

GAO

Testimony

Before the Subcommittee on International Security,  
Proliferation and Federal Services  
Senate Committee on Governmental Affairs

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PROPOSED LEGISLATION

Issues Related to Honesty in  
Sweepstakes Act of 1998  
(S. 2141)

Statement for the Record by  
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General Government Division



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# Proposed Legislation: Issues Related to Honesty in Sweepstakes Act of 1998

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The intent of the proposed “Honesty in Sweepstakes Act of 1998” (S. 2141), introduced by Senator Ben Nighthorse Campbell on June 5, 1998, is to ensure that organizations that use sweepstakes or other games of chance and cashier’s check “look-alikes” as promotional or marketing tools are as honest and accurate as possible in their dealings with consumers. In response to Senator Campbell’s July 1, 1998, request, GAO obtained information on two issues related to the proposed legislation: (1) the extent and nature of consumers’ problems with mailed sweepstakes material and cashier’s check look-alikes and (2) recent initiatives to address such problems. GAO obtained information from officials and representatives in a total of 17 federal, state, and local government agencies and nongovernmental organizations.

GAO found that comprehensive data that could indicate the full extent of the problems that consumers experienced with mailed sweepstakes material and cashier’s check look-alikes were not available. The main reasons officials and representatives gave for the lack of comprehensive data were that (1) consumers oftentimes did not report their problems and (2) no centralized database existed from which comprehensive data could be obtained.

Although comprehensive data were unavailable, FTC and the Postal Inspection Service were two organizations that GAO identified as having some data on consumers’ complaints about deceptive mail marketing practices, which could indicate the nature of these types of problems. Much of the consumer complaint information, which GAO obtained in a sample from FTC’s Consumer Information System, showed that in many instances, consumers were required to remit money or purchase products or services before being allowed to participate in the sweepstakes. Information about Postal Inspection Service cases that had been investigated largely involved sweepstakes and cash prize promotions for which up-front taxes or insurance, judging, or handling fees were required before consumers could participate in sweepstakes promotions. GAO was unable to identify examples of consumers’ problems with cashier’s check look-alikes similar to those involving mailed sweepstakes material because such information was not readily available.

Two recent initiatives are intended to address consumers’ problems with deceptive direct mail marketing practices. The initiatives are (1) Project Mailbox for which various participating organizations, including FTC, the Postal Inspection Service, and 25 state attorneys general, collectively took steps to target organizations that used such practices; and (2) the

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establishment of a multi-state sweepstakes committee that, among other things, is designed to facilitate cooperation among various states in dealing effectively with companies that attempt to defraud consumers through the use of mailed sweepstakes material.

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Mr. Chairman and Members of the Subcommittee:

We are pleased to have this opportunity to discuss issues related to the proposed legislation entitled “Honesty in Sweepstakes Act of 1998,” (S. 2141), which was introduced on June 5, 1998, by Senator Ben Nighthorse Campbell.<sup>1</sup> In my statement, I will provide information on the results of our efforts to determine the extent and nature of problems that consumers may have experienced with various sweepstakes mailings that organizations have used to entice consumers to purchase goods and services. Also, I will provide information on our efforts to obtain similar information related to the mailing of documents that resembled cashier’s checks, also known as cashier’s check “look-alikes,” which are not the negotiable instruments that they appear to be. In addition, I will provide information on initiatives in which various agencies and organizations have participated to address consumers’ problems with direct mail marketing practices. We performed our work in response to Senator Campbell’s July 1, 1998, request.

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## Background

As Senator Campbell indicated in his remarks that appeared in the June 5, 1998, Congressional Record, the proposed legislation is primarily intended to protect consumers, particularly senior citizens, from deceptive direct mail marketing practices. The provisions of the proposed legislation are generally designed to help ensure that organizations, which may use questionable or deceptive direct mail sales promotions involving sweepstakes or other games of chance and cashier’s check look-alikes, be required to be as accurate and honest as possible in such promotions. Specifically, the provisions would require these organizations to ensure that statements are printed in large typeface on the outside of the envelope to clearly indicate that the printed material inside involves a sweepstakes or game of chance and that the consumer has not automatically won. Also, the provisions would require that these organizations include statements at the top on the first page of the printed material inside the envelope that would

- repeat the statements that were printed on the outside of the envelope;
- indicate consumers’ chances of winning the sweepstakes; and
- state that no purchase is necessary for consumers to win a prize nor would such purchases enhance their chances of winning.

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<sup>1</sup>On July 28, 1998, Congressman Frank LoBiondo introduced proposed legislation entitled “Honesty in Sweepstakes Act of 1998” (H.R. 4340), which was identical to Senator Campbell’s proposed legislation.

In addition, for mailed cashier's check look-alike documents, the provisions would generally require that in accordance with prescribed Postal Service regulations, a statement be included in large or contrasting typeface on the document to indicate that it is not a check and has no cash value.

As Senator Campbell has indicated, consumers would be key stakeholders in helping to ensure that organizations complied with the provisions in the proposed legislation. The role of consumers would be to report their complaints to the Postal Service about any mailed material that appeared not to meet the proposed legislative provisions. Such complaints would provide the Postal Service with information that could be used to appropriately investigate and determine an organization's compliance with the proposed "Honesty in Sweepstakes Act" provisions. If such information indicates that the mailed material is not in compliance, the Postal Service may take action to dispose of the material or return it to the sender.

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## Approach

As agreed with Senator Campbell, our primary purpose was to obtain available information that could help indicate the extent and nature of problems that consumers may have experienced with mailed sweepstakes material and cashier's check look-alikes. To accomplish this purpose, we performed general research to identify any federal, state, and local government agencies as well as nongovernmental organizations that may have been involved in dealing with consumers' complaints about questionable or deceptive direct mail marketing tactics involving mailed sweepstakes material and cashier's check look-alikes. The key federal agencies we identified were the Federal Trade Commission (FTC) and the U.S. Postal Service, specifically, the Postal Inspection Service. We also identified other state and local government agencies and nongovernmental organizations that dealt with such complaints, including

- state Attorneys General offices for such states as Florida and West Virginia;
- local government offices that handled consumer protection issues; and
- various nongovernmental organizations including (1) American Association of Retired Persons (AARP); (2) National Consumers League

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(NCL),<sup>2</sup> which established the National Fraud Information Center (NFIC),<sup>3</sup> and (3) Direct Marketing Association (DMA).<sup>4</sup>

We contacted officials at FTC and the Postal Inspection Service and discussed with them the extent to which they may have collected and maintained data that could indicate the extent or scope of consumers' problems with questionable or deceptive mail marketing practices that involved mailed sweepstakes material and cashier's check look-alikes. Also, we discussed with these officials whether we could obtain examples of consumers' complaints about such practices that could indicate the nature or the types of problems that consumers had experienced.

In selecting states to contact, we relied in large part on information obtained from FTC officials. These officials generally cited various states that

- had laws, which included requirements for organizations to follow in using mailed sweepstakes material as marketing techniques;
- were involved in legal actions concerning mailed sweepstakes material against specific organizations; and
- had been active in dealing with consumers' complaints about mailed sweepstakes material and working with other agencies and organizations to help educate consumers about questionable or deceptive mail marketing practices.

During the course of our work, we also obtained information about initiatives in which various federal and state government agencies and nongovernmental organizations have participated in addressing consumers' problems with questionable or deceptive direct mail marketing practices.

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<sup>2</sup>NCL is a private, nonprofit consumer advocacy organization that was established in 1899 with a mission to identify, protect, represent, and advance the economic and social interests of consumers and workers. Among other things, NCL provides government agencies, businesses, and other organizations with information concerning the consumer's perspective on various issues such as child labor, health care, and food and drug safety.

<sup>3</sup>In 1992, NCL established NFIC as a nationwide toll-free hotline through which consumers could report suspected instances of fraudulent activity and receive information about avoiding the dangers of fraud. NFIC focuses on problems associated with telemarketing and Internet fraud.

<sup>4</sup>The Direct Marketing Association (DMA) was established in 1917 as an international, nonprofit trade association whose primary objective was to serve its members in bringing about more effective direct marketing techniques. As of June 1998, DMA had about 6,700 members representing about 3,700 organizations in the United States and in 54 other countries. Examples of DMA members included catalogers, publishers, book and record clubs, financial service companies, manufacturers, and advertising agencies.

At the time we completed our work in mid-August 1998, we had obtained information from officials and representatives in 17 federal, state, and local government agencies and nongovernmental organizations. Because we had a limited amount of time in which to obtain information related to mailed sweepstakes material and cashier's check look-alikes, we did not independently verify the information provided by the 17 agencies and organizations. A list of these agencies and organizations is included in the appendix to this statement. We did our work from July through mid-August 1998, in accordance with generally accepted government auditing standards.

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## **Extent and Nature of Consumers' Problems With Mailed Sweepstakes Material and Cashier's Check "Look-Alikes"**

Of the 17 agencies and organizations from which we obtained information, we found that comprehensive data on the extent of consumers' problems with mailed sweepstakes material and cashier's check look-alikes were generally not available. We found that in 2 of the 17 agencies and organizations—namely FTC and the Postal Inspection Service—some data were available that could help indicate the nature or types of problems that consumers had experienced with mailed sweepstakes material. However, we were unable to obtain similar data concerning cashier's check look-alikes. According to FTC and Postal Inspection Service officials, consumer complaint data on cashier's check look-alikes were not as readily available as data on mailed sweepstakes material.

Various officials and representatives in the remaining 15 agencies and organizations told us that generally they could not provide us with information similar to FTC and the Postal Inspection Service that could indicate the extent or nature of consumers' problems. The reasons they cited were mainly because (1) their agencies and organizations did not believe it was their primary function to collect or maintain such information or (2) their data collection was limited to information that could assist the agencies and organizations in taking action against a specific company that may have misused sweepstakes as a marketing tool. For example, an official in Florida's Office of the Attorney General told us that consumer complaint information was collected and maintained only on American Family Publishers (AFP)<sup>5</sup> because the state of Florida had filed a lawsuit against AFP for allegedly deceiving consumers with mailed sweepstakes material.

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<sup>5</sup>American Family Publishers (AFP) is a company partly owned by Time Customer Service, Inc. AFP's main purpose is to provide consumers with opportunities to purchase magazine subscriptions. AFP has used a sweepstakes to try to induce consumers to purchase subscriptions.



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**Comprehensive Data  
Unavailable That Could  
Indicate the Extent of  
Consumers' Problems**

In attempting to identify the extent of consumers' problems with mailed sweepstakes material and cashier's check look-alikes, we found that comprehensive data that could clearly indicate the extent of the problems, including such information as how frequently such problems might occur, were not available. Various officials and representatives from the 17 federal, state, and local government agencies and nongovernmental organizations from which we obtained information told us that generally, such data were not available for two main reasons—first, consumers oftentimes do not complain or report their problems and second, no centralized database existed that could indicate the full extent of such problems involving those who did not register complaints.

Regarding the first main reason for the lack of comprehensive data, officials and representatives told us that consumers often did not report problems because they were too embarrassed or did not realize that they had been victimized. Also, some consumers reportedly feared that if they complained, their chances of future sweepstakes winnings would be diminished. In addition, an AARP representative mentioned that in many instances, elderly consumers may fear losing their financial independence if they reported negative experiences with mailed sweepstakes material. Specifically, elderly consumers may fear that if their family members learned that they had been victimized, the family members might then take steps to prevent future victimization, such as stricter control over bank account activities.

In addition, consumers may not file complaints because such complaints can be filed with various organizations, such as FTC, the Postal Inspection Service, NFIC, a local better business bureau, or a consumer protection agency. In many instances, consumers may be uncertain about which organization is the most appropriate one to receive their complaints. Also, in some cases, if consumers try to file complaints, they may be referred to or told to contact other organizations, which may cause consumers to become frustrated and abandon their attempts to file complaints.

Concerning the second reason for the lack of comprehensive data, various officials and representatives mentioned that no centralized database existed that could indicate the extent of consumers' reported problems with deceptive mail marketing practices involving mailed sweepstakes material and cashier's check look-alikes. Some of the agencies and organizations from which we obtained information, such as FTC, NFIC, and state attorney general's offices, have collected and maintained some, but not complete, consumer complaint data related to such practices.

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Consumers can complain to a variety of organizations, but none of these organizations necessarily receives information on complaints filed with other organizations. For example, in large part, FTC receives complaints directly from consumers and from various outside organizations, including NFIC, AARP, and Project Phonebusters.<sup>6</sup> However, FTC does not generally receive consumer complaints from all organizations that may accept such complaints, such as state attorneys general offices and local consumer affairs offices. An FTC official mentioned that currently FTC is working with other organizations, such as the National Association of Attorneys General (NAAG),<sup>7</sup> to encourage these organizations to share consumer complaint information with FTC, so that more comprehensive data on consumer complaints can be centrally collected and maintained.

Also, although the Postal Inspection Service receives numerous complaints related to consumers' problems with alleged fraudulent activities, including mailed sweepstakes material, it does not necessarily receive these complaints from all organizations that accept them. In addition, according to Postal Service Inspection officials, the extent to which complaints within the Postal Inspection Service's database involve mailed sweepstakes material or cashier's check look-alikes is not easily determined.

Furthermore, some of the agencies and organizations from which we obtained information did not have comprehensive data because they generally believed that collecting and maintaining such data were not their primary functions. Also, an AARP representative told us that the general lack of comprehensive data was partially due to an overall scarcity of resources, including staff and funds, which she believed would be needed to collect and maintain a comprehensive, centralized database.

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<sup>6</sup>Project Phonebusters is a Canadian national task force that provides consumers with a toll-free hotline through which they can register their complaints about fraudulent or deceptive marketing or promotional practices.

<sup>7</sup>The National Association of Attorneys General (NAAG) is a professional association that was established in 1907. Its members include the Attorneys General of 50 states and chief legal officers for other jurisdictions, such as the District of Columbia and the Virgin Islands. The U.S. Attorney General is an honorary member of NAAG. NAAG's overall goals include (1) promoting cooperation and coordination on interstate legal matters and (2) increasing citizen understanding of the law and law enforcement's role to ensure both protection of individual rights and compliance with the law.

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**FTC's Consumer  
Information System  
Included Data That Could  
Indicate the Nature of  
Problems**

In our discussions with various officials and representatives of the agencies and organizations from which we obtained information, they suggested that in order to obtain examples of such problems, in all likelihood, FTC would be the most appropriate agency to provide us with data on consumers' complaints about sweepstakes mailings and cashier's check look-alikes. FTC officials explained that the Consumer Information System (CIS) is FTC's database that includes consumer complaint information. The officials told us that the purpose of CIS, which became fully operational in September 1997, was to collect and maintain various data related to consumers' complaints.<sup>8</sup> FTC officials expected that CIS data would be used primarily by law enforcement organizations and officials to assist them in fulfilling their law enforcement duties.

The CIS database contained a total of about 200 categories within which consumers' complaints were included. The categories in CIS covered a wide range of topics such as (1) creditor debt collection, (2) home repair, (3) investments, (4) health care, and (5) leases for various products and services such as automobiles and furniture. We identified one of those categories—prizes/sweepstakes/gifts—as the key category that could provide us information on consumers' complaints about mailed sweepstakes material. However, we were unable to identify a specific category that could help us obtain similar information on cashier's check look-alike documents. FTC officials told us that consumer complaints about such documents could be included in many of the CIS categories because these types of documents may be related to a wide range of products and services, including home mortgage loans, automobiles, and real estate sales. Thus, we would have needed to review nearly all the CIS categories to try to obtain insight into the nature of consumers' problems with these documents. Because our time to review this information was limited, we determined that we should focus our efforts on reviewing those complaints that were included in the prizes/sweepstakes/gifts CIS category.

As of August 13, 1998, which was the date that we received the data from FTC, the prizes/sweepstakes/gifts category included 15,735 consumer complaint records in which the initial contact from the company to the consumer was made through the mail. FTC officials further told us that to expedite delivery of these data, they provided us with data that included only those complaints received from two sources—FTC and NFIC. The officials explained that 95 percent of the complaints included in the prizes/sweepstakes/gifts category in which the consumers were contacted

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<sup>8</sup>An FTC official told us that he believed CIS could serve as the central database for receiving information on consumer complaints from various federal, state, and local government agencies and non-governmental organizations that deal with such complaints.

by mail had been filed with either FTC or NFIC. Also, they mentioned that many of the 15,735 records in the prizes/sweepstakes/gifts category included consumer complaints that both FTC and NFIC had maintained in their databases for several years before CIS was established.

In reviewing the consumer complaint data we received from FTC, we focused on those complaints that were included in CIS during the most recent 12-month period (i.e., July 1, 1997, through June 30, 1998). For this period, we identified 1,394 consumer complaints within the prizes/sweepstakes/gifts CIS category in which the initial contact with the consumer was made by mail. Of the 1,394 complaints, we found that in 1,215, or about 87 percent, of these complaints, companies had requested individual consumers to remit money. The total amount of money requested by the companies was reported to be about \$102,000.

Also, our review of the 1,394 consumer complaints showed that 734, or about 53 percent, of consumers reported that they had remitted money to the companies. The total amount of money these consumers said they had paid was about \$46,000. The amounts of money individual consumers said that they had paid ranged from less than \$5 to \$8,850. Of the 734 complaints, 551 individual consumers, or about 75 percent, reported that they had paid amounts less than \$5, whereas, in one case, a consumer reported paying \$8,850. We did not independently verify the accuracy of this information.

In reviewing the 1,394 complaints, we identified 1,371 that included information in the “comment” data field, which indicated the nature of consumers’ complaints. From the 1,371 complaints, we randomly selected 200 for analysis to try to more clearly determine the nature of consumers’ complaints that were included in the prizes/sweepstakes/gifts CIS category. We sorted the 200 complaints into the following five groups:

- Sweepstakes that required consumers to send in money or pay fees.
- Sweepstakes that required consumers to purchase products or services.
- Sweepstakes that required consumers to call a telephone number for which they were charged a fee.
- Sweepstakes that required consumers to provide personal information, such as social security numbers or bank account numbers.
- A miscellaneous group for those complaints that could not readily be included in the previous four groups.

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Table 1 shows the general breakdown of the 200 consumer complaints into the five groups.

**Table 1: Groups in Which 200 FTC CIS Consumer Complaints on Mailed Sweepstakes Material Were Included**

<b>Group description</b>	<b>Total number of consumer complaints</b>	<b>Percent</b>
Send in money or fees.	140	70.0%
Purchase products or services.	20	10.0
Call a telephone number.	7	3.5
Provide personal information.	7	3.5
Miscellaneous.	26	13.0
<b>Total</b>	<b>200</b>	<b>100.0%</b>

Source: GAO analysis of data from FTC Consumer Information System.

As indicated in table 1, 160, or 80 percent, of the consumer complaints we sampled involved sending in money or fees or purchasing products or services. Some examples of the types of complaints included in the two categories were as follows:

- A consumer was told by a company that she had won \$12,000, but that she was required to send in a processing fee to claim her winnings. She remitted the fee to the company but received no winnings. Later, she received an identical notice from the same company but she did not remit the requested processing fee.
- A consumer received repeated notices that she had won a cash prize in a company's sweepstakes. However, she never received such a prize, even after she ordered and received several plants from the company.
- A consumer reported that a company had offered to enter his name in its sweepstakes when he purchased magazines. After the consumer purchased the magazines, the company advised him that he was a sweepstakes winner. The company told the consumer to remain at home on a specific date so that he could receive his prize, which was a suitcase full of money. Although the consumer remained at home on the specified date, no suitcase arrived.

As shown in table 1, 7 consumer complaints involved organizations asking consumers to call a telephone number for which the consumer was charged a fee. Generally, the consumer complaints in this group were similar in that consumers were asked to call such a number to claim their

winnings or verify their winning numbers. Examples of such complaints included the following:

- A consumer complained that he had received an award notification in the mail. He was required to call a 900 telephone number to verify his winning number. The company told the consumer that he had won one dollar. Later, the consumer was charged \$56 for the telephone call.
- A consumer was told by a company that she had won either a car or cash and required her to either call a 900 telephone number or send in a card to receive her prize. Although she sent in the card, she did not receive her promised prize.

As indicated in table 1, 7 consumer complaints from our sample involved organizations requesting personal information, such as the consumer's social security number or bank account number. Some examples of these types of complaints included the following:

- A consumer reported that a company informed him that he could win as much as \$100,000 if he would send in a release form that included bank account information. The consumer did not send in the form.
- A consumer complained that a company instructed him to call immediately concerning his sweepstakes winnings. When he called, a company representative tried to solicit his telephone number as well as credit card information. The consumer refused to provide the information.

As shown in table 1, 26 complaints contained a variety of miscellaneous consumer complaints that did not easily fit into one of the previous four groups. Examples of these miscellaneous complaints included the following:

- A consumer received three letters informing him that he was the winner of a large sum of money. After writing many letters to the company, the consumer never received any explanation as to why he had not received his money.
- A consumer reported that he had received a notice that he was the winner in a company sweepstakes. The notice stated that the company was preparing to award him a prize. The consumer sent the company a letter requesting the prize, but subsequently, the company notified the consumer that he in fact was not the winner.

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## Postal Inspection Service Has Investigated Various Cases Involving Mailed Sweepstakes Material

Postal Inspection Service officials told us that the Fraud Complaint System (FCS) is used by the Postal Inspection Service to collect and maintain consumer complaint information about various types of alleged fraudulent activities, including those involving deceptive mail marketing practices. The officials estimated that the Postal Inspection Service generally receives between 60,000 and 100,000 consumer complaints each year that pertain to alleged fraudulent activities. However, officials were unable to estimate how many of these complaints were related to mailed sweepstakes material and cashier's check look-alikes. The officials told us that generally, it would be difficult to identify such complaints because FCS has limited search capabilities. In large part, complaints regarding mailed sweepstakes material and cashier's check look-alikes in FCS can only be identified by searching on the company name or product sold.

According to Postal Inspection Service officials, we could best obtain information on the nature of consumers' complaints by reviewing specific cases for which postal inspectors had performed investigations. One of the officials told us that during the period October 1, 1997, through August 21, 1998, 16 cases involving mailed sweepstakes material were closed and specific law enforcement actions, such as the issuance of cease and desist orders,<sup>9</sup> had been taken. The 16 cases most often involved sweepstakes and cash prize promotions for which up-front taxes or insurance, judging, or handling fees were required before consumers could participate in the sweepstakes.

The disposition of the 16 Postal Inspection Service cases involved various actions. For example, seven cases were closed because (1) no clear violations were identified, (2) criminal prosecution was declined due to insufficient evidence or a civil agreement was reached with FTC, or (3) the sweepstakes operators or promoters abandoned or voluntarily stopped their activities. In five cases, cease and desist orders and withholding mail orders were issued.<sup>10</sup> In two cases, sweepstakes operators were arrested, with one of the cases resulting in a dismissal and the other case resulting in a conviction. The remaining two cases were combined into one case because they involved activities sponsored by the same organization. This organization offered to provide consumers with money allegedly held in

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<sup>9</sup>A cease and desist order is an order of an administrative agency or court prohibiting a person or business from continuing a particular course of action.

<sup>10</sup>An order to withhold mail is an order that is requested by the Postal Inspection Service if specific laws regarding delivery of mail have been violated. Such an order is issued by a judicial officer and sent to the violator and to the postal inspector-in-charge within the area where the violator was operating. The order usually requires that mail from the violator is held for a time by the Postal Service, then returned to the violator.

the consumers' names with the federal government for which the consumers would have to pay a fee. The two combined cases resulted in the issuance of a cease and desist order, a withholding mail order, and a false representation order.<sup>11</sup>

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## Initiatives by Organizations to Address Deceptive Mail Marketing Practices

We identified various initiatives by specific agencies and organizations that were intended to provide opportunities for these entities to address, among other things, the problems affecting consumers that involved questionable or deceptive mail marketing practices. These initiatives also provided the agencies and organizations with information that they could use to assist law enforcement organizations in initiating appropriate actions, such as investigations and lawsuits. In addition, the initiatives provided agencies and organizations with opportunities to work together on efforts that could help educate and inform consumers about direct mail marketing practices that could cause problems. Examples of two of the more recent initiatives included (1) Project Mailbox and (2) the establishment of a multi-state sweepstakes committee, which resulted from a legal complaint involving AFP.

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### Project Mailbox

In October 1997, FTC announced the establishment of the Project Mailbox initiative. According to FTC and AARP, its main purpose was to establish specific efforts that could help educate consumers and appropriately deal with organizations that attempted to defraud consumers through the use of mass mailings. Various agencies and organizations participated in Project Mailbox, including FTC, the Postal Inspection Service, about 25 state Attorneys General, and AARP. Project Mailbox resulted in four efforts being established that would target any questionable activities of organizations that use the mail to defraud consumers. The four efforts included

- the initiation of 190 law enforcement actions, which targeted companies that were suspected of mail and telemarketing fraud, including such actions as (1) issuing cease and desist letters and notices of intent to sue and (2) filing complaints in court;

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<sup>11</sup>Under 39 U.S.C. 3005, if the Postal Service finds sufficient evidence, an order can be issued against any person engaged in conducting (1) a scheme or device for obtaining money or property through the mail by means of false representations or (2) a lottery, gift enterprise, or scheme for the distribution of money or of real or personal property, by lottery, chance, or drawing of any kind. Such an order may involve returning mail to the sender and forbidding payment of any postal money order that was made payable to the sender.



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- the establishment of a strike force involving FTC, the Postal Inspection Service, various state Attorneys General, NAAG, and AARP that would collect and review direct mail for future law enforcement actions;
- the initiation of AARP's "Project Senior Sting," a project established in Massachusetts and Arizona in which unsolicited mail would be turned over to law enforcement agencies to search for possible examples of fraud; and
- the launching of a consumer education campaign involving the Postal Inspection Service, AARP, and the Yellow Pages Publishers Association that is intended to help consumers and small businesses spot mail fraud.

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**NAAG Multi-State  
Sweepstakes Committee**

Within NAAG, various committees work on a wide range of issues including civil rights, environment, energy, health care, bankruptcy, and taxes. These committees are responsible for studying such issues and recommending policy positions to NAAG members for action. In July 1998, NAAG approved a resolution to establish within its Consumer Protection Committee a subcommittee that plans to address matters related to sweepstakes and prize promotions. According to the resolution, some of the subcommittee's objectives include (1) ensuring active enforcement of current laws that prohibit unfair and deceptive practices by operators of sweepstakes and prize promotions, (2) determining whether specific legislative initiatives would be effective in deterring and punishing deceptive and abusive practices by operators of sweepstakes and prize promotions, and (3) when appropriate, drafting documents that could be developed into state legislation.

According to NAAG, the establishment of the subcommittee stemmed partly from a recent legal complaint filed against AFP by about 30 states and the District of Columbia, which sued AFP for engaging in direct mail marketing practices that deceived many consumers. Generally, the complaint alleged that in its mailed sweepstakes material, AFP

- falsely suggested that a consumer must purchase one or more magazine subscriptions to win a prize;
- falsely suggested that a consumer was part of a select group vying for a prize or was one of only two recipients with the winning number;
- falsely suggested that a consumer needed only to respond within a certain number of days, and before an alternative winner responded, in order to claim the prize; and

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- required consumers who wanted to enter the sweepstakes without purchasing magazines to follow a more circuitous and cumbersome procedure than those who purchased magazines.

According to various states, as part of the settlement, which was reached in March 1998, AFP agreed to pay a total of approximately \$1.25 million to about 30 states and the District of Columbia. AFP also agreed to revise future mailed sweepstakes material so that it would

- only tell consumers that they were winners if they had in fact won,
- only tell consumers that they were among a select group that has a chance of winning a prize if the odds of winning are disclosed,
- tell consumers that no purchase is necessary to participate in the sweepstakes,
- clearly explain how to enter the sweepstakes without a purchase,
- make it clear to consumers who order magazines on an installment payment plan how much money is due each month, and
- not imply that consumers have a better chance of winning if they purchased magazines.

According to a NAAG official, the sweepstakes subcommittee chair—the Indiana Attorney General—has been identified. However, it was not clear whether other subcommittee members had been selected or whether the subcommittee’s work had begun. Generally, the subcommittee members are expected to include representatives from various state Attorneys General offices.

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# List of Federal, State, and Local Government Agencies and Non-Governmental Organizations and Their Locations

<b>Name of agency/organization</b>	<b>Location</b>
<b>Federal government agencies:</b>	
—Federal Trade Commission (FTC)	Washington, D.C.
—U.S. Postal Inspection Service	Washington, D.C.
<b>State government agencies (Offices of Attorneys General):</b>	
—Connecticut	Hartford, Connecticut
—Florida	Tallahassee, Florida
—Texas	Austin, Texas
—West Virginia	Charleston, West Virginia
—Wisconsin	Madison, Wisconsin
<b>Local government agencies:</b>	
—Citizen Assistance (Consumer Affairs) for City of Alexandria	Alexandria, Virginia
—Consumer Affairs Division for Montgomery County	Rockville, Maryland
<b>Nongovernmental organizations:</b>	
—Advertising Mail Marketing Association (AMMA)	Washington, D.C.
—American Association of Retired Persons (AARP)	Washington, D.C.
—Arizona State University (Gerontology Program)	Tempe, Arizona
—Council of Better Business Bureaus (CBBB)	Arlington, Virginia
—Direct Marketing Association (DMA)	Washington, D.C.
—National Association of Attorneys General (NAAG)	Washington, D.C.
—National Consumers League (NCL)/National Fraud Information Center (NFIC)	Washington, D.C.
—U.S. Public Interest Research Group (USPIRG)	Washington, D.C.

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