



**ANNUAL REPORT ON THE  
CHARITABLE GAMING ACTIVITIES OF THE  
DEPARTMENT OF AGRICULTURE AND CONSUMER SERVICES  
FOR 2009**

**Todd P. Haymore  
Commissioner**

**Annual Report on the Charitable Gaming Activities of the  
Virginia Department of Agriculture and Consumer Services for 2009**

---

**Executive Summary**

The Office of Charitable Gaming (OCG) in the Virginia Department of Agriculture and Consumer Services (VDACS) monitors and regulates all charitable gaming activities within the Commonwealth of Virginia to enhance efficiency, eliminate fraud, and maximize contributions to charity.

The OCG's legal authority to register, license, audit, inspect, teach, investigate, and enforce charitable gaming organizations, businesses, and activities is provided in Title 18.2, Chapter 8, of the *Code of Virginia*.

The OCG is committed to providing timely and professional services to consumers, businesses and regulated entities alike. To facilitate those services, OCG is divided into four functional areas – Audit, Enforcement, Licensing and Registration, and Inspection and Training.

This report highlights key performance indicators in the charitable gaming activities of VDACS, including the number of registrations and permits granted, the number of financial reports processed, the number of charitable gaming organizations audited and the amount of unreported gross gaming sales discovered, the number of enforcement investigations opened due to suspected charitable gaming criminal activity, the number of on-site routine gaming operation inspections conducted, and the number of management training sessions conducted to ensure compliance with gaming laws and regulations.

## TABLE OF CONTENTS

|   | Page |
|---|------|
| Executive Summary                               | i    |
| I. Legislative Mandate                          | 1    |
| II. General Overview                            | 1    |
| III. Operational Financial Statement            | 2    |
| IV. Organization and Accomplishments            | 3    |
| V. 2009 Legislative Changes and Recommendations | 4    |

## **I. LEGISLATIVE MANDATE**

This document complies with the provisions of Virginia Code § 18.2-340.18(8) which requires the Department to submit an annual report to the Governor and the General Assembly that includes a financial statement and any recommendations for legislation applicable to charitable gaming in the Commonwealth. This report covers the period July 1, 2008 to June 30, 2009.

## **II. GENERAL OVERVIEW**

The Office of Charitable Gaming (OCG) in the Virginia Department of Agriculture and Consumer Services (VDACS) monitors and regulates all charitable gaming activities within the Commonwealth of Virginia to enhance efficiency, eliminate fraud, and maximize contributions to charity. Section 18.2-340.16 et al, of the *Code of Virginia* provides the legislative authority for OCG to register, license, audit, inspect, teach, investigate, and enforce charitable gaming organizations, businesses, and activities.

The OCG completed its first year of operation since it was merged with VDACS on July 1, 2008. The OCG continues to work cooperatively with charitable organizations while at the same time fulfilling its statutory and regulatory missions.

Charitable gaming continues to be a vital source of funding for qualified non-profit organizations in Virginia. Charitable gaming in Virginia produced reported gross sales of over \$300 million for CY 2008, the most recent year for which data is available. This figure no longer includes receipts from Winner-Take-All bingo sales and sales from pull-tabs in charitable organizations' social quarters due to previous General Assembly actions. However, it is estimated that these excluded sales exceeded \$90 million for CY 2008. In addition, organizations that conduct charitable gaming at a level of less than \$25,000 in annual gross sales are exempt from permit and reporting requirements, but these activities are estimated to produce at least an additional \$30 million in gross revenue. All told, charitable gaming in the Commonwealth is an industry estimated to produce over \$400 million in gross sales per year.

In CY 2008, over \$39 million, or 13% of reported gross sales, was provided for lawful religious, charitable, community or educational purposes. The current requirement is that a minimum of 10% 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 52% went to charity.

An analysis done by the OCG for CY 2008 found that nearly 30% of the organizations around the state did not meet the minimum 10% requirement for charitable contributions. On January 1, 2006, new Charitable Gaming Board regulations became effective which provide that any organization failing to meet the 10% minimal requirement shall be afforded an opportunity for corrective action prior to the revocation of their charitable gaming permit. The new regulations also allow for organizations that are unable to meet this requirement to request a temporary waiver from the OCG.

The OCG audit staff screened all 2008 financial reports for charitable contributions compliance. One hundred fifty-nine organizations did not meet the 10% minimum threshold; these organizations left \$3.25 million in their bank account and reported \$1.75 million in cash shortages. Seventy-three of these organizations paid out more in bingo prizes than they reported in bingo sales. These 159 organizations received audits detailing the organizations' actions that led to the non-compliance and the corrective actions necessary to meet the minimum charitable contribution in the future. The OCG is working with these organizations to achieve compliance.

### **III. OPERATIONAL FINANCIAL STATEMENT**

The OCG had a general fund appropriation of \$2,195,213 for FY 2009. The OCG expended \$1,794,263 during FY 2009 leaving a year end balance of \$400,950. The vast majority (\$1.5 million) of the Department's budget was used for personnel costs. All fees collected by the OCG are deposited to the Commonwealth's general fund. The difference between revenues and expenditures results in net revenue of \$1,252,182 that was deposited to the Commonwealth's general fund.

- ***Revenue***

During FY 2009, the OCG collected \$3,046,445 in revenue, which was deposited into the general fund. The major source of the revenue (\$2.85 million) is from a one and one-eighth percent audit administration fee based on gross charitable gaming revenues in the Commonwealth. The other sources of revenue included \$113,700 from permit application fees and \$82,300 from late fees on quarterly and annual financial reports not filed on time.

It should be noted that the audit and administration fee, which is set by the Charitable Gaming Board, remains lower than the one and one-quarter percent maximum established in § 18.2-340.31 of the *Code of Virginia*. Also, § 18.2-340.23 of the *Code of Virginia* exempts volunteer fire departments and rescue squads from paying any fees.

- ***Financials***

During FY2009, the OCG processed 2,299 financial reports from charitable organizations and 21 sales transaction reports from registered suppliers.

#### **IV. ORGANIZATION AND ACCOMPLISHMENTS**

OCG is committed to providing timely and professional services to charitable gaming consumers, businesses, and regulated entities alike. To facilitate those services, OCG's organizational structure is divided into four distinct functional areas, as follows.

- ***Audit Unit***

The Audit Unit completed 189 audits of charitable gaming operations during FY 2009. The OCG has established a goal to audit every organization at least once every three years. The audits completed during FY 2009 found over \$3.2 million in unreported gross gaming sales. These findings support over \$320,000 in additional funds required to be used for charitable purposes and over \$36,000 in additional revenue for the state.

The audits resulted in the implementation of a variety of corrective action plans to assist organizations in complying with statutes and regulations and improving control of their charitable assets. Results of audits have also lead to several regulatory actions and criminal investigations.

- ***Enforcement Unit***

During FY 2009, the Enforcement Unit opened 52 investigations. Most of the information used to initiate investigations was received on the OCG complaint line, discovered through the audit or inspection process, or reported by members of organizations who were concerned about potential violations. The Enforcement Unit participated in and completed several successful prosecutions throughout the state. Some of the notable cases investigated include:

Gloucester – One individual was convicted in the Gloucester Circuit Court of one count of felony embezzlement. Subject was sentenced to fifteen years in the penitentiary, with 14 ½ years suspended and must pay \$43,174 in restitution.

Virginia Beach – One individual was convicted in the Virginia Beach Juvenile Court of petit larceny. Subject was ordered to make restitution in the amount of \$5,850 and will return to court for sentencing in 2010.

Chincoteague – One individual was indicted and charged with felony embezzlement in the Accomack Circuit Court. Subject is charged with stealing \$2,000 in bingo funds from an organization. Subject is scheduled to be tried in 2010.

- ***Licensing and Registration Unit***

The Licensing and Registration Unit issued 460 charitable gaming permits to qualified organizations during FY 2009. Of these organizations, 66 were permitted to conduct raffles and

394 were permitted to conduct bingo and raffles. During FY 2009, 73 bingo callers, 70 bingo managers, and 12 bingo caller/bingo manager registration certificates were issued.

In addition, during FY 2009, 23 charitable gaming suppliers were permitted to sell and distribute charitable gaming supplies in Virginia.

- ***Inspection and Training***

The Inspection and Training Unit's on-site inspection of gaming operations is a crucial element of the regulatory process. During FY 2009, the Department completed 1,357 inspections.

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 2009, the OCG held a total of 74 game management training sessions, which included six bingo caller/bingo manager training sessions, 49 sessions for organizations new to gaming or requesting assistance and 11 sessions specific to organizations' needs as identified in an audit.

## **V. 2009 LEGISLATIVE CHANGES AND RECOMMENDATIONS**

The 2009 General Assembly passed HB 2595 which raised the permit exemption threshold from \$25,000 in gross receipt to \$40,000 for all organizations authorized to conduct charitable gaming. The OCG had no legislative recommendation during this reporting period.