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December 11, 2023

State Audit Questions New Courier Model to Sell Lottery Tickets

DENVER—A new performance audit of the Colorado Lottery released today by the Office of the State Auditor (OSA) shows that a courier sales model for selling lottery tickets in Colorado has begun to play a significant role in the sale of lottery tickets in Colorado, but may not be consistent with the framework set out in statute for selling those tickets.

In 2019, a new type of business began operating in Colorado that allows customers to order lottery tickets from a business known as a “courier” through the courier’s website or app. The courier then purchases the tickets from its licensed lottery retailer’s brick-and-mortar store and delivers the tickets to the customer either electronically through the courier’s website or app, or in hard copy through the mail. State law requires that lottery tickets only be sold by licensed retailers at their brick-and-mortar locations, but under the courier sales model, it may not be clear who’s selling the tickets or where they are being sold. From the player’s perspective, they are purchasing lottery tickets online from the unlicensed couriers. In Fiscal Year 2022, the retailer associated with one of the couriers had lottery ticket sales of \$12.6 million, which was five times higher than the next highest-selling retailer in Colorado.

According to the Lottery, it only regulates the licensed retailers that sell tickets to the couriers, but it does not have oversight of couriers since they are not considered to be selling lottery tickets. “By not regulating couriers, the Lottery increases certain risks related to the integrity, honesty, and fairness of its business,” said Derek Johnson, Audit Manager.

Auditors also found that the Lottery could not provide documentation to show that it had investigated unusual winning patterns for some individuals identified through Lottery reports. These unusual winning patterns included one winner who claimed 44 prizes totaling \$38,500 in a single

quarter in Fiscal Year 2022. It also included a player who is a Lottery retailer who made 10 claims totaling \$14,900 in a single quarter; the OSA's prior performance audit of the Lottery in 2018 reported on this same retailer who, at that time, had 24 wins over a 3-year period totaling \$39,750. The 2018 audit had recommended that the Lottery routinely analyze data on unusual winning patterns and establish thresholds to trigger further inquiry when someone has won more frequently than the odds of winning each game would suggest is possible. The purpose of those inquiries should be to verify the validity of those wins.

The new audit released today had findings related to the role of the Lottery Commission, as well as the Lottery's verification that licensed retailers are complying with requirements; process for ensuring that restricted players, such as Lottery employees, are not receiving high-dollar prizes; and contract selection processes.

The Lottery was created in 1982 and is governed by a five-member commission headquartered in Pueblo. Beneficiaries of its proceeds include Great Outdoors Colorado, the Conservation Trust Fund, Colorado Parks and Wildlife, the Outdoor Equity Fund, and the Public School Capital Construction Assistance Fund. In Fiscal Year 2023, the Lottery generated \$891 million in ticket sales that resulted in \$195.3 million going to beneficiaries.

The audit, which was required by state law, makes 13 recommendations for improvements.

The full report is available @ www.colorado.gov/auditor.

About the Office of the State Auditor

Under the direction of the State Auditor, the OSA's nonpartisan, professional staff promote government accountability by conducting independent performance, financial, and IT audits and evaluations of state agencies, departments, and institutions of higher education; conducting independent evaluations of the State's tax expenditures (e.g., credits, exemptions, deductions); tracking about 4,000 Colorado local governments for compliance with the Local Government Audit Law; and operating a statewide fraud reporting hotline.

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