



**ANNUAL REPORT ON THE
CHARITABLE GAMING ACTIVITIES OF THE
DEPARTMENT OF AGRICULTURE AND CONSUMER SERVICES
FOR FISCAL YEAR 2014**

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Commissioner**

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**Annual Report on the Charitable Gaming Activities of the
Virginia Department of Agriculture and Consumer Services for Fiscal Year 2014**

Executive Summary

The Office of Charitable and Regulatory Programs (OCRP) in the Virginia Department of Agriculture and Consumer Services is tasked with the licensing, registering, training, inspecting, auditing, and financial review of organizations, suppliers, manufacturers of electronic pull-tab systems, and personnel involved in charitable gaming in the Commonwealth.

Information in this report includes the number of charitable gaming licenses and registrations issued by OCRP, as well as the number of on-site inspections, training sessions, investigations, audits, and financial reviews conducted by staff.

During fiscal year 2014, OCRP issued 365 charitable gaming licenses to organizations, a decrease of 10 licenses from the total issued in fiscal year 2013. Licensed organizations report on their charitable gaming activities on a calendar year basis. During calendar year 2013, these organizations reported over \$258 million in gross sales, a decrease of \$15 million from 2012. Similarly, the amount that organizations donated for charitable, community, educational, or religious purposes decreased by approximately \$5 million, from \$30 million in 2012 to \$25 million in 2013. The aggregate use of proceeds decreased from 11 percent in 2012 to 10.1 percent in 2013.

OCRP collected more than \$2.6 million in charitable gaming fees that were deposited to the Commonwealth's general fund.

LEGISLATIVE MANDATE

This report is required by § 18.2-340.18(8) of the Code of Virginia.

GENERAL OVERVIEW

Charitable gaming is a sizeable source of funding for many non-profit organizations in Virginia. The Office of Charitable and Regulatory Programs (OCRP) is tasked, in part, with licensing, registering, training, inspecting, auditing, and financial review of organizations, suppliers, manufacturers of electronic pull-tab systems, and personnel involved in charitable gaming in the Commonwealth. OCRP also seeks to ensure that licensed organizations meet use-of-proceeds requirements; currently, licensed organizations must use at least 10 percent of their gross sales for charitable purposes. During calendar year 2013, these organizations reported over \$258 million in gross sales, a decrease of \$15 million from 2012. Similarly, the amount that organizations donated for charitable, community, educational, or religious purposes decreased by approximately \$5 million, from \$30 million in 2012 to \$25 million in 2013. The aggregate use of proceeds decreased from 11 percent in 2012 to 10.1 percent in 2013.

FINANCIAL INFORMATION

The FY 2014 general fund appropriation for OCRP was \$1,320,596. OCRP collected \$2,501,054 in audit and administration fees, \$100,475 in license and registration application fees, \$51,400 in late fees, and \$500 in other revenue, for a total of \$2,653,429 in fees. These fees were deposited to the Commonwealth's general fund.

ORGANIZATION AND ACCOMPLISHMENTS

OCRP is committed to providing timely and professional services to the charitable gaming community. To facilitate the delivery of these services, OCRP is divided into three functional areas: Charitable Programs Team, Auditing and Financial Reviews Team, and Inspections Team.

Charitable Programs Team

During this reporting period, the Charitable Programs Team issued 320 licenses to organizations wishing to conduct both bingo and raffles, 45 raffle licenses, 17 charitable gaming supplier licenses, and six licenses to manufacturers of electronic pull-tab systems; and registered 109 bingo managers and 101 bingo callers.

OCRP provides an online service for applicants to submit their bingo manager and bingo caller registration applications, minimizing the need for applicants to send them in the mail. Almost two-thirds of the 210 applications received by OCRP were submitted online.

Auditing and Financial Reviews Team

During this reporting period, the Auditing and Financial Reviews Team received 396 annual financial reports reflecting over \$258 million in charitable gaming total gross sales. Auditors performed 104 audits and financial reviews of licensed organizations, during which they identified over \$1.4 million in unreported gross sales. The auditors also ensured that charitable gaming funds were used for allowable charitable, community, educational, or religious purposes as required by statute and regulations. Organizations identified as having excessive unreported revenue were required to develop stricter internal controls and, in some instances, the organizations were required to undergo training. Additional follow-up will be conducted with these organizations to assess their efforts to strengthen their internal controls. In addition, the Auditing and Financial Reviews Team issued 39 letters of caution, 14 notices of violation, and 12 compliance agreements. The auditors also performed a compliance review of 15 licensed suppliers and four licensed manufacturers of electronic pull-tab systems.

On average, licensed organizations donated 10.1 percent of their gross sales for charitable, community, educational, or religious purposes. Auditors continue to work with organizations to maximize the charitable, community, educational, or religious use of their gaming proceeds, including the review of unspent bank account balances, analysis of cash shortages, and evaluation of the prize payout structure.

Inspections Team

During this reporting period, OCRP inspectors completed 836 on-site inspections and performed 34 game management training sessions, including 29 sessions for organizations that were new to charitable gaming or that had requested training assistance and five sessions resulting from specific findings during an audit or financial review.

Inspectors initiated five investigations based on information received via the OCRP complaint hotline, developed through the audit and financial review or inspection processes, or reported by members of organizations. Three of these cases resulted in letters of caution and two remained under investigation at the time of this report.

REGULATORY ACTIVITY

In September 2013, the Charitable Gaming Board approved a Notice of Intended Regulatory Action to amend 11 VAC 15-40 *et seq.*, *Charitable Gaming Regulations*, pertaining to network bingo. The notice indicated the agency's intention to convene a regulatory advisory panel to assist in drafting amendments to the regulation. On November 4, 2013, the notice was published in *The Virginia Register of Regulations*. On March 11, 2014, the Charitable Gaming Board approved the creation of a regulatory advisory panel and appointed individuals to the panel. On April 10, 2014, the panel convened in Richmond, Virginia, to discuss network bingo. Based on these discussions, staff drafted amendments to the regulation that include the

necessary technical requirements for network bingo. On September 9, 2014, the Charitable Gaming Board adopted proposed amendments to the Charitable Gaming Regulations and authorized staff to file the regulatory package for the second stage of the standard three-stage regulatory process.

2014 LEGISLATIVE ISSUES

During the 2014 legislative session, the Virginia General Assembly considered five bills pertaining to charitable gaming, four of which failed to be reported from committee. The remaining bill, HB 616, was ultimately signed into law by the Governor. The bill was an agency bill that eliminated the ability for OCRP to issue interim certificates of tax-exempt status to charitable organizations that sought a charitable gaming permit while their tax-exempt application was pending with the Internal Revenue Service (IRS). The bill also clarified OCRP's ability to issue a charitable gaming permit to an eligible organization while its tax-exempt application is pending approval by the IRS. Lastly, the bill updated references to the IRS's requirements for individuals who win charitable gaming prizes that meet or exceed the IRS's threshold for reporting purposes.