
Introduction

In Minnesota, state government oversight of legal gambling is divided among four agencies.

Legal gambling is a diverse, multi-billion dollar industry in Minnesota. Minnesotans and visitors can play pull-tabs and bingo, bet on live horse races, play poker, buy Lottery tickets, or visit casinos to play slot machines. As it is nationally, gambling is a regulated industry in Minnesota, and the state has divided oversight authority primarily among four agencies—the Gambling Control Board, the Minnesota Racing Commission, the Minnesota State Lottery, and the Department of Public Safety. Although their roles and responsibilities vary, these agencies share common goals, including minimizing the risk of cheating, theft, and other noncompliance with state law and ensuring that gambling proceeds are distributed according to applicable laws. In the end, state oversight should help reassure the public that Minnesota’s gambling industries operate with integrity.

In April 2004, the Legislative Audit Commission directed us to evaluate the state’s regulation and oversight of legalized gambling. Legislators’ questions centered on whether state oversight is sufficient and whether the state’s approach—with oversight responsibility divided among several agencies—makes sense. In addition to providing information on Minnesota’s gambling industry and regulatory structure, our evaluation addressed the following questions:

- **To what extent does state regulation and oversight help ensure the integrity of legal gambling in Minnesota?**
- **To what extent does Minnesota’s regulatory structure ensure that gambling oversight meets the state’s regulatory goals efficiently and effectively?**

To answer these questions, we interviewed staff from the four agencies with gambling oversight responsibility (the Gambling Control Board, Racing Commission, Lottery, and Department of Public Safety), as well as counsel from the Attorney General’s Office. We also reviewed Minnesota statutes and rules, examined agency procedures, and analyzed data provided by each agency.

We did additional work at each of the four agencies. To assess the Gambling Control Board’s effectiveness, we analyzed charitable gambling organizations’ tax data obtained from the Department of Revenue and board data on compliance reviews, citations, charitable contributions, and game testing; observed compliance inspections; and met with officials from groups representing nonprofit organizations that conduct charitable gambling and charitable organizations that benefit from the proceeds. At the Minnesota Racing Commission, we analyzed financial and surveillance data collected by the racetrack, met with racetrack personnel, and observed commission practices such as veterinarian pre-race exams and stewards’ appeal hearings. To understand how the Minnesota State Lottery protects its games, we reviewed game documentation for 20 of 40 scratch

games introduced in fiscal year 2003 and observed Powerball and Daily 3 drawings.

To assess the state's oversight of casinos, we analyzed Department of Public Safety casino inspection records, observed a casino slot machine inspection, and met with officials from the National Indian Gaming Commission. We also visited five Indian casinos, where we interviewed tribal leaders, casino managers, and casino regulators.¹ To evaluate the Department of Public Safety's background and criminal investigation activities, we analyzed data on investigations conducted in fiscal years 2000 through 2004 and interviewed officials from the other regulatory agencies about investigation quality and timeliness.

We focused our work on legal forms of gambling and the state's efforts to regulate and oversee these activities. As such, we did not review illegal gambling, such as sports bookmaking and Internet gambling, nor did we assess gambling tax compliance. Similarly, we did not review the social costs of gambling or gambling addiction. Because we concentrated our work on state agencies' efforts to regulate gambling, we did not review gambling-related regulation or law enforcement at the federal or local levels.

This report is divided into six chapters. In Chapter 1, we provide an overview of the gambling industry in Minnesota, including the types of gambling allowed and the different state agencies with oversight responsibility. In Chapter 2, we discuss how the Gambling Control Board oversees charitable gambling, such as pull-tabs and bingo. In Chapter 3, we detail the role the Racing Commission plays in regulating horse racing and the card room at Canterbury Park, while in Chapter 4, we discuss how the Lottery protects the integrity of its games. In Chapter 5, we discuss how well the Department of Public Safety's Alcohol and Gambling Enforcement Division inspects Indian casinos and uses its investigation resources. In Chapter 6, we assess whether the state's segmented regulatory structure is reasonable and discuss concerns that cross agencies.

¹ Because they are sovereign nations, our office does not have jurisdiction over Minnesota's Indian tribes. However, four tribes volunteered to participate in our evaluation—the Bois Forte Band of Chippewa, Mille Lacs Band of Ojibwe, Prairie Island Indian Community, and Upper Sioux Community. We visited both of the casinos operated by the Mille Lacs Band of Ojibwe.