docs/MUSL_Executive_Director.pdf (last visited June 22, 2016).

¹⁴ Lizette Alvarez, *The Biggest Powerball Jackpot Ever: The Odds and Where the Money Goes*, N.Y. TIMES, Jan. 12, 2016, <http://www.nytimes.com/2016/01/13/us/powerball-drawing-jackpot.html?version=meter+at+12&contentId=&mediaId=&referrer=&priority=true&action=click&contentCollection=U.S.&module=RelatedCoverage®ion=EndOfArticle&pgtype=article>.

¹⁵ *Id.*

¹⁶ Joseph Spector, *Odds Are, You Won’t Like This Powerball Story*, USA TODAY, July 6, 2015, <http://www.usatoday.com/story/news/nation/2015/07/06/odds-are-you-wont-like-this-powerball-story/29799555/>.

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insider fraud and what MUSL is doing to address the issue.¹⁷ Therefore, pursuant to the Committee's oversight responsibilities, please provide responses to the following:

- 1) How has MUSL resolved the instances of prior lottery vendor fraud? What specific fraud-reduction policies, including but not limited to enhanced security of random number generators, has MUSL implemented since the jackpot rigging scandal to ensure that competition in multi-state lotteries is free from fraud?
- 2) Did MUSL conduct an internal investigation of the incidents? What were the results of that investigation? Please provide any report issued.
- 3) How is MUSL providing assurance of the integrity of its games to consumers?
- 4) Does MUSL anticipate any further changes to the Powerball game rules? If so, please provide a description of any such changes.

Please provide your response as soon as possible, but by no later than July 7, 2016. In addition, please brief Committee staff on these issues by no later than July 15, 2016. If you have any questions, please contact Ashok Pinto or Peter Feldman of the Majority staff at (202) 224-1251. I appreciate your attention to this important matter.

Sincerely,



JOHN THUNE
Chairman

cc: The Honorable Bill Nelson
Ranking Member

¹⁷ See Chokshi, *supra* note 5.