



**COMMONWEALTH OF VIRGINIA**  
*Department of Charitable Gaming*

CLYDE E. CRISTMAN  
DIRECTOR

September 22, 2004

The Honorable Mark R. Warner  
Governor of Virginia  
State Capitol, 3<sup>rd</sup> Floor  
Richmond, Virginia 23219

Dear Governor Warner:

Attached please find the 2004 Annual Report the Department of Charitable Gaming as required by § 18.2-340.18.8 of the *Code of Virginia*.

This is the first annual report for the Department since our creation by the 2003 General Assembly. As you may recall, SB 1278 (Chapter 884, 2003 Acts of Assembly) created the Department to replace the former Charitable Gaming Commission. As you will see from the attached report, charitable gaming continues to be an important method for qualified organizations to raise money for their lawful religious, charitable, community and educational purposes.

If you have any questions about the report, or charitable gaming in general, please do not hesitate to contact me by email at [Clyde.Cristman@DCG.Virginia.gov](mailto:Clyde.Cristman@DCG.Virginia.gov) or phone (804) 371-0603.

Sincerely,

A handwritten signature in black ink that reads 'Clyde E. Cristman'.

Clyde E. Cristman

Enclosure: 2004 Annual Report  
Copy: The Honorable Sandra D. Bowen  
Charitable Gaming Board

# Virginia Department of Charitable Gaming



2004 Annual Report to the  
Governor and General Assembly

September 14, 2004

**To the Governor and the Members of the General Assembly:**

Section 18.2-340.18.8 of the *Code of Virginia* requires: “The Department (of Charitable Gaming) shall report annually to the Governor and the General Assembly, which report shall include a financial statement of the operation of the Department and any recommendations for legislation applicable to charitable gaming in the Commonwealth.” The purpose of this report is to meet this requirement for the period of July 1, 2003 to June 30, 2004, Fiscal Year 2004.

**Introduction**

When the 2003 General Assembly passed Senate Bill 1278 (Chapter 884, 2003 Acts of Assembly), a set of sweeping reforms to the regulation of charitable gaming in the Commonwealth was initiated. The Department of Charitable Gaming was created effective July 1, 2003 and the former Charitable Gaming Commission was abolished. On July 29, 2003, Governor Warner announced his appointments to the nine-member Charitable Gaming Board. Under the former regulatory process, the seven-member Commission was responsible for establishing policy, promulgating regulations and enforcing those same regulations, as well as charitable gaming statutes. Under the new system, the Board is responsible to promulgate regulations and provide policy advice to the Department. The Department is responsible to enforce the laws and regulations through licensing, auditing, inspecting and training charitable organizations, as well as investigating complaints and reported violations.

**Charitable Gaming in Virginia**

Charitable gaming in Virginia produced gross sales of nearly \$300 million for FY 2003, the most recent year data is available. This figure does not include the sale of pull tabs in charitable organizations’ social quarters as with the passage of SB 1177 by the 2001 General Assembly that information is no longer reported to the state. However, it is estimated that these sales exceeded \$70 million for FY 2003. A five year analysis from FY 1999 through FY 2003 of charitable gaming gross sales reveals that the industry has been fairly stable, experiencing an average annual growth of 4% during that time.

In FY 2003, more than \$43 million, or 14.4% of gross sales, was provided for lawful religious, charitable, community or educational purposes. The current requirement is that a minimum of 12% of gross sales must be used for charitable purposes. It is important to note, that on average 75% of gross bingo sales are used to pay prizes. Therefore, of the net proceeds after prize payouts, approximately 57% went to charity.

However, an analysis done by the Department for FY 2003 found that nearly 30% of the organizations around the state did not meet the minimal requirements for charitable contributions. The 2004 General Assembly extended a moratorium in the *Code of Virginia* (§ 18.2-340-.20.D) directing the Department not to revoke an organization’s permit solely for failure to meet the minimal requirement until such time as the

September 14, 2004

Charitable Gaming Board adopts a revised requirement. The Department is working closely with the Board on this issue and is continuing to review strategies so that more charitable organizations meet the requirement.

### **Financial Statement of the Department**

For FY 2004, the Department collected **\$3,103,116** in revenues, which were deposited into the general fund. The major source of the Department's revenue (\$2.94 million) is from a one and one-eighth percent audit and administration fee based on gross charitable gaming revenues in the Commonwealth. It should be noted that the fee, which is set by the Department, remains lower than the one and one-quarter percent maximum established in § 18.2-340.31 of the *Code of Virginia*. The other sources of revenue included \$109,050 from permit application fees and \$54,263 from late fees on quarterly and annual financial reports not filed on time.

The Department had a general fund appropriation of **\$2,151,870** for FY 2004. The Department expended \$1,866,322 during FY 2004 leaving a year end balance of \$285,547. The vast majority (\$1.4 million) of the Department's budget was used for personnel costs. It should be noted that §18.2-340.31.C requires that all fees received by the Department shall be separately accounted for and used only for the purposes of auditing and regulating charitable gaming. However, language in the 2003 Appropriation Act overrode the statute and required that all fees paid after June 30, 2003 be deposited to the general fund. This language was continued in the 2004 Appropriation Act. The difference between revenues and expenditures results in net revenue of **\$1,236,794** for the general fund.

### **Administration**

As the result of the reforms instituted by SB1278 (2003), effective July 1, 2003 the Department assumed control of all material assets and records of the former Commission and the employees of the Commission became employees of the new Department. However, the organization was completely restructured. The Department now consists of two divisions; the Audit and Enforcement Division and the Licensing, Inspection and Training Division. Each division is headed by an administrator who reports directly to the Director. Each division is then divided into two work units; the division administrator directly supervises one unit and has one manager to directly supervise the other unit.

The Department has a maximum Position Level of 22 full-time equivalents established in the Appropriation Act. All of the FTE positions are currently filled. In addition, the Department has eight "P-14" part-time employees. There are currently six employees in our Enforcement Unit, six in the Audit Unit, four in the Licensing Unit and six inspectors plus one gaming training coordinator in the Inspection and Training Unit. In addition, there are four employees in the Administrative Unit that provide administrative support to both divisions.

September 14, 2004

## **Licensing**

There are currently 572 qualified charitable organizations licensed by the Department to conduct charitable gaming in Virginia. Of these organizations, 84 are permitted to conduct only raffles while 488 are licensed to conduct bingo, instant bingo and raffles. Each organization is required to renew its permit on an annual basis. The Department also provides the required registration to entities wishing to distribute charitable gaming supplies in the Commonwealth. There are currently 19 registered suppliers authorized to sell charitable gaming supplies. Each supplier must also renew its permit on an annual basis.

The Licensing Unit is also responsible for regulatory actions should a permitted organization be found in violation of charitable gaming statutes or regulations. During FY 2004, three Informal Fact Finding Conferences were held to revoke or deny permits and five organizations' permits were automatically revoked as provided by § 18.2-340.30.E of the *Code*.

## **Inspection and Gaming Training**

Onsite inspection of gaming operations is a crucial element of the regulatory process. For most of FY 2004, the Department functioned with only four part-time inspectors but was still able to complete 458 inspections and was close to meeting our goal of inspecting each bingo operation at least once per year. We have recently increased our inspection staff by promoting one part-time inspector to full-time and by hiring one additional full-time and one additional part-time inspector. The Department's new goal is to inspect each bingo game a minimum of twice per year in the future as part of our effort to make the inspection program more visible to the gaming public and at the same time more customer service oriented to the charitable organizations.

Increasing training opportunities for charitable organizations has been an important strategy for the Department to increase compliance with charitable gaming laws and regulations. During FY 2004, the Department held a total of 48 gaming training sessions, including 13 regional training sessions, 20 sessions for organizations new to gaming or requesting assistance and 15 sessions specific to organizations' needs as identified in an audit or inspection. To help meet the demand for training the Department created a full-time Training and Inspection Coordinator position. In order to assist organizations that are just beginning gaming, the Department has required all new permit applicants to complete a training program prior to issuing a permit.

## **Audits**

The Department completed a total of 90 audits of charitable gaming operations during FY 2004. This compares to 65 completed during FY 2003, 52 completed in FY 2002 and 43 completed in FY 2001 by the former Commission. The Department is striving to audit organizations on a more frequent basis. While additional audit staff have

September 14, 2004

been added, more auditors are needed to meet the goal of auditing each organization at least once every three years.

The audits completed during FY 2004 found a total of \$2.6 million in unreported gross gaming sales. These findings support nearly \$300,000 in additional funds required to be used for charitable purposes and nearly \$30,000 in additional revenue for the state. In addition, the audits resulted in the implementation of a variety of corrective action plans and consent orders to assist organizations in complying with statutes and regulations and improving control of their charitable assets. Results of audits have also led to several regulatory actions and criminal investigations.

### **Enforcement**

During FY 2004 the Enforcement Unit investigated 56 complaints. Most of these complaints were either received on the Department's complaint line or were reported by members of organizations who were concerned about potential violations. Investigations completed by the Department resulted in six successful prosecutions for a variety of criminal violations throughout the state. Some of the notable cases include:

Bristol—Three individuals were literally convicted of stealing from the deaf and blind. An investigation conducted with the assistance of U.S. Postal Inspectors into a complex conspiracy to embezzle funds from instant bingo sales resulted in the court ordering \$234,000 in restitution to the organization that provides programs to assist deaf, hard-of-hearing and blind people in the Bristol area. The principle suspect in the conspiracy also received a sentence of 33 months to serve in prison.

Augusta Co.—The game manager and long-time member of a volunteer fire department plead guilty to stealing nearly \$30,000 from the fire department's bingo games. The suspect made restitution in full prior to pleading guilty and receiving a two year suspended prison sentence.

Vinton—The game manager of a fraternal organization was convicted for embezzling from the organization's bingo games. The defendant received a suspended sentence, was ordered to make restitution of \$12,000 and complete supervised probation.

Staunton—The president of a skating club was arrested when search warrants obtained by the Department as part of an investigation were served. The suspect was found in possession of methamphetamine and a concealed handgun. He was later convicted of several felony charges, including writing two worthless checks totaling \$3,600 for audit fees to the Department, and was sentenced to nine months in jail. The investigation in this case is ongoing and additional charges are pending.

### **Charitable Gaming Regulations**

SB 1278 (2003) required the Charitable Gaming Board to examine the current regulations and develop a plan regarding regulatory action. This plan was reported to the

September 14, 2004

Governor and the General Assembly in a report dated December 2, 2003. The Board is now in the process of implementing this plan. In the spring of 2004 the Board held a series of nine focus group meetings throughout the Commonwealth to receive public input. At their June 2004 meeting, the Board approved the Notice of Intended Regulatory Action. This notice has been published by the Virginia Registrar and the initial public comment period will close on October 20, 2004. The Board will consider the proposed regulations at their December 2004 meeting and publish them for public comment shortly thereafter. The Board appears well on track of meeting the previously reported goal of having new regulations in place no later than January 2006.

### **Recommendations for Legislation**

Substantial reforms to the charitable gaming statutes were made by the 2003 General Assembly, which were effective July 1, 2003. We are now just over a year into implementation of these reforms. Therefore, the Department is not recommending any specific statutory changes to the 2005 General Assembly; it is our recommendation that we allow these reforms to continue to take hold before proposing any additional changes to the *Code*.