



**OFFICE OF THE LEGISLATIVE AUDITOR**  
STATE OF MINNESOTA

Financial Audit Division Report

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**Gambling Control Board**  
**July 1, 2001, to June 30, 2005**



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## Financial Audit Division

The Office of the Legislative Auditor (OLA) is a professional, nonpartisan office in the legislative branch of Minnesota state government. Its principal responsibility is to audit and evaluate the agencies and programs of state government (the State Auditor audits local governments).

OLA's Financial Audit Division annually audits the state's financial statements and, on a rotating schedule, audits agencies in the executive and judicial branches of state government, three metropolitan agencies, and several "semi-state" organizations. The division also investigates allegations that state resources have been used inappropriately.

The division has a staff of approximately forty auditors, most of whom are CPAs. The division conducts audits in accordance with standards established by the American Institute of Certified Public Accountants and the Comptroller General of the United States.

Consistent with OLA's mission, the Financial Audit Division works to:

- Promote Accountability,
- Strengthen Legislative Oversight, and
- Support Good Financial Management.

Through its Program Evaluation Division, OLA conducts several evaluations each year.

OLA is under the direction of the Legislative Auditor, who is appointed for a six-year term by the Legislative Audit Commission (LAC). The LAC is a bipartisan commission of representatives and senators. It annually selects topics for the Program Evaluation Division, but is generally not involved in scheduling financial audits.

All findings, conclusions, and recommendations in reports issued by the Office of the Legislative Auditor are solely the responsibility of the office and may not reflect the views of the LAC, its individual members, or other members of the Minnesota Legislature.

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If you have comments about our work, or you want to suggest an audit, investigation, or evaluation, please contact us at 651-296-4708 or by e-mail at [auditor@state.mn.us](mailto:auditor@state.mn.us)



## OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

Senator Ann H. Rest, Chair  
Legislative Audit Commission

Members of the Legislative Audit Commission

Tom Barrett, Executive Director  
Gambling Control Board

Members of the Gambling Control Board

We conducted an audit of the Minnesota Gambling Control Board for the period July 1, 2001, through June 30, 2005. Our audit scope included license, permit, fee, and fine revenues and payroll and other administrative expenditures. Our objectives focused on a review of the board's internal controls over these financial activities and its compliance with applicable legal provisions.

The enclosed Report Summary highlights our overall audit conclusions. The specific audit objectives and conclusions for each area are contained in the individual chapters of this report.

We would like to thank the staff of the Gambling Control Board for their cooperation during this audit.

*/s/ James R. Nobles*

James R. Nobles  
Legislative Auditor

*/s/ Claudia J. Gudvangen*

Claudia J. Gudvangen, CPA  
Deputy Legislative Auditor

End of Fieldwork: July 5, 2005

Report Signed On: July 29, 2005

# Gambling Control Board

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### **Audit Participation**

The following members of the Office of the Legislative Auditor prepared this report:

|                            |                            |
|----------------------------|----------------------------|
| Claudia Gudvangen, CPA     | Deputy Legislative Auditor |
| Jeanine Leifeld, CPA, CISA | Audit Manager              |
| Marisa Isenberg            | Auditor-in-Charge          |
| Kelly Olson                | Auditor                    |

### **Exit Conference**

We discussed the results of the audit with the following representatives of the Gambling Control Board at an exit conference on July 26, 2005:

|                  |                            |
|------------------|----------------------------|
| Tom Barrett      | Executive Director         |
| Debra Hellenberg | Office Services Supervisor |

# Gambling Control Board

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## Report Summary

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### Overall Conclusion:

The Gambling Control Board's internal controls were adequate for the items we tested. The board complied with material finance-related legal provisions, except for the meal expense issue cited below.

### Finding:

- The board did not adequately monitor employee and board member travel times. As a result, the board inappropriately reimbursed an employee's meal expense. (Finding 1, page 9)

The report contained one legal compliance finding. The prior report finding concerning per diem payments is no longer relevant.

### Audit Scope:

#### Audit Period:

July 1, 2001, to June 30, 2005

#### Programs Audited:

- License, Permit, Fee, and Fine Revenues
  - Payroll Expenditures
  - Other Administrative Expenditures
- 

### Agency Background:

The Gambling Control Board regulates lawful gambling in Minnesota. The board has the power to issue and revoke charitable gambling licenses. It conducts periodic audits and compliance reviews to ensure the integrity of operations and monitor the use of net profits by gambling organizations.

The board, which operates according to *Minnesota Statutes*, Chapter 349, consists of seven members who each serve four-year terms.

# **Gambling Control Board**

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# Gambling Control Board

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## Chapter 1. Introduction

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The Office of the Legislative Auditor selected the Gambling Control Board for audit based on an annual assessment of state agencies and programs. We used various criteria to determine the entities to audit, including the size and type of each agency's financial operations, length of time since the last audit, changes in organizational structure and key personnel, and available audit resources.

### Agency Overview

The Gambling Control Board regulates five forms of gambling in Minnesota—bingo, paddle wheels, pull-tabs, raffles, and tip boards. Minnesota statutes refer to these as “lawful gambling,” but they are also commonly called “charitable gambling” since they are generally conducted through nonprofit organizations that use a share of the proceeds for “charitable” purposes. The board's activities focus on the games they regulate and the organizations authorized to conduct these games. Specifically, the board has the power to issue gambling permits and to issue, suspend, or revoke gambling organizations' licenses. It trains and licenses gambling managers in the proper administration of gambling laws and issues fines to violators. It conducts periodic audits and compliance reviews to ensure the integrity of operations and monitors the use of net profits by gambling organizations.

The board does not have any regulatory jurisdiction over the Minnesota State Lottery, horse racing, card clubs, or gambling conducted in casinos operated by Minnesota Indian tribes. These forms of gambling, which are also “lawful” in Minnesota, are regulated by other organizations. All of Minnesota's gambling regulatory organizations—including the Gambling Control Board—were recently evaluated by our office's Program Evaluation Division. That review focused primarily on the efficiency and effectiveness of the state regulatory activities. Those issues were not included in this financial audit.

The Gambling Control Board, which operates according to *Minnesota Statutes*, Chapter 349, consists of seven members who each serve four-year terms. The Governor appoints five of the board members, and the Commissioner of Public Safety and the Attorney General each appoint one member. The board's administrative office is located in Roseville, and it has regional offices in Fergus Falls, Hibbing, and Saint Peter.

In fiscal years 2002 and 2003, the Gambling Control Board's activities were funded by General Fund appropriations. However, beginning in fiscal year 2004, the board's funding changed. *Minnesota Statutes*, Section 349.151, Subd. 4(d), established new fees that went into effect and are deposited into an account dedicated for lawful gambling regulation. In fiscal years 2004 and 2005, the board was allowed to expend up to \$2,526,000 from the lawful gambling regulation account. Table 1-1 summarizes the Gambling Control Board's financial activities for fiscal years 2002, 2003, 2004, and 2005.

# Gambling Control Board

## Audit Approach

Our audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of the office's internal controls relevant to the audit objectives. We used the guidance contained in *Internal Control-Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission, as our criteria to evaluate agency controls. The standards also require that we plan the audit to provide reasonable assurance that the office complied with financial-related legal provisions that are significant to the audit. In determining the department's compliance with legal provisions, we considered requirements of laws, regulations, contracts, and grant agreements.

To meet the audit objectives, we gained an understanding of the Gambling Control Board's financial policies and procedures. We considered the risk of errors in the accounting records and noncompliance with relevant legal provisions. We analyzed accounting data to identify unusual trends or significant changes in financial operations. We examined documents supporting the agency's internal controls and its compliance with laws, regulations, contracts, and grant provisions.

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**Table 1-1**  
**Financial Sources and Uses**  
**By Budget Fiscal Year**

|   | <u>2002</u>        | <u>2003</u>        | <u>2004</u>        | <u>2005<sup>(2)</sup></u> |
|---|--------------------|--------------------|--------------------|---------------------------|
| <b>Sources:</b>                               |                    |                    |                    |                           |
| General Fund Appropriations                   | \$2,419,000        | \$2,522,000        | \$202,000          | \$ 0                      |
| Less: Canceled or Reverted <sup>(1)</sup>     | 0                  | (389,939)          | (202,000)          | 0                         |
| Special Revenue Appropriations <sup>(3)</sup> | 5,917              | 0                  | 2,526,000          | 2,526,000                 |
| Balance Forward In                            | 1                  | 147,070            | 73                 | 221,580                   |
| Total Sources                                 | <u>\$2,424,918</u> | <u>\$2,279,131</u> | <u>\$2,526,073</u> | <u>\$2,747,580</u>        |
| <b>Expenditures and Other Uses:</b>           |                    |                    |                    |                           |
| Payroll                                       | \$1,874,785        | \$1,861,773        | \$1,883,917        | \$1,936,497               |
| Rent  | 171,771            | 176,688            | 156,138            | 162,709                   |
| Travel  | 84,033             | 39,609             | 32,485             | 57,712                    |
| Communications                                | 42,434             | 35,242             | 48,078             | 62,968                    |
| Supplies and Equipment                        | 31,798             | 78,117             | 24,286             | 93,410                    |
| Computer and System Services                  | 18,955             | 17,737             | 4,618              | 13,775                    |
| Other Administrative Expenditures             | 54,072             | 69,892             | 154,971            | 224,225                   |
| Balance Forward Out                           | 147,070            | 73                 | 221,580            | 196,284                   |
| Total Uses                                    | <u>\$2,424,918</u> | <u>\$2,279,131</u> | <u>\$2,526,073</u> | <u>\$2,747,580</u>        |

Notes (1) In fiscal year 2003, the board had three budget reductions totaling \$386,045 and canceled \$3,894 at the end of the fiscal year. In fiscal year 2004, the board received a General Fund appropriation to assist with the transition to fee-based funding. However the entire General Fund appropriation was subsequently canceled.

(2) The expenditure amounts are cash basis through July 31, 2005.

(3) The board received a special revenue fund appropriation of \$2,526,000 from the lawful gambling regulation account for fiscal years 2004 and 2005. The appropriations were from collections of the board's dedicated receipts of \$3,275,204 and \$3,118,622 for fiscal years 2004 and 2005, respectively.

Source: Minnesota Accounting and Procurement System (MAPS) as of July 31, 2005.

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## Chapter 2. License, Permit, Fee, and Fine Revenues

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### *Chapter Conclusions*

*The Gambling Control Board's internal controls provided reasonable assurance that it collected the appropriate amounts for licenses, permits, fees, and fines in accordance with applicable legal provisions. The license, permit, fee, and fine receipts were adequately safeguarded and properly recorded in the accounting system.*

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### **Audit Objectives**

Our audit of license, permit, fee, and fine revenues focused on the following questions:

- Did the Gambling Control Board's internal controls provide reasonable assurance that the license, permit, fee, and fine revenues were properly collected, adequately safeguarded, and properly recorded in the accounting system?
- Did the board collect the appropriate revenue amounts in accordance with applicable legal provisions, in all material respects?
- Were the license, permit, fee, and fine revenues adequately safeguarded and properly recorded in the accounting system?

### **Background**

The board collects various license and permit fees as mandated by statute and rule. The board previously deposited these receipts into the General Fund as nondedicated revenue. However, on July 1, 2003, new fees went into effect and now all fees are deposited into an account dedicated for lawful gambling regulation. According to *Minnesota Statutes*, Section 349.151, Subd. 4(d), all fees imposed by the board under sections 349.16 to 349.167 must be deposited in the state treasury and credited to a lawful gambling account in the Special Revenue Fund. In addition, the board also assesses and collects fines as part of its regulatory function and deposits these receipts into the General Fund.

Table 2-1 shows the license, permit, fee, and fine revenues collected for fiscal years 2002, 2003, 2004, and 2005.

There were no findings in the revenue area.

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**Table 2-1**  
**Gambling Control Board**  
**Summary of License, Permit, Fee, and Fine Revenues**  
**By Fiscal Year**

|   | <u>2002</u>               | <u>2003</u>             | <u>2004</u>               | <u>2005</u>               |
|---|---------------------------|-------------------------|---------------------------|---------------------------|
| Manufacturer License                                    | \$35,001                  | \$25,000                | \$95,000                  | \$81,000                  |
| Game Approval and Testing (Manufacturer) <sup>(1)</sup> | 0                         | 0                       | 148,471                   | 165,375                   |
| Distributor License                                     | 66,500                    | 59,003                  | 134,483                   | 102,700                   |
| Distributor Salesperson License <sup>(1)</sup>          | 0                         | 0                       | 17,000                    | 14,100                    |
| Bingo Hall License                                      | 25,000                    | 28,500                  | 32,000                    | 32,000                    |
| Linked Bingo Game Provider License <sup>(1)</sup>       | 0                         | 0                       | 0                         | 10,000                    |
| Organization License <sup>(1)</sup>                     | 0                         | 0                       | 372,566                   | 450,450                   |
| Gambling Manager License <sup>(2)</sup>                 | 263,901                   | 54,000                  | 153,850                   | 145,700                   |
| Premises Permit <sup>(2)</sup>                          | 719,778                   | 137,231                 | 501,337                   | 462,200                   |
| Annual License and Permit Fees <sup>(3)</sup>           | 0                         | 0                       | 379,673                   | 123,450                   |
| Exempt Permits  | 67,000                    | 67,585                  | 148,375                   | 147,245                   |
| Regulatory Fee <sup>(4)</sup>                           | 0                         | 0                       | 1,292,449                 | 1,384,402                 |
| Penalties and Fines                                     | 44,850                    | 62,254                  | 79,150                    | 62,850                    |
| Inspection of Manufacturers                             | 5,917                     | 0                       | 0                         | 0                         |
| <b>Totals</b>   | <u><b>\$1,227,947</b></u> | <u><b>\$433,573</b></u> | <u><b>\$3,354,354</b></u> | <u><b>\$3,181,472</b></u> |

Notes (1) The game approval and testing of manufacturers, distributor salesperson license, and organization license are new fees that went into effect on July 1, 2003. The linked bingo game provider license is a new fee that went into effect on November 1, 2004.

(2) The board renewed gambling manager licenses and premise permits on a two-year cycle, which resulted in the larger revenues in fiscal year 2002 and the smaller revenues in fiscal year 2003. However, in fiscal year 2004, the board began collecting these fees on an annual basis.

(3) As part of the new fee structure, the Gambling Control Board provided a one-time, prorated credit to licensees that paid fees for licenses or permits that extended beyond July 1, 2003.

(4) In accordance with *Minnesota Statutes*, Section 349.165, Subd. 3(b), an organization pays a monthly regulatory fee of 0.1 percent of the organization's gross receipts from lawful gambling. The fee must be paid to the commissioner of revenue, who transfers it into the lawful gambling regulation account in the Special Revenue Fund.

Source: Minnesota Accounting and Procurement System (MAPS) for fiscal years 2002, 2003, 2004, and 2005 as of July 31, 2005.

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## Chapter 3. Payroll and Other Administrative Expenditures

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### *Chapter Conclusions*

*The Gambling Control Board's internal controls provided reasonable assurance that payroll and other administrative expenditures were accurately reported in the accounting system and in compliance with applicable legal provisions and management's authorizations. Except for the one inappropriate reimbursement discussed in Finding 1, for the items tested, the board complied with the significant finance-related legal provisions concerning payroll and other administrative expenditures.*

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### **Audit Objectives**

Our review of the Gambling Control Board's payroll and other administrative expenditures focused on the following questions:

- Did the board's internal controls provide reasonable assurance that payroll and other administrative expenditures were accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorizations?
- For the items tested, did the board comply with the significant finance-related legal provisions concerning payroll and other administrative expenditures?

### **Background**

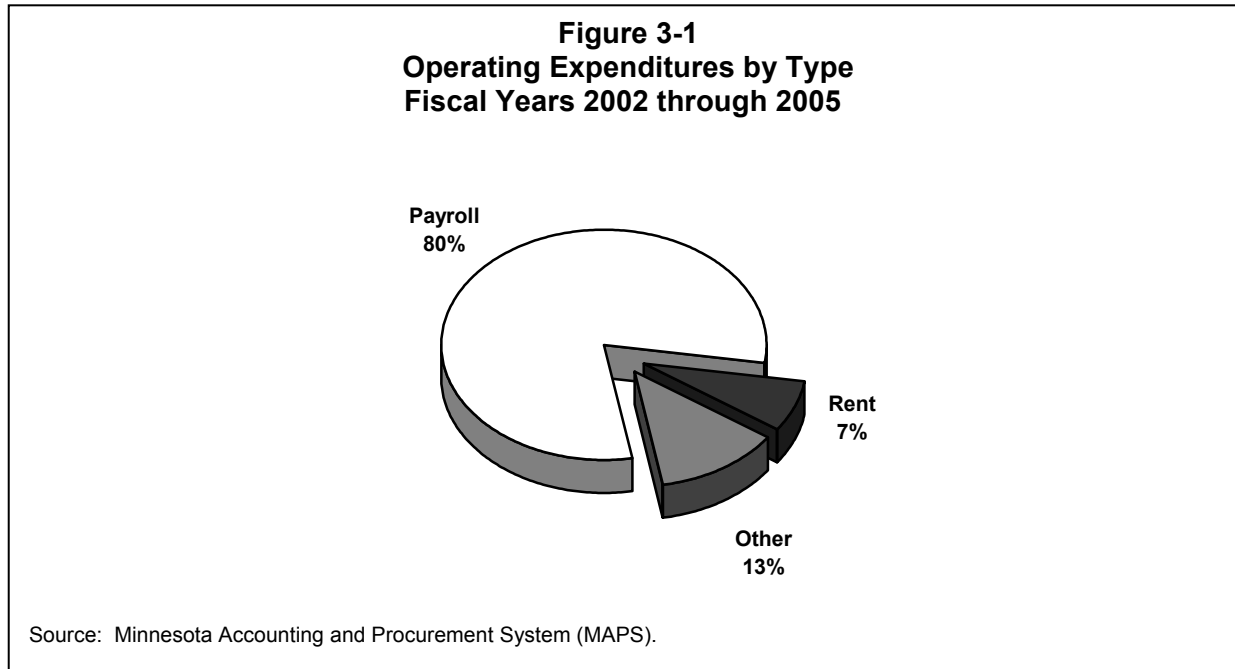
The board spent approximately \$9.3 million during the four-year audit period, averaging \$2.3 million annually for fiscal years 2002 through 2005. Figure 3-1 shows that payroll expenditures are the largest operating cost, comprising 80 percent of the annual spending budget, while rent and other operating costs encompass the remaining 20 percent.

### **Payroll**

The board averaged \$1.9 million in annual payroll expenditures for fiscal years 2002 through 2005, employing approximately 31 individuals at the end of fiscal year 2005. As in the prior audit, incompatible payroll/personnel system access existed. The office services supervisor, who is responsible both for processing the bi-weekly payroll and the board's human resources functions, had incompatible access to both payroll and human resources functions in the state's payroll/personnel system. Due to limited staff, board management determined that it could not feasibly separate access and has decided to accept this risk. As an alternative, the board has instituted detective controls to review the work related to these incompatible functions. For

## Gambling Control Board

example, an individual with no access to the payroll/personnel system reviews and verifies the accuracy of the payroll system reports. The executive director also receives these reports for review and approval.



### Rent

The board spent an average of \$167,000 each year for office space leases. One of the leases was for the board's main office space in Roseville. The other leases were for the regional office locations in Fergus Falls, Hibbing, and Saint Peter. The Department of Administration's Real Estate Management Division negotiated all of the board's leases for office space.

### Other Administrative Expenditures

The board spent \$292,000 on average each year on other administrative expenditures including purchased services, professional and technical contracts, communications, travel, supplies, and equipment. Acquisition of many of these goods and services required the board to follow state procurement channels established by the Department of Administration.

Our audit of payroll and other administrative expenditures identified one issue:

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## Finding and Recommendations

### 1. The board did not adequately monitor employee and board member travel times.

The board did not closely monitor departure and arrival times on employee expense reimbursement reports. It also did not require board members to record travel times on their expense reports. Departure and arrival times are important because they determine when employees and board members are in travel status and are eligible to receive meal reimbursement. According to the applicable labor agreements, employees and board members are allowed meal reimbursement when certain conditions are met. For example, an employee is eligible for dinner reimbursement when he/she is required to remain in a travel status until after 7:00 p.m. Because of the board's lack of monitoring, it inappropriately reimbursed an employee for a \$15 dinner, even though the employee returned home before 7:00 p.m.

#### *Recommendations*

- *The board should monitor the departure and arrival times recorded on the business expense reports.*
- *The board should obtain repayment for the inappropriate meal reimbursement.*

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## Status of Prior Audit Issues As of July 5, 2005

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**Legislative Audit Report 00-31**, issued in July 2000, covered the four fiscal years ending June 30, 1999. The audit scope included license, permit, and fine revenues and payroll and other administrative expenditures. The audit report contained one finding about inappropriate per diem payments to three board members. We recommended that the board establish procedures to obtain and monitor board member employment to ensure compliance with *Minnesota Statutes*, Section 15.0575, and that the board seek repayment of the inappropriate per diem payments. Due to a law change, the prior report finding concerning per diem payments is no longer relevant.

### Other Office of the Legislative Auditor Coverage

**January 2005 Program Evaluation Report on Gambling Regulation and Oversight (Report 05-02)** evaluated gambling regulatory activities of four agencies, including the Gambling Control Board. The report also evaluated how each agency ensures the integrity of games and the proper distribution of proceeds and assessed whether Minnesota's segmented approach to gambling oversight is an effective and efficient organizational structure. The report recommended that the Gambling Control Board make more efficient use of its authority and resources to detect and deter charitable gambling noncompliance.

#### State of Minnesota Audit Follow-Up Process

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up on issues cited in financial audit reports issued by the Legislative Auditor. The process consists of an exchange of written correspondence that documents the status of audit findings. The follow-up process continues until Finance is satisfied that the issues have been resolved. It covers entities headed by gubernatorial appointees, including most state agencies, boards, commissions, and Minnesota state colleges and universities. It is not applied to audits of the University of Minnesota, any quasi-state organizations, such as metropolitan agencies or the State Agricultural Society, the state constitutional officers, or the judicial branch.

## **Gambling Control Board**

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Minnesota Gambling Control Board

Suite 300 South  
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651-639-4000

July 25, 2005

Mr. James Nobles  
Office of the Legislative Auditor  
658 Cedar Street  
Centennial Office Building – 140  
St Paul, MN 55155

Dear Mr. Nobles:

Thank you for the opportunity to respond to your financial audit report involving the Gambling Control Board. Please extend my thanks to your staff for their thorough analysis and hard work to complete this audit. I was very impressed with the level of detail of the review and pleased with the results!

The report recognizes the limited support staff available to process payroll and other administrative expenditures but acknowledges the controls in place to review the work related to those functions. Since the last legislative audit a number of changes were instituted by the Gambling Control Board including dedicated funding for our operation. I am very pleased that your review found no deficiencies related to those changes.

The recommendation identified in the report regarding better monitoring of travel departure and arrival times for Board members and employees has already been acted on (A memo was sent to all employees and Board members) and Deb Hellenberg will facilitate the repayment for the “inappropriate meal reimbursement” from the employee.

Again, thank you for your efforts and the detailed review by your staff.

Sincerely,

*/s/ Tom Barrett*

Tom Barrett  
Executive Director

Cc: Peggy Moon, Chair