



**New Jersey State Legislature  
Office of Legislative Services  
Office of the State Auditor**

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**Department of the Treasury  
Division of the State Lottery**

July 1, 2013 to August 31, 2014

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**Stephen M. Eells  
State Auditor**



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# New Jersey State Legislature

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Enclosed is our report on the audit of the Department of the Treasury, Division of the State Lottery for the period of July 1, 2013 to August 31, 2014. If you would like a personal briefing, please call me at (609) 847-3470.

A handwritten signature in black ink, appearing to read "Stephen M. Eells".

Stephen M. Eells  
State Auditor  
February 18, 2015

## Table of Contents

Scope.....	1
Objectives .....	1
Methodology.....	1
Conclusions.....	2
Findings and Recommendations	
Debt Recovery .....	3
Social Security and Tax Identification Numbers .....	3
Overtime Costs.....	4
Business Continuity and Disaster Recovery .....	4
Observations	
Sales and Marketing Contract.....	5
Cash4Life Multi-State Game .....	6
Auditee Response.....	7

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## *Scope*

We have completed an audit of the Department of the Treasury, Division of the State Lottery (division) for the period July 1, 2013 to August 31, 2014. Our audit included financial activities accounted for in the state's General Fund and the State Lottery Fund.

The prime responsibility of the division is to raise revenue for maximum contribution to state education and institutions benefiting the citizens of New Jersey through the sale of lottery products. Sales of lottery tickets totaled \$2.9 billion and prize expenditures were \$1.7 billion for fiscal year 2014.

On June 20, 2013 the division entered into a service agreement with Northstar New Jersey Lottery Group, LLC (Northstar) to perform the sales and marketing functions of the division with the purpose of increasing sales and net income and thus increasing funds for state institutions and state aid for education. The contract began in October 2013 and continues through fiscal year 2029. Upon execution of the contract, Northstar paid the state a guaranteed accelerated payment of \$120 million. Although Northstar performs the sales and marketing functions, the division retains control of all aspects of lottery operations.

## *Objectives*

The objectives of our audit were to determine whether financial transactions were related to the division's programs, were reasonable, and were recorded properly in the accounting systems. An additional objective was to determine the adequacy of select general controls over information systems, specifically, recovery methods to enable system continuity and the disaster recovery plan.

This audit was conducted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section I, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

## *Methodology*

Our audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In preparation for our testing, we studied legislation, the administrative code, circular letters promulgated by the Department of the Treasury, the Northstar contract, and policies of the division. Provisions we considered significant were documented and compliance with those requirements was verified by interview, observation, and through our testing of financial transactions. We also read the budget messages, reviewed financial trends, and interviewed agency personnel to obtain an understanding of the programs and the internal controls.

A nonstatistical sampling approach was used. Our samples of financial transactions were designed to provide conclusions on our audit objectives as well as internal controls and compliance. Sample populations were sorted and transactions were judgmentally and randomly selected for testing.

### *Conclusions*

We found that the financial transactions included in our testing were related to the division's programs, were reasonable, and were recorded properly in the accounting systems. In making this determination, we found reportable conditions related to debt recoveries, prize winner tax identification numbers, and overtime meriting management's attention. We also determined the division lacks both a completed backup facility to ensure proper business continuity and a current disaster recovery plan. Furthermore, we observed that Northstar did not achieve their net income target in the first contract period resulting in a shortfall payment to the state. We also observed New Jersey's only drawing game with fixed amount top prizes not based on sales, Cash4Life, is experiencing greater than expected prize payouts. The game is in its early stages.

## Debt Recovery

### **The division can increase state debt collection by matching all lottery winners over \$600 to SOIL records.**

The division processes claims for all lottery prize winners of \$600 or more. However, the division did not verify if all of those winners had debt owed to the state. New Jersey statutes require that lottery winners of prizes more than \$600 have their winnings applied to any outstanding debt to state agencies or institutions. As mandated by law, a match is performed for lottery winners to determine who has outstanding child support, defaulted student loans, or overpayments of certain public assistance. The division also manually checks the Department of the Treasury's Set-Off of Individual Liability (SOIL) system for prize winners over \$250,000 to determine if debt is owed to the state. However, a SOIL match is not performed for winners of lesser amounts. The SOIL database consists of individuals who have outstanding tax debts, obligations to other state agencies, or debt to the federal government. We noted up to \$890,000 in prize winnings from July 1, 2013 through July 28, 2014 that could have been recovered for outstanding SOIL debt had a match been completed.

### **Recommendation**

We recommend that the division comply with New Jersey statutes and ensure a SOIL match is performed of all lottery prize winners over \$600.



## Social Security and Tax Identification Numbers

### **Tax revenue and reimbursement for debt may be lost due to prize winners providing inaccurate social security or tax identification numbers to the division.**

The division is required to withhold federal and state income taxes for prizes over certain thresholds. When a prize winner has a social security number/individual tax identification number (identification number), the division withholds federal taxes at 25 percent of winnings if over \$5,000 and state taxes at 3 percent of winnings if over \$10,000. If a prize winner does not have an identification number, federal taxes are withheld at 30 percent of winnings if over \$600. The division's policy requires a winner's social security card or tax identification number only if a top tier or jackpot is claimed.

We performed a match for all lottery prize payments of \$600 or more from July 1, 2013 through July 28, 2014 to the Veris social security database and noted 680 individuals where the validity of the identification number was listed as either "invalid" or "maybe". Our testing determined that 46 of these individuals used identification numbers of deceased individuals with a different name. Prize winners of \$600 or more who provide invalid identification numbers, create a risk of reduced tax withholdings, overpayment of public assistance, and lost collections on child support, defaulted student loans, and other debt owed to the state.

## **Recommendation**

We recommend the division lower its threshold for claim validations to \$600. In addition, the division should perform social security number verification through the Veris database.



## **Overtime Costs**

### **The division paid inconsistent rates for employees who worked off-hour drawings.**

The New Jersey Administrative Code states that employees who work outside of their regular job duties and work hours will be paid at a special project rate. Employees who work the evening, weekend, and holiday drawings receive extra compensation. The responsibilities for the drawings include supervisors, assistants, security, and pool closings. Effective July 13, 2013, the Civil Service Commission (CSC) approved a special project rate of \$39.08 per hour for drawing supervisors. They also approved a special project rate for those responsible for pool closings and security of the Powerball and Mega-Millions drawings of \$27.87 per hour.

A test of overtime for the period of July 1, 2013 through July 11, 2014 noted four employees were paid at a special project rate, seven employees were paid a special project rate for the first five extra hours of the workweek and an overtime rate for any additional hours, and 44 employees were paid at an overtime rate. Since employee overtime rates are based on the employee's annual salary, employees performing the same drawing functions received as much as \$30 per hour differential in overtime pay. Based on the fiscal year 2014 rates approved by the CSC and employee job functions for drawings provided by division management, overtime was overpaid by approximately \$120,000. The Department of the Treasury and the division are in communication with the CSC to approve new special project rates for each job responsibility to ensure that employees working the same drawing functions will receive the same hourly rate.

## **Recommendation**

We recommend that the division establish special project rates for each drawing function irrespective of the employee's annual salary.



## **Business Continuity and Disaster Recovery**

### **The division needs to complete its backup facility and update its disaster recovery plan.**

During our audit, it was noted that the division's backup facility was not fully operational. We also noted that the disaster recovery plan was last updated July 2007. Disaster recovery plans are vital in keeping information technologies running in case of an unplanned interruption.

Since the last disaster recovery plan update, division changes have included new personnel, new processes, and an outside vendor contracted to perform sales and marketing. Average daily ticket sales on lottery drawings total \$3.7 million. In the event of a disaster, business continuity and recovery could be impaired by the lack of an operational backup facility and an updated disaster recovery plan.

### **Recommendation**

We recommend that the division complete its backup facility to make it fully operational. We further recommend the division update and test its disaster recovery plan annually.



## **Observations**

### **Sales and Marketing Contract**

The new sales and marketing contract between the Division of the State Lottery (division) and Northstar New Jersey Lottery Group, LLC (Northstar) includes annual calculations that establish whether Northstar will receive incentive compensation or be required to make shortfall payments to the state. The calculations are based on contracted yearly net income levels. The initial net income level, or base level, was determined from the division's performance prior to the contract and was adjusted for a compounded annual growth rate (CAGR) of 0.9 percent. The CAGR is the growth the division expected to achieve had they continued to manage sales and marketing. Achieving these levels would result in incentive compensation. As part of their bid, Northstar was also required to submit their own net income targets for each year, which if not achieved, would result in the assessment of shortfall penalties.

Northstar's services began on October 1, 2013, representing nine-months of fiscal year 2014 activity. During this period, the division achieved net income of \$705.5 million compared to a base level target of \$717 million and the Northstar net income target of \$760.9 million. This resulted in a shortfall calculation of \$33.5 million; however, shortfall payments are capped at two percent of net income in any given year, or \$14.1 million based the nine-month stub year 2014 results.

The state can terminate the contract if shortfall calculations are more than ten percent of the Northstar net income targets for any two consecutive contract years or any three contract years in a five-year period. Although the contract is in its initial stages and the 2014 shortfall calculation was less than ten percent of the net income target, the division should continue to monitor performance to determine if the Northstar contract benefits the state.

### **Cash4Life Multi-State Game**

On June 16, 2014, the first drawing was held for Cash4Life, a multi-state game, in conjunction with the New York Lottery. The drawing is held twice per week and has the top prize of \$1,000 a day for life and second prize of \$1,000 a week for life. As opposed to other drawings, this is the only drawing game in New Jersey that the top prizes are based on a fixed amount and not based on the game's sales.

Prize expenses are allocated to New Jersey and New York based on the percentage of sales in the respective states. The Cash4Life game rules project prize payouts to be 55 percent of sales. Through August 31, 2014, prize payouts allocated to New Jersey were \$22.8 million compared to \$23.3 million of New Jersey sales (98 percent).

Other states also conduct similar games where the top prizes are based on a fixed amount. Six states in the New England region have a drawing game called Lucky for Life. The top prize for this game is also \$1,000 a day for life. However, the odds for the top prize in the Lucky for Life game are 1 in 41 million compared to the Cash4Life's odds of 1 in 21 million. Lucky for Life game rules indicate that 60 percent of sales are expected to be expended for prize purposes.

The first 22 drawings for Cash4Life resulted in five top winners. Lucky for Life had four top winners for the first 22 drawings but has only had three top winners in its last 235 drawings. We acknowledge that the game is in its early stages and more time is needed to develop historical data and trends. In light of the early prize payouts, the division should continue to evaluate the Cash4Life game to determine if it is meeting its projected prize payout to sales ratio.



## State of New Jersey

DEPARTMENT OF THE TREASURY

DIVISION OF LOTTERY

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February 13, 2015

John J. Termyna  
Assistant State Auditor  
Office of the State Auditor  
125 South Warren Street  
PO Box 067  
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Subject: Audit Report of the Department of the Treasury, Division of State Lottery

Dear Assistant State Auditor Termyna:

Thank you for providing the opportunity for the Division's management to respond to the audit findings and observations identified in your letter dated January 28, 2015. I have attached our direct response to these findings and observations on the following pages.

I would also like to take this opportunity to thank you and your staff for their courtesy and professionalism, towards my staff during the entire audit process.

Should you have any further questions concerning our responses, please feel free to contact either Deputy Director Finance, Steve Palmieri or myself at your convenience.

Sincerely,

A handwritten signature in cursive script that reads "Carole Hedinger".

Carole Hedinger, CPA  
Executive Director  
Division of State Lottery

c. Andrew P. Sidamon-Eristoff, State Treasurer  
Thomas Tucci Jr., Chairman, New Jersey Lottery Commission  
Robert Romano, Deputy State Treasurer  
Daniel Povia, Chief Auditor, New Jersey Department of the Treasury  
John Custodio, Deputy Executive Director, Division of State Lottery  
Steve Palmieri, Deputy Director, Finance, Division of State Lottery

## DEBT RECOVERY

### **The Division can increase debt collection by matching all lottery winners over \$600.00 to Set Off of Individual Liability (SOIL) records.**

In its audit, OLS has found that the Division did not verify that all claimants with winnings greater than \$599.99 had debt owed to the State by processing the claim through Treasury's Set-Off of Individual Liability ("SOIL") system. Specifically, OLS found the Division only performed a comprehensive automated matching of winners for child support, public assistance, and student loans, while the Division performed a manual check for claimant with winnings greater than \$250,000 for tax debt or for monies owed to state agencies or other debt maintained in the SOIL system. OLS's analysis indicates that up to \$890,000 in prize winnings from July 1, 2013 through July 28, 2014 that could have been recovered for outstanding SOIL debt had a more comprehensive match been completed. OLS recommends the Division comply with New Jersey statutes and ensure a SOIL match is performed for all prize winners over \$600.00

The Division agrees that it should act to maximize the amount of debt that can be satisfied from winnings. As highlighted by the OLS findings, the Division is in compliance with Title 17 Chapter 42 of the Administrative Code (**ATTACHMENT 1**), which mandates the offset of child support and public assistance debts from winnings. Similarly, the audit reflects the Division's compliance with Title 17 Chapter 43 of the Administrative Code (**ATTACHMENT 2**), which mandates the offset of student loan debt against winnings. However, the audit findings imply the Division is not fully capturing the debt owed to all agencies under the SOIL umbrella.

In Fiscal 2014, the Division received more than 48,000 claims with a value more than \$599.99. Of these claims alone, the Division captured nearly \$300,000 in prizes and remitted the funds to the proper government agencies on behalf of individuals who owe the State money for public assistance, student loans, and child support. However, federal law governs the Division's use of social security numbers. The Division cannot perform automated social security number matches for all other State agencies because it is not presently authorized to use a claimant's social security number to collect debt for all agencies participating in SOIL. Nevertheless, the Division recognized its statutory obligation to complete an offset of winnings for debt owed to the State, and it has been performing manual matches on winnings greater than \$250,000 based solely on the claimants' name and address.

To remedy the potential risk that certain debt may not be identified prior to the claim being processed, the Division very recently put into production its new claims and payment (CAP) system. This system is designed to modernize all aspects of the processing of claims payments, including the maximizing of the collection of debt owed to government agencies. In concert with the implementation of CAP, the Division is working with the Office of the Attorney General and the various State agencies that participate in SOIL to ensure that all proper regulations are in place for the recovery of all funds owed to the State that would otherwise pass to claimants of lottery prizes. The Divisions anticipates having all such regulations approved by the conclusion of Fiscal 2015. Once all regulations are in place, the Division can more readily garnish such debt with all required authorizations.

## **SOCIAL SECURITY & TAX IDENTIFICATION NUMBERS**

**Tax revenue and reimbursement for debt may be lost due to prize winners providing inaccurate social security or tax identification numbers to the division.**

OLS examined all the prize claims for payments of \$599.99 or more over a 13 month period and found 680 claimants provided questionable social security numbers. The 680 questionable claims represent a risk that the Division withheld inaccurate amounts of tax and lost the opportunity to collect on overpayment of public assistance, unpaid child support, defaulted student loans, and other debt owed to the State. To mitigate this risk, OLS recommends that the Division lowers its threshold for claims validations to \$600.00 and performs social security number verification through the Veris social security database.

The Division agrees with the underlying objective of this recommendation by OLS to reduce potential fraud by winning ticket holders should they attempt to avoid the repayment of State debt on their winnings by providing false information to the Division.

Presently all claimants of prizes greater than \$599.99 are required to provide (1) a tax identification number or social security number and (2) proof of identity such as a valid driver's license or passport number when claiming their prize. Both the social security or tax identification number and the passport or driver's license number must be stated on the Winner Claim Form (**ATTACHMENT 3**) that all claimants of prizes exceeding \$599.99 are required to complete and submit. The Winner Claim Form requires the claimant to certify that all information provided is true and accurate, with the acknowledgment that any claimant who knowingly provides false information is subject to punishment. In appropriate cases, the Division refers incidents of suspected fraud to the Division of State Police for investigation.

The aforementioned OLS error rate of 680 questionable social security numbers represents a very small portion of all claims for the thirteen month period that OLS reviewed. Further OLS was unable to substantiate whether these 680 "questionable" social security numbers were indeed fraudulent.

More rigorous efforts by the Division to mitigate this issue will be investigated, including the use of Veris as a tool to ensure the validity of claimants' social security numbers. As a business, the Division has to balance its responsibility to its customer base to provide responsive and timely claim payment services as well as its duty to comply with law and provide maximum funds for education and State institutions.

## **OVERTIME COSTS**

### **The division paid inconsistent rates for employees who worked off hour drawings.**

As indicated by OLS, the Division compensated employees at their respective overtime rates rather than the 2013 Civil Service Commission approved special project rate for work performed outside of their regular job duties and work hours. This work primarily consists of studio personnel, security, pool closure and supervisory tasks associated with evening, weekend, late night (multi-state) and holiday lottery drawings.

The special project rate was approved by the Civil Service Commission in July 2013. The Division, through the Department's Human Resources Office, immediately appealed its implementation. The Division did not agree that the special project rate fairly compensated staff for the late hours and complex job requirements of completing these tasks. The Division was not opposed in principle to the implementation of a special project rate, only that the rate imposed by the Civil Service Commission was too insufficient. In its appeal, the Division argued for compensation using the special project rate but at higher steps.

During the appeal process, the Division was permitted, consistent with Civil Service rules, to continue paying staff their respective overtime rates. The appeal process was finally concluded on December 16, 2014 in favor of the Civil Service Commission. In accordance with the decision, the Division began compensating staff for after-hours work with the special project rate beginning with lottery drawings conducted on Sunday, December 28, 2014.

## **BUSINESS CONTINUITY AND DISASTER RECOVERY**

### **The Division needs to complete its backup facility and update its disaster recovery plan.**

OLS has found that the Division's back-up facility is not fully operational and its disaster recovery plan has not been updated since July 2007.

As the fourth largest producer of revenue for the State of New Jersey, the Division takes very seriously, its responsibility to have contingencies in place in the event of an emergency. The Division has worked aggressively to have its Business Continuity Site (BCS) in Cranbury operational. At present the facility is fully furnished inclusive of draw equipment. Computers have been deployed, telephones upgraded and a staffing plan have been reviewed. In February 2015, the draw equipment will be further upgraded with newer repurposed draw machines that are to be relocated from the Division's Lawrenceville Headquarters.

At present, the most significant concern with the BCS is that it is not connected to the Department's information technology network. The Division has been working with the Division of Revenue and Enterprise Services (DORES), the Department agency that oversees all information technology functions, to resolve this situation as expeditiously as possible. The guidance the Division has received from DORES on this issue is that the entire Department is undergoing a comprehensive information network redesign. The redesign is proceeding in accordance with Department priorities and that the Division's BCS needs will be addressed as soon as reasonably possible. The latest indication from DORES, is that all work will be completed by the summer of 2015.

Once all network redesign work is complete and the BCS is connected to the network, the Division will do a comprehensive review and update to its disaster recovery plan. Additionally, the Division will run a series of drills to test the effectiveness of the plan. Moving forward, the Division will conduct drills quarterly.

## **OBSERVATION**

### **CASH4LIFE Multi-State Game**

OLS notes that the early performance of the new multi-state game, CASH4LIFE, on sale in New York and New Jersey, has resulted in higher than the designed prize payout of 55% as measured in the limited time since the game has been on sale.

The Lottery is closely watching the performance of this game, as it does for all fixed-prize payout games. We expect the game will perform as designed when measured over a period of at least one year which will tend to level the peaks and valleys of sales and prizes.

The Pennsylvania Lottery will join this multi-state game in early April followed by the Virginia Lottery in early May. Their impact on the game will be closely monitored and evaluated as well.

## **OBSERVATION**

### **Sales & Marketing Contract**

In the audit, OLS has noted that the new sales and marketing contract between the Lottery and Northstar NJ Lottery Group, LLC (Northstar) includes annual calculations that establish whether Northstar will receive incentive compensation or be required to make shortfall payments to the State. OLS further noted that in Fiscal 2014, the first year of the contract (Services Agreement), these calculations resulted in a shortfall payment of \$14.1 million.

The services agreement with Northstar is a significant contractual undertaking for the Lottery. OLS recommends that the Division continue to monitor net income levels and determine if the contract is beneficial to the State. The Division for its part takes very seriously its responsibility as the contract manager for this very unique public contract. In addition to monthly reporting on revenue matters to the Department of the Treasury, the Division regularly meets with Northstar on every aspect of the contract. Unlike other State contracts, the Northstar contract is more in the nature of a business partnership. Fiscal 2015 will represent the first full fiscal year that the contract was operating. Division and Department officials will closely review the vendor's progress at year's end.

**LISTING OF ATTACHMENTS**

**ATTACHMENT 1** - Title 17 Chapter 42 of the Administrative Code

**ATTACHMENT 2** - Title 17 Chapter 43 of the Administrative Code

**ATTACHMENT 3** - Winner Claim Form

**EFFECTIVE DATE: April 4, 2007****NEW JERSEY ADMINISTRATIVE CODE****LOTTERY PRIZE  
OFFSET FOR CHILD SUPPORT  
AND PUBLIC ASSISTANCE PAYMENTS****TITLE 17, CHAPTER 42**Table of Contents

	<u>Page</u>
<b>SUBCHAPTER 1. GENERAL PROVISIONS</b>	
17:42-1.1 Other agencies' responsibility	2
17:42-1.2 Lottery's responsibility	2
17:42-1.3 OIT's responsibility	2
17:42-1.4 Prize disbursement restriction	3
17:42-1.5 Notice of prize withholding	3
17:42-1.6 Lottery action following notice of prize withholding	4
17:42-1.7 Right to hearing	4
17:42-1.8 Transmission of prize offset to DHS or DCA	5
17:42-1.9 Notice and disbursement of prize after setoff	5
17:42-1.10 Confidentiality	6

**Title 17, CHAPTER 42**  
**LOTTERY PRIZE OFFSET FOR CHILD SUPPORT**  
**AND PUBLIC ASSISTANCE PAYMENTS**

Subchapter 1 General Provisions

**17:42-1.1 Other Agencies' Responsibility**

(a) The Department of Human Services (DHS) shall maintain a list of individuals covered by P.L. 1991, c. 384, as amended by P.L. 1998, c.1, (N.J.S.A. 5:9-13.1 to 13.9) except for the low-income home energy assistance program (LIHEAP). The list shall include the individual's name and social security number, plus the amount of the alleged support arrears or public assistance overpayment. The list shall be updated at least monthly to show new individuals or obligations and to show payment or satisfaction of amounts outstanding.

(b) The Department of Community Affairs as per its designation by Governor Jon S. Corzine in the grant application for the Fiscal Year 2007 Federal block grant from low-income home energy assistance Act as amended (Title 26 of Public Law 97-35, Omnibus Budget Reconciliation Act of 1981 as amended) shall maintain a list of individuals covered by P.L. 1991, c. 384 (N.J.S.A. 5:9-13.1 to 13.9) for overpayments for the low-income home energy assistance program. The list shall be updated at least monthly to show new individuals or obligations and to show payment of satisfaction of amounts outstanding

**17:42-1.2 Lottery's Responsibility**

The Division of the State Lottery (Lottery) shall maintain a list of winners of prizes in amounts in excess of \$600.00. The list shall include the winners' names, addresses, social security numbers and amounts won. The list shall be updated weekly.

**17:42-1.3 OIT's Responsibility**

On a weekly basis, the Office of Information Technology (OIT) shall perform a computer match of the data on the two lists to ascertain the existence of a social security number match and shall notify DHS, DCA or both as appropriate and Lottery of the existence of any such match or of

the fact that no matches were found from the given comparison. If matches are found, OIT shall transmit a list to the appropriate agency or agencies including the individual's name, address, social security number, lottery prize and outstanding arrearage or overpayment. No Lottery prize in excess of \$600.00 shall be disbursed by the Department of the Treasury (Treasury) until results of a match involving that prize payment have been determined. In case of annuity prizes where the first installment has not been paid, the match will be conducted on an expedited basis, directly among DHS, DCA and Lottery. If the first installment less the applicable tax withholding exceeds the lien referred to in N.J.S.A. 5:9-13.6, the excess shall be paid to the winner immediately, with the procedures elaborated under these rules to apply to the amount withheld from immediate distribution.

**17:42-1.4 Prize disbursement restriction**

(a) Upon receipt of notice from OIT that a social security number match has been made, neither Lottery nor Treasury shall disburse the portion of the lottery prize subject to the lien referred to in N.J.S.A. 5:9-13.6 until notified that the hearing procedures set forth in this subchapter have been completed or that no hearing has been timely requested. Lottery prizes of \$5,000 or more shall first be subjected to Federal income tax withholding before any other setoffs, deductions or set-asides under these rules.

(b) Upon learning of an assignment request DHS or DCA shall make the determination regarding whether the assignor is a debtor.

**17:42-1.5 Notice of prize withholding**

Within 14 days of notification by OIT that a social security number match has been found to exist, DHS or DCA, or both shall cause written notice to be sent to the subject of the match by first class mail. Such notice shall inform the individual that the match has been found to exist, that payment of the lottery prize is being withheld, that he or she has the right to make a request, within 10 business days of the date of the notice, for a hearing on the alleged debt and the proposed setoff and that, if no such request is timely received, Treasury will transmit the withheld money, up to the amount owed, to DHS or DCA, or both.

**17:42-1.6 Lottery action following notice of prize withholding**

(a) No later than 15 business days from the date of the notice to the alleged debtor, DHS or DCA, or both shall notify Lottery of any request by the alleged debtor for a hearing, of the failure of the debtor to make such request or of the satisfaction of the alleged debt. Receipt of such information shall allow Lottery to:

1. Withhold payment pending the outcome of the hearing if a hearing has been requested;
2. In accordance with N.J.A.C.17:42-1.8, transmit the alleged debt to DHS or DCA, or both where the alleged debtor has not made a timely request for a hearing or where a hearing request is made but subsequently withdrawn; or
3. Release the prize payment to the winner if the debt has been satisfied.

(b) Lottery shall extend the hold status of an affected payment until a final decision by DHS or DCA, or both and exhaustion of judicial review or expiration of any right thereto, in order to accommodate the hearing process, where Lottery has been notified that a hearing has been requested pursuant to N.J.A.C. 17:42-1.7. Following the hearing, N.J.A.C. 17:42-1.8 shall apply. If the request for the hearing is withdrawn, the provisions of (a)2 and 3 above shall apply.

**17:42-1.7 Right to hearing**

(a) Any person whose lottery prize has been withheld pursuant to P.L. 1991, c. 384, N.J.S.A. 5:9-13.1 et seq., may request a hearing by serving a written request on DHS or DCA within 10 business days of the date of the notice of match described in N.J.A.C. 17:42-1.5.

(b) When an alleged debtor makes a timely request for a hearing in a case where DHS is seeking to recoup arrears of child support payments, DHS shall notify the appropriate probation division, which shall render a final agency decision in accordance with the procedure specified in N.J.A.C. 1:1-1. The issues to be resolved shall be whether the claimed sum asserted is due and owing or there has been a mistake in the identity of the alleged debtor.

(c) If there is a judgment against the alleged debtor in a case where DHS is seeking to recoup an overpayment of Work First New Jersey benefits, which includes General Assistance and Temporary Assistance to Needy Families (TANF), food stamp benefits or where DCA is seeking to recoup an overpayment for low-income home energy assistance benefits, the alleged debtor must

seek relief in an appropriate court. If there is no judgment against the alleged debtor, he or she may request a contested case hearing pursuant to the Administrative Procedure Act, N.J.S.A. 52:14B-1 et seq. and 52:14F-1 et seq., through the county welfare agency that issued the benefits or in the case of low-income home energy assistance program (LIHEAP) benefits through the Hearing Coordinator in the Department of Community Affairs, P.O. Box 806, Trenton, NJ 08625-0806.

**17:42-1.8 Transmission of prize offset to DHS and DCA**

(a) Upon either final determination of the debt due and owing and exhaustion of time in which an appeal may be filed, or upon the debtors default for failure to make timely request for review of the asserted setoff, or upon payment (in whole or in part) of the outstanding debt, DHS and DCA shall forthwith notify Lottery, following which the amounts withheld from distribution, up to the amount owed, shall be transmitted to DHS and DCA.

(b) In cases of multiple or conflicting claims, the priority for apportionment is as follows:

1. Federal Income tax withholding, as required by N.J.A.C. 17:42-1.4;
2. Child support arrearages, as required by N.J.S.A. 5:9-13.2 to 13.6;
3. Federal and State student loan defaults as required by N.J.S.A. 5:9-13,10 to 13.16; and
4. Over payments for Work First New Jersey benefits, which include General Assistance and Temporary Assistance to Needy Families (TANF), food stamp benefits and low-income home energy assistance (LIHEAP), as required by N.J.S.A. 5:9-13.2 to 13.6.

(c) Under (b) above, unless otherwise provided by law, no preference shall be given in the payment of any claim over any other claim of the same class.

(d) Where judicial review is sought from the administrative decision, DHS or DCA, or both shall advise Lottery of such appeal within three days of receiving notice of the filing of the request for review. Upon resolution of judicial review (including any appeal which may be taken) like notice shall be provided by DHS to Lottery.

**17:42-1.9 Notice and disbursement of prize after setoff**

Upon the finalization of setoff through administrative or judicial action, DHS or DCA, or both shall notify the debtor in writing of the action taken and of any outstanding balance remaining due

after the setoff. If there is an outstanding prize balance remaining after the setoff, it shall be disbursed with the notice described in this section.

**17:42-1.10 Confidentiality**

Apart from notice to affected individuals and to the Probation Division for purposes of administrative review, personally identifiable information compiled under this Chapter regarding any person shall be confidential and shall not be disseminated or used for any purpose other than as set forth in N.J.S.A. 5:9-13.1 et seq. and this chapter.

**EFFECTIVE DATE: April 4, 2007**

**EXPIRATION DATE: April 4, 2012**

**CHAPTER 43**  
**OFFSET OF STATE LOTTERY PRIZES**  
**TO SATISFY DEFAULTED FEDERAL AND STATE STUDENT LOANS**

**SUBCHAPTER 1. GENERAL PROVISIONS**

**17:43-1.1 HESAA'S responsibility**

The Higher Education Student Assistance Authority (HESAA) shall maintain a list of individuals covered by P.L. 1997, c.306. The list shall include the individual's name and social security number, plus the amount of the Federally guaranteed loan balance in default or State student loan balance in default. The list shall be updated at least monthly to show new individuals or obligations and to show payment of satisfaction of amounts outstanding.

**17:43-1.2 Lottery's responsibility**

The Division of State Lottery (Lottery) shall maintain a list of winners of prizes in amounts in excess of \$1,000. The list shall include the winners' names, addresses, social security numbers and amounts won. The list shall be updated weekly.

**17:43-1.3 OIT's responsibility**

On a weekly basis, the Office of Information Technology (OIT) shall perform a computer match of the data on the two lists described in N.J.A.C. 17:43-1.1 and 1.2 to ascertain the existence of a social security number match and shall notify both the Higher Education Student Assistance Authority (HESAA) and the Division of State Lottery (Lottery) of the existence of any such match or of the fact that no matches were found from the given comparison. If matches are found, OIT shall transmit a list to each agency including the individual's name, address, social security number, lottery prize and student loan balance in default. No lottery prize in excess of \$1,000 shall be disbursed by the Department of the Treasury until results of a match involving that prize payment have

been determined. In case of annuity prizes where the first installment has not been paid, the match will be conducted on an expedited basis, directly between HESAA and Lottery. If the first installment exceeds the lien, a net check can be given to the winner immediately along with information concerning the amount withheld from immediate distribution and the procedures which the debtor must follow to request a hearing by HESAA.

**17:43-1.4 Prize disbursement restriction**

Upon receipt of notice from the Office of Information Technology that a social security number match has been made, neither the Division of State Lottery nor the Department of the Treasury shall disburse the lottery prize (except a first annuity installment as described in N.J.A.C. 17:43-1.3) until notified that the hearing procedures set forth in this subchapter have been completed or that no hearing has been timely requested. Lottery prizes of more than \$5,000 shall first be subjected to Federal income tax withholding before any other setoffs, deductions or set-asides under these rules. Lottery prizes in excess of \$1,000 shall also be subjected to offset described in N.J.A.C. 17:42 before any setoffs, deductions or set-asides under these rules.

**17:43-1.5 Notice of prize withholding**

Within 14 days of notification by the Office of Information Technology that a social security number match has been found to exist, the Higher Education Student Assistance Authority (HESAA) shall cause written notice to be sent to the subject of the match by first class mail. Such notice shall inform the individual that the match has been found to exist, that payment of the lottery prize is being withheld, that he or she has the right to make a request, within 14 days of the date of the notice, for a hearing on the debt and the proposed setoff, and that if no such request is timely received, the Department of the Treasury will transmit the withheld money, up to the amount owed, to HESAA.

**17:43-1.6 Treasury action following notice of prize withholding**

(a) No later than 20 days from the date of the notice to the debtor, the Higher Education Student Assistance Authority (HESAA) shall notify the Department of the

Treasury (Treasury) and the Division of State Lottery of any request by the debtor for a hearing, of the failure of the debtor to make such request or of the satisfaction of the debt. Such information shall allow Treasury to:

1. Maintain the account on a hold status if a hearing has been requested;
2. Transmit the debt to HESAA, where the debtor has not made a timely request for a hearing or where a hearing request is made but subsequently withdrawn; or
3. Release the prize check to the winner if the debt has been satisfied.

(b) Treasury shall extend the hold status of an affected check following notification from HESAA that a hearing has been requested pursuant to N.J.A.C. 17:43-1.7 and until a final decision has been rendered by HESAA (including any appeal which may be taken by the debtor). If the request for the hearing is withdrawn, the provisions of (a)2 and 3 above shall apply.

**17:43-1.7 Right to hearing**

(a) Any person whose lottery prize has been withheld pursuant to P.L. 1997, c.306, may request a hearing by serving a written request on the Higher Education Student Assistance Authority (HESAA) within 14 days of the date of the notice of match described in N.J.A.C. 17:43-1.5. However, if a person is subject to a judgment by HESAA on account of a defaulted student loan, N.J.A.C.17:43-1.8, and not this section, shall apply.

(b) When a debtor makes a timely request for a hearing in a case where HESAA is seeking to collect on a defaulted student loan(s), HESAA shall conduct an administrative review on the existence or amount of the debt.

(c) If the matter cannot be resolved through administrative review, the matter shall be filed forthwith with the Clerk of the Office of Administrative Law for a contested case hearing pursuant to the Administrative Procedure Act, N.J.S.A. 52:14B-1 et seq., and 52:14F-1 et seq. The Office of Administrative Law shall recommend a decision to HESAA within 45 days of the closing of the record on the case, in accordance with N.J.S.A.52:14B-10.

(d) If a debtor disagrees with the final agency decision made by HESAA following a contested case hearing, and wishes to appeal that decision, the debtor may appeal to the

Appellate Division of the Superior Court of New Jersey within the period established by New Jersey Court Rule 2:4.

**17:43-1.8 Defaulted loan subject to agency judgment**

If there is a judgment against the debtor in a case where the Higher Education Student Assistance Authority (HESAA) is seeking to collect on a defaulted student loan(s), the debtor wishing to contest the application of lottery prize winnings toward student loan debt must seek relief in the court where judgment was entered. If there is an appeal of that judgment, HESAA shall notify the Division of State Lottery and the Department of the Treasury within three days of the date of service of such appeal to maintain the account on hold status until the matter is resolved.

**17:43-1.9 Transmission of prize offset to HESAA**

(a) Upon either final determination on the existence or amount of the debt, or upon the debtor's default for failure to make a timely request for review of the asserted setoff, or upon partial payment of the outstanding debt, the Higher Education Student Assistance Authority (HESAA) shall forthwith notify the Department of the Treasury (Treasury) and the Division of State Lottery (Lottery), following which the amounts withheld from distribution, up to the amount owed, shall be transmitted to HESAA.

(b) Where judicial review is sought from the final agency decision, HESAA shall advise Treasury and Lottery of such appeal within three days of the date of service of the request for judicial review. Upon resolution of judicial review (including any appeal which may be taken) like notice shall be provided by HESAA to Treasury and Lottery.

**17:43-1.10 Notice and disbursement of prize after setoff**

Upon the finalization of setoff through administrative or judicial action, the Higher Education Student Assistance Authority shall notify the debtor in writing of the action and of any outstanding balance remaining due after the setoff. If there is an outstanding prize balance remaining after the setoff, it shall be disbursed by the Department of the Treasury to the debtor.

**17:43-1.11 Confidentiality**

Apart from notice to affected individuals and to the Higher Education Student Assistance Authority for purposes of administrative review, personally identifiable information compiled under this chapter regarding any person shall be confidential and shall not be disseminated or used for any purpose other than as set forth in P.L. 1997, c.306, and this chapter.

Effective date: May 4, 2009



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FOR LOTTERY USE ONLY #

# WINNER CLAIM FORM

Instructions, Privacy Act Notice and Disclosures are on the back of form

<b>1 CLAIM DATE</b>	<b>2 RETAILER NUMBER</b>	<b>3 RETAILER REPRESENTATIVE</b>

<b>4 LAST NAME</b>	<b>FIRST NAME</b>	<b>MI</b>

<b>5 GROUP NAME (OPTIONAL)</b>

<b>6 ADDRESS (INCLUDE APT # OR FLOOR, IF ANY)</b>

<b>7 CITY</b>	<b>STATE</b>	<b>ZIP</b>

<b>8 CLAIMANT SOCIAL SECURITY NUMBER or TAXPAYER ID</b>	<b>IMPORTANT: FULL NAME AND SOCIAL SECURITY NUMBER or TAXPAYER ID MUST MATCH WITH INTERNAL REVENUE SERVICE (IRS)</b>	<b>9 PHONE NUMBER</b>

<b>10 NON-RESIDENT ALIEN COUNTRY OF ORIGIN</b>	<b>10A PASSPORT NUMBER</b>

<b>11 PROOF OF IDENTIFICATION PROVIDED (IDENTIFICATION PRESENTED (TYPE/NUMBER) EXAMPLE: DRIVER'S LICENSE Q 1234-23456-1233)</b>

### INSTANT TICKET CLAIMS ONLY

<b>12 GAME NAME</b>	<b>PRIZE AMOUNT</b>	<b>GAME-PACK-TICKET</b>	<b>14-DIGIT SERIAL #</b>

### DRAW GAME TICKET CLAIMS ONLY

<b>13 DRAWING DATE</b>	<b>PRIZE AMOUNT</b>	<b>GAME (CHECK ONE)</b>						
		PICK 3	PICK 4	JERSEY CASH 5	PICK 6	MEGA MILLIONS	POWER BALL	OTHER

<b>BET TICKET SERIAL #</b>	<b>CLAIM TICKET VALIDATION #</b>

### QUESTIONABLE TICKETS ONLY

<b>14 RETAILER TO PROVIDE BRIEF EXPLANATION:</b>

STAPLE TICKET  
HERE (FACE UP)

STAPLE VALIDATION  
RECEIPT HERE (FACE UP)

### CERTIFICATION & SIGNATURE

UNDER PENALTY OF PERJURY, I DECLARE THAT THE NAME, ADDRESS, SOCIAL SECURITY NUMBER, AND ALL OTHER INFORMATION WHICH I HAVE PROVIDED, CORRECTLY IDENTIFIES ME AS THE RECIPIENT AND RIGHTFUL OWNER OF THE PRIZE CLAIMED, AND THAT THE TICKET ATTACHED TO THIS CLAIM HAS NOT BEEN FALSELY MADE, ALTERED, FORGED OR COUNTERFEITED. I CERTIFY THAT I HAVE READ AND UNDERSTAND THE INFORMATION ON THE FRONT AND BACK OF THIS FORM. I CERTIFY THAT THE INFORMATION PROVIDED BY ME IS TRUE AND ACCURATE. I UNDERSTAND THAT IF ANY INFORMATION PROVIDED IS KNOWINGLY FALSE, I AM SUBJECT TO PUNISHMENT.

**15 CLAIMANT SIGNATURE**



# WINNER CLAIM FORM

## PLEASE USE THIS FORM FOR PRIZE CLAIMS OF \$600 OR MORE AND QUESTIONABLE TICKETS

### RETAILER INSTRUCTIONS

- ▶ Instruct Claimant to sign back of ticket. Name on claim form must match name on the back of the ticket.
- ▶ Must validate ticket for Claimant (ticket owner) and give Claimant the validation receipt.
- ▶ Complete Boxes 1, 2 and 3. Additionally, complete Box 14, if questionable ticket.
- ▶ Instruct claimant on completing Boxes 4 – 13 and Box 15.
- ▶ Instruct claimant to carefully complete form and see Instructions to Claimant.
- ▶ Remind claimant to attach signed ticket and validation receipt to Lottery Copy in the space indicated.
- ▶ Retain Retailer Copy for your records.

### INSTRUCTIONS TO CLAIMANT

- ▶ Read all instructions, privacy act notice and disclosure statements carefully.
- ▶ Must sign back of ticket and Claim Form (Box 15). Name and signatures must match.
- ▶ Complete Boxes 4 – 13, if needed, ask Retailer to provide assistance.
- ▶ Must attach signed ticket and validation receipt to completed Lottery Copy, fold and place in attached pre-addressed envelope. Mail immediately to avoid delay of payment.
- ▶ Retain Claimant Copy for your records.
- ▶ Payment of prize requested herein is subject to all applicable NJ Lottery Rules and Regulations.
- ▶ Allow approximately 3 weeks for processing. For questions concerning payment, contact Customer Service at 1-800-222-0996.

### EXPLANATION OF BOXES

- Box 1** Claim Date – Enter today's date.
- Box 2** Retailer Number – Completed by Retailer.
- Box 3** Retailer Representative – Completed by Retailer. Print name of person assisting with Claim form.
- Box 4** Name of Claimant – Name of the person claiming the ticket (Last Name, First Name, Middle Initial).
- Box 5** Group Name – Name of Group is Optional.  
NOTE: If sharing a prize, obtain IRS form 5754 from <http://www.irs.gov> or 1-800-829-1040 and attach to claim.
- Box 6-7** Address/City/State/Zip – Claimant's mailing address, including apartment # or floor.  
If address changes during the year, contact the New Jersey Lottery at 609-599-5824.
- Box 8** Claimant Social Security Number or Taxpayer ID – Required for claiming prize and tax purposes. SSN or Taxpayer ID must match number on your tax return. Failure to include Social Security Number or Taxpayer ID will delay payment. The Retailer does not retain this information. If non-resident alien, see Boxes 10 and 10a.
- Box 9** Phone Number – Enter a phone number where you can be reached for any questions regarding your claim.
- Box 10-10(a)** Non-Resident Country of Origin/Passport # – Claimant without a Social Security Number who is a non-resident alien must provide their passport number and Country of Origin. This information is required for claiming prize and tax purposes. Failure to include will delay payment. The Retailer does not retain this information.
- Box 11** Proof of Identification – Examples of acceptable forms of identification are driver's license; identification issued by a public agency; Passport; identification issued by any branch of the armed forces of the U.S.
- Box 12** Instant Ticket Claims Only – Enter name of game; the prize amount (prize amount will be verified by Lottery); 14-digit game/pack/ticket # found on back of ticket beneath the barcode; 14-digit serial # found on front of ticket in scratch-off play area.
- Box 13** Draw Game (Machine) Claims Only – Enter drawing date; prize amount (prize amount will be verified by Lottery); game; bet ticket serial # found beneath barcode on front of ticket; claim ticket validation # found on bottom of validation receipt.
- Box 14** Questionable Tickets Only – Retailer to provide explanation of questionable ticket as damaged, misprint, prize amount discrepancy, or any other problem.
- Box 15** Certification & Signature – Claimant must read and sign claim form. Signature on claim form must match signature on back of ticket. Claim will not be processed without signature.

### PRIVACY ACT NOTICE AND DISCLOSURES

In accordance with the New Jersey Open Public Records Act (N.J.S.A. 47:1A-1 et seq. and N.J.A.C. 17:20-7.7), once a prize has been validated, the following facts are public information and may be subject to disclosure. Winner Name, Town, and County of individual or group; Game in which prize was won; Date of game drawing; Date prize was claimed; Amount of prize won; Address, City, County of the New Jersey Retailer which sold the winning ticket.

Each United States resident who is to receive a payment of winnings \$600 or more shall furnish to the Lottery the information required on the Internal Revenue Service Form W-2G (or any other form required by the Internal Revenue Service ("IRS")). This information is to include, but is not limited to, the claimant(s) name, address, and Social Security Number. Such information will be disclosed by Lottery exclusively to the IRS for tax purposes. 5 U.S.C. 522a(b)(3); 26 U.S.C. 6103(h)(1); N.J.S.A. 54:50-8; N.J.S.A. 54:50-9. This disclosure is mandatory. The federal authority mandating such disclosure is found at: 42 U.S.C. 405(c)(2)(C) and 26 C.F.R. 31.3042(q)-1(e). The analogous state provisions can be found at: N.J.S.A. 54:50-9(f); N.J.A.C. 17:20-7.1; and <http://www.lottery.net>.