



**ANNUAL REPORT ON THE  
CHARITABLE GAMING ACTIVITIES OF THE  
DEPARTMENT OF AGRICULTURE AND CONSUMER SERVICES  
FOR FISCAL YEAR 2016**

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Commissioner**

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**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 (FY) 2016, OCRP issued 361 charitable gaming licenses to organizations, an increase of two licenses from the total issued in FY 2015. Licensed organizations report on their charitable gaming activities on a calendar year basis. During calendar year 2015, these organizations reported over \$264 million in gross sales, an increase of \$8 million from 2014. The amount that organizations donated for charitable, community, educational, or religious purposes increased by approximately \$1 million, from \$28 million in calendar year 2014 to \$29 million in calendar year 2015. The aggregate use of proceeds was unchanged at 11 percent in both 2014 and 2015.

OCRP collected more than \$2.7 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 conducting financial reviews 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 2015, these organizations reported over \$264 million in gross sales, an increase of \$8 million from 2014. The amount that organizations donated for charitable, community, educational, or religious purposes increased by approximately \$1 million, from \$28 million in calendar year 2014 to \$29 million in calendar year 2015. The aggregate use of proceeds was unchanged at 11 percent in both 2014 and 2015.

## **FINANCIAL INFORMATION**

The FY 2016 general fund appropriation for OCRP was \$1,370,447. OCRP collected \$2,558,533 in audit and administration fees, \$101,375 in license and registration application fees, \$44,350 in late fees, and \$400 in other revenue, for a total of \$2,704,658 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 361 licenses to organizations wishing to conduct charitable gaming activities, 15 charitable gaming supplier licenses, and seven licenses to manufacturers of electronic pull-tab systems and registered 115 bingo managers and 115 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. Eighty-two percent of the 230 applications received by OCRP in FY 2016 were submitted online.

### **Auditing and Financial Reviews Team**

During this reporting period, the Auditing and Financial Reviews Team received 390 annual financial reports reflecting over \$264 million in charitable gaming total gross sales. Auditors performed 82 audits and financial reviews of licensed organizations, during which they identified \$2,480,011 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 31 letters of caution, nine notices of violation, and two compliance agreements. The auditors also performed a compliance review of eight licensed suppliers and three licensed manufacturers of electronic pull-tab systems.

On average, licensed organizations donated 11 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 721 on-site inspections and performed 46 game management training sessions, including 41 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.

OCRP inspectors collaborated with various law enforcement agencies on 13 investigative audits. Nine of these cases remain under investigation. Of the organizations that were the subject of the four cases that are now closed, two are no longer conducting charitable gaming activities. OCRP required the remaining two organizations to develop stricter internal controls to address the issues identified during the investigative audits.

## **REGULATORY ACTIVITY**

On October 23, 2015, the Governor approved the proposed amendments to 11 VAC 15-40 *et seq.*, *Charitable Gaming Regulations*, pertaining to network bingo. On November 16, 2015, the proposed amendments were published in *The Virginia Register of Regulations*, and on December 8, 2015, the Charitable Gaming Board held a public hearing on the proposed amendments. On June 14, 2016, the Board adopted the final amendments to the *Charitable Gaming Regulations* and authorized staff to file the regulatory package for the final stage of the standard three-stage regulatory process. On September 23, 2016, the Governor approved the

final regulatory package to amend this regulation. The network bingo amendments to 11 VAC 15-40 *et seq.* will become effective on November 17, 2016.

On May 14, 2015, the Charitable Gaming Board received a rulemaking petition requesting that the Board increase the number of devices permissible to facilitate the play of electronic pull-tabs at certain premises. On June 15, 2015, the notice for the petition for rulemaking was published in *The Virginia Register of Regulations*, which initiated the required 21-day public comment period. On September 8, 2015, the Board granted the petition and approved a Notice of Intended Regulatory Action (NOIRA) to amend 11 VAC-15-40 *et seq.*, *Charitable Gaming Regulations*. On December 14, 2015, the NOIRA was published in *The Virginia Register of Regulations*. On June 14, 2016, the Board adopted the 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. Currently, the proposed regulatory package is undergoing executive branch review.

## **2016 LEGISLATIVE ISSUES**

During the 2016 legislative session, the Virginia General Assembly considered six bills pertaining to charitable gaming, two of which failed to report from committee and four of which were continued in committee to the 2017 legislative session.