



M E M O R A N D U M

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To: California State Lottery Commission

From: Alva V. Johnson Director 

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Subject: Item 8(b) – Changes to Stolen Tickets Regulations and Policy

ISSUE

The California State Lottery (Lottery) proposes changes to Lottery Regulations and its stolen tickets policy to better incentivizing Lottery retailers to maintain Scratchers® inventory and timely report stolen tickets to the Lottery.

BACKGROUND

Lottery retailers are responsible for paying the full face value of Scratchers tickets that have been activated for selling. When these Scratchers tickets are reported stolen, current Regulations and the Lottery's stolen ticket policy define the level of reimbursement for which the retailer is eligible. To be eligible for 100 percent reimbursement, a retailer is currently required to meet each of the following:

- Retailer must report the theft to the Lottery within four hours of its discovery;
- Retailer must maintain accurate inventory so that the stolen tickets can be readily identified at the time the theft is reported; and
- Retailer must fully cooperate with the investigation.

Another factor that determines how much the retailer is reimbursed for stolen tickets is how many claims for stolen ticket reimbursement that the retailer has had within the past 36 months of the latest claim. The reimbursement levels currently vary as follows:

- First claim submitted within the last 36 months: 100 percent reimbursement only if the other three criteria above are met; if any of the above three criteria are not met, the retailer is reimbursed at 50 percent.

- Second claim submitted within the last 36 months: 50 percent reimbursement, regardless if any/all of the above three criteria are met.
- Third or subsequent claim submitted within the last 36 months: 0 percent reimbursement (the three criteria above are irrelevant in this situation).

The criteria for stolen ticket reimbursement are currently prescribed in section 7.5.8 of the Lottery Regulations. These criteria have been in effect since April of 2013, when the stolen ticket reimbursement process was revised to put more accountability on Lottery retailers to maintain their Scratchers inventory.

DISCUSSION

The Lottery formed a Stolen Ticket Workgroup to explore improvements to the Lottery's stolen tickets process. The team concluded that structural improvements to the process should begin with the stolen tickets policy, which requires changes to Lottery Regulations. The following concepts represent the foundation that is the basis of the workgroup's recommendation to update the Lottery's stolen ticket policy:

- Strengthening the Retailer Relationship – Maintaining good relationships with retailers is essential to maximizing funding for education because retail sales are fundamental to the Lottery's business model. Theft is generally not something a retailer can easily control. The Lottery has identified an opportunity to strengthen relationships with its retailers by extending to them more reasonable stolen ticket credit terms, thus ensuring that partnering with the Lottery continues to make fiscal sense for retailers.
- Protecting the Lottery – Under the current policy, the retailer must decide if they want to utilize their stolen ticket claim or “save” it for a more substantial theft. When a retailer feels compelled to “save” their claim, the Lottery becomes subject to underreporting of stolen ticket claims. Unreported thefts result in stolen tickets that remain activated, which leads to criminal profiteering from claiming prizes. The team surmises that cases above three in 24 months are minimal (especially as compared to more than two cases in 36 months as is the current policy), and this proposed policy change should result in significantly fewer retailers “saving” their claims.
- Gathering complete data - As outlined above, the Lottery is potentially missing large amounts of data that would allow the Lottery to observe a closer depiction of the full breadth of stolen ticket occurrences, which may be relevant to improving the stolen ticket policy and procedures. Accounting for more of the actual stolen ticket cases will help to clarify the true nature of Scratchers thefts. The data could lead to specific changes and offerings for retailers that are more prone to thefts, including additional security features or different ticket settlement options.

To help remedy the issues outlined above, the Lottery proposes the following changes to its stolen tickets policy:

- Allow retailers to receive credit for three claims within the period (instead of only two);
- Shorten the period determining whether or not the retailer can make those claims from 36 months to 24 months;
- Allow 100 percent reimbursement when a retailer meets all criteria, regardless if it is the 1st, 2nd, or 3rd claim in the period (as opposed to limiting reimbursement for the 2nd claim to 50 percent and not allowing any reimbursement for the 3rd claim);
- Allow 100 percent reimbursement when a retailer meets partial criteria on the 1st claim in the period (as opposed to limiting this reimbursement to 50 percent); and
- Do not allow any reimbursement when a retailer does not meet any criteria, regardless if it is the 1st, 2nd, or 3rd claim in the period (the current policy allows 50 percent reimbursement to retailers meeting zero criteria in the 1st or 2nd claim).

These changes demonstrate a willingness of the Lottery to build a stronger partnership with retailers while better incentivizing retailers to maintain Scratchers inventory and timely report stolen tickets. The Lottery will ensure that retailers have a good understanding of what the new policy changes are and how the process will work going forward. As noted above, the proposed policy will also encourage retailers to report more thefts, which will both help prevent thieves from cashing stolen tickets and allow for more robust data that can lead to additional process changes in the future.

To help make future changes to the stolen ticket process more efficient, the proposed amendments to section 7.5.8 of the Lottery Regulations are less prescriptive in defining what constitutes the various maximum levels for reimbursement and instead more broadly provide the Lottery's expectations of retailers in handling stolen tickets. This section of the Regulations would now refer to the Lottery's stolen ticket policy, which provides the detailed requirements for reimbursement.

RECOMMENDATION

Staff recommends that the California State Lottery Commission adopt the attached Regulations and stolen tickets policy, which would both become effective immediately.

Attachments