



**ANNUAL REPORT ON THE
CHARITABLE GAMING ACTIVITIES OF THE
DEPARTMENT OF AGRICULTURE AND CONSUMER SERVICES
FOR FISCAL YEAR 2018**

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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 2018**

Executive Summary

The Office of Charitable and Regulatory Programs (OCRP) in the Virginia Department of Agriculture and Consumer Services is tasked, in part, with licensing, training, inspecting, auditing, and conducting financial reviews of charitable gaming organizations and suppliers, manufacturers of electronic pull-tab systems, and network bingo providers ; and registering and training 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 charitable gaming on-site inspections, training sessions, investigations, audits, and financial reviews conducted by staff.

During fiscal year (FY) 2018, OCRP issued 313 charitable gaming licenses to organizations, a decrease of 34 licenses from the total issued in FY 2017. Licensed organizations report on their charitable gaming activities on a calendar year basis. During calendar year 2017, these organizations reported over \$263 million in gross sales, an increase of \$1 million from 2016. The amount that organizations donated for charitable, community, educational, or religious purposes decreased by approximately \$600,000, from \$29.4 million in calendar year 2016 to \$28.8 million in calendar year 2017. The aggregate use of proceeds decreased slightly from 11.2 percent in calendar year 2016 to 11 percent in calendar year 2017.

OCRP collected more than \$2.68 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, training, inspecting, auditing, and conducting financial reviews of charitable gaming organizations and suppliers, manufacturers of electronic pull-tab systems, and network bingo providers; and registering and training 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 2017, these organizations reported over \$263 million in gross sales, an increase of nearly \$1 million from calendar year 2016. The amount that organizations donated for charitable, community, educational, or religious purposes decreased by approximately \$600,000, from \$29.4 million in calendar year 2016 to \$28.8 million in calendar year 2017. The aggregate use of proceeds decreased slightly from 11.2 percent in calendar year 2016 to 11 percent in calendar year 2017.

FINANCIAL INFORMATION

The FY 2018 general fund appropriation for OCRP was \$1,182,067. OCRP collected \$2,544,165 in audit and administration fees, \$100,926 in license and registration application fees, and \$45,431 in late fees, for a total of \$2,690,522 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 313 licenses to organizations wishing to conduct charitable gaming activities, 17 charitable gaming supplier licenses, and six licenses to manufacturers of electronic pull-tab systems. In addition, the Charitable Programs Team registered 127 bingo managers and 138 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.

Seventy-one percent of the 265 applications received by OCRP in FY 2018 were submitted online.

Auditing and Financial Reviews Team

During this reporting period, the Auditing and Financial Reviews Team received 340 annual financial reports reflecting over \$263 million in charitable gaming total gross sales. Auditors performed 90 audits and financial reviews of licensed organizations, during which they identified \$2.3 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 24 letters of caution, four notices of violation, and three compliance agreements. The auditors also performed a compliance review of 15 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 705 on-site inspections and performed 42 game management training sessions, including 37 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 three investigative audits. One of these cases remains under investigation. Of the other two cases, which are now closed, one case resulted in a criminal conviction and the other case resulted in the removal of a game manager.

REGULATORY ACTIVITY

On June 14, 2016, the Charitable Gaming Board adopted proposed amendments to *Charitable Gaming Regulations* to increase the number of devices permissible to facilitate the play of electronic pull-tabs at certain premises. The public hearing on the proposed amendments was held on April 4, 2017, and the Board adopted the final amendments to *Charitable Gaming Regulations* on September 12, 2017. The amendments became effective on March 8, 2018.

On September 7, 2017, the Charitable Gaming Board received a petition for rulemaking to repeal the restriction on a landlord's participation in the management, operation, or conduct of any charitable games conducted on the landlord's premises. On October 2, 2017, 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 December 5, 2017, the Board decided to take no further action on the petition as the regulatory language proposed for repeal is a restatement of state law and the Board does not have the authority to allow by regulation conduct that is prohibited by law.

2018 LEGISLATIVE ISSUES

During the 2018 legislative session, the Virginia General Assembly considered four bills pertaining to charitable gaming, all of which failed to report from committee.