



*VIRGINIA DEPARTMENT
OF AGRICULTURE AND
CONSUMER SERVICES*

**ANNUAL REPORT ON THE
CHARITABLE GAMING ACTIVITIES OF THE
DEPARTMENT OF AGRICULTURE AND CONSUMER SERVICES
FOR FISCAL YEAR 2019**

Jewel H. Bronaugh, Ph.D.

Commissioner

October 1, 2019

**Annual Report on the Charitable Gaming Activities of the
Virginia Department of Agriculture and Consumer Services for Fiscal Year 2019**

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) 2019, OCRP issued 294 charitable gaming licenses to organizations, a decrease of 19 licenses from the total issued in FY 2018. Licensed organizations report on their charitable gaming activities on a calendar year basis. During calendar year 2018, these organizations reported over \$259 million in gross sales, a decrease of \$4 million from 2017. The amount that organizations donated for charitable, community, educational, or religious purposes decreased by approximately \$1.1 million, from \$28.8 million in calendar year 2017 to \$27.7 million in calendar year 2018. The aggregate use of proceeds decreased from 11.1 percent in calendar year 2017 to 10.7 percent in calendar year 2018.

OCRP collected more than \$2.67 million in charitable gaming fees that were deposited into 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 2018, these organizations reported over \$259 million in gross sales, a decrease of \$4 million from calendar year 2017. The amount that organizations donated for charitable, community, educational, or religious purposes decreased by approximately \$1.1 million, from \$28.8 million in calendar year 2017 to \$27.7 million in calendar year 2018. The aggregate use of proceeds decreased from 11.1 percent in calendar year 2017 to 10.7 percent in calendar year 2018.

FINANCIAL INFORMATION

The FY 2019 general fund appropriation for OCRP was \$1,216,859. OCRP collected \$2,514,317 in audit and administration fees, \$96,129 in license and registration application fees, and \$60,298 in late fees, for a total of \$2,670,744 in fees. These fees were deposited into 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 294 licenses to organizations wishing to conduct charitable gaming activities, 17 charitable gaming supplier licenses, and five licenses to manufacturers of electronic pull-tab systems. In addition, the Charitable Programs Team registered 118 bingo managers and 140 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-seven percent of the 258 applications received by OCRP in FY 2019 were submitted online.

Auditing and Financial Reviews Team

During this reporting period, the Auditing and Financial Reviews Team received 331 annual financial reports reflecting over \$259 million in charitable gaming total gross sales. Auditors performed 55 audits and financial reviews of licensed organizations, during which they identified approximately \$605,000 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. As a result of an audit or financial review of licensed organizations, the Auditing and Financial Reviews Team issued 11 letters of caution, two notices of violation, and one compliance agreement. The auditors also performed a compliance review of 10 licensed suppliers and two licensed manufacturers of electronic pull-tab systems.

On average, licensed organizations donated 10.7 percent of their gross sales for charitable, community, educational, or religious purposes. The Auditing and Financial Reviews Team issued 102 letters of caution to licensed organizations whose financial reports indicated that they failed to use at least 10 percent of their gross sales for charitable 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 744 on-site inspections and performed 32 game management training sessions for organizations that were new to charitable gaming or that had requested training assistance.

OCRP inspectors collaborated with law enforcement on one investigative audit. This case remains under investigation.

REGULATORY ACTIVITY

On February 4, 2019, the Charitable Gaming Board (Board) received a petition for rulemaking to lower the minimum use of proceeds requirement rate for electronic pull-tab devices from the present 10 percent to a proposed two percent based on the gross receipts generated from the devices. On March 18, 2019, 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 June 18, 2019, the Board decided to take no further action on the petition as it

earlier had created a workgroup to evaluate use of proceeds and to consider whether changes to the current structure are appropriate and necessary. Though the Board decided to take no further action on the petition, the workgroup is considering the specific idea proposed in the petition as it deliberates over use of proceeds.

2019 LEGISLATIVE ISSUES

During the 2019 legislative session, the Virginia General Assembly considered eight bills pertaining to charitable gaming, all of which failed to report from committee.