

**CHARITABLE GAMBLING CONTROL BOARD  
FINANCIAL AND COMPLIANCE AUDIT  
FOR THE PERIOD APRIL 1, 1986  
THROUGH JUNE 30, 1989**

**DECEMBER 1989**



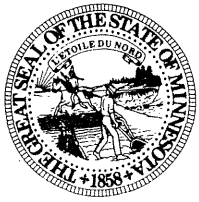
CHARITABLE GAMBLING CONTROL BOARD

REPORT SUMMARY  
DECEMBER 1989

The Office of the Legislative Auditor has issued a financial audit report on the former Charitable Gambling Control Board for the period April 1, 1986 through June 30, 1989. The audit report contains five findings. The first two findings relate to the collection of gambling taxes and the monitoring of expenditures from accumulated profits of organizations that ceased gambling operations. These two findings were directed to the Department of Revenue, since the department has responsibility for collecting gambling taxes and receiving monthly reports detailing expenditures from gambling profits.

The three remaining findings were directed to the Department of Gaming, Gambling Control Board. The third finding relates to noncompliance with the state's employee expense reimbursement procedures. The fourth and fifth findings concerned control weaknesses in the recording of compensatory overtime and fixed assets.





STATE OF MINNESOTA

**OFFICE OF THE LEGISLATIVE AUDITOR**

VETERANS SERVICE BUILDING, ST. PAUL, MN 55155 • 612/296-4708

JAMES R. NOBLES, LEGISLATIVE AUDITOR

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Senator John E. Brandl, Chairman  
Legislative Audit Commission

Members of the Legislative Audit Commission

Robert Fragnito, Chairman  
Charitable Gambling Control Board

Members of the Charitable Gambling Control Board

Tom Anzelc, Executive Secretary  
Charitable Gambling Control Board

John James, Commissioner  
Department of Revenue

Audit Scope

We have completed a financial and compliance audit of the Charitable Gambling Control Board for the period April 1, 1986 through June 30, 1989. During fiscal year 1989, the board became a division of the Department of Revenue. Section I provides a brief description of the board's activities and finances. Our audit was made in accordance with generally accepted auditing standards and the standards for financial and compliance audits in the U.S. General Accounting Office Government Auditing Standards, and accordingly, included such audit procedures as we considered necessary in the circumstances.

Internal Accounting Control Systems

One objective of this audit was to study and evaluate major internal accounting control systems over receipts, payroll, and administrative disbursements at the board in effect as of June 30, 1989.

The management of the Charitable Gambling Control Board is responsible for establishing and maintaining a system of internal accounting control. The management of the Department of Revenue is also responsible for establishing and maintaining a system of internal accounting control over gambling taxes. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly.

Senator John E. Brandl, Chairman  
Members of the Legislative Audit Commission  
Robert Fragnito, Chairman  
Members of the Charitable Gambling Control Board  
Tom Anzelc, Executive Secretary  
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Department of Revenue  
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Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

### Finance-Related Legal Provisions

Another objective of this audit was to verify that financial transactions were made in accordance with significant finance-related laws. The Charitable Gambling Control Board is governed by Minn. Stat. Section 349.151. This section created the board and describes the board's powers and duties.

The Charitable Gambling Control Board is subject to certain general legal provisions which affect the financial management of most state agencies. Minn. Stat. Section 16A.124 requires state agencies to pay vendors within one month following receipt of the invoice. Minn. Stat. Section 16A.17 requires the certification of payroll. Department of Finance policy and procedure 06:05:15 governs the preparation of employee expense reports.

The Charitable Gambling Control Board is also subject to various legal provisions that govern the depositing of receipts. Minn. Stat. Section 349.212 requires that all gambling revenues be deposited into the General Fund.

The management of the Charitable Gambling Control Board is responsible for the board's compliance with laws and regulations. In connection with our audit, we selected and tested transactions and records from the programs administered by the board. The purpose of our testing of transactions was to obtain reasonable assurance that the Charitable Gambling Control Board had, in all material respects, administered its programs in compliance with applicable laws and regulations.

### Status of Prior Findings

We have reviewed the status of audit findings included in our audit report on the Charitable Gambling Board for the period ended March 31, 1986, dated July 9, 1987. We issued a follow-up letter on November 2, 1987 to the board, stating that all findings included in the prior report have been resolved.

### Conclusions

In our opinion, the Charitable Gambling Control Board's system of internal accounting control in effect as of June 30, 1989, taken as a whole, was sufficient to provide management with reasonable, but not absolute

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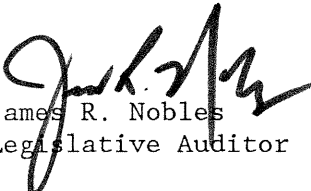
assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly.


Section II, findings 4 and 5, represent weaknesses in the board's general operating procedures over compensatory overtime and fixed assets. We believe the weaknesses subject the board to an unnecessary financial risk and should be corrected. Progress on resolving these findings will be reviewed during our next audit.

Our study and evaluation further disclosed the issue raised in Section II, finding 1, concerning the Department of Revenue's system of internal control over gambling taxes collected, in effect on June 30, 1989, which in our opinion, result in more than a relatively low risk that errors or irregularities in amounts that would be material in relation to the gambling tax collection may occur and not be detected within a timely period.

The results of our testing of transactions and records indicated that the Department of Revenue and the Charitable Gambling Control Board complied with the aforementioned finance-related legal provisions, except for the instance disclosed in Section II of this report. Finding 2 discusses the department's failure to monitor previously licensed organizations' expenditures from profits obtained through lawful gambling for lawful purposes. Finding 3 discusses the board's noncompliance with the state's employee reimbursement procedures. Nothing else came to our attention in connection with our audit that caused us to believe that the Charitable Gambling Board was not in compliance with other applicable legal requirements.

We would like to thank the Charitable Gambling Control Board and the Department of Revenue for their cooperation during this audit.

  
James R. Nobles  
Legislative Auditor

  
John Asmussen, CPA  
Deputy Legislative Auditor

END OF FIELDWORK: July 21, 1989

REPORT SIGNED ON: December 11, 1989



# CHARITABLE GAMBLING CONTROL BOARD

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## AUDIT PARTICIPATION

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

John Asmussen, CPA	Deputy Legislative Auditor
Tom Donahue	Audit Manager
Joan Haskin	Auditor-in-Charge
Chris Buse, CPA	Staff Auditor

## EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following staff of the Charitable Gambling Control Board on August 9, 1989:

Roger Franke	Executive Director
Bernice Caruth	Assistant to the Executive Director

The findings and recommendations in this report were also discussed with the following staff of the Department of Revenue on August 15, 1989:

Armi Armajani	Deputy Commissioner
Dennis Erno	Assistant Commissioner
John Lally	Assistant to the Commissioner
Don Trimble	Director, Special Taxes Division



# CHARITABLE GAMBLING CONTROL BOARD

## I. INTRODUCTION

The 1984 Legislature created the Charitable Gambling Control Board to regulate legal forms of gambling through the uniform application of statutes and rules. The Legislature empowered the board to issue, revoke, and suspend licenses; collect and deposit license fees and taxes; receive reports and inspect the records, books and other documents of organizations to ensure compliance with the law; make rules required by Minn. Stat. Chapter 346; and impose civil penalties against organizations found in noncompliance with the law.

The board consists of thirteen members. The Governor appoints 11 of the members for staggered three year terms. The Attorney General and the Commissioner of Public Safety, or their designees, are the remaining members. Roger Franke has been the board's executive secretary since its inception. Tom Anzelc was appointed executive secretary effective October 16, 1989.

In August 1988, the Governor signed an executive order bringing the board under the direction of the Department of Revenue. The board continued to have the responsibilities of issuing, suspending, and revoking licenses, imposing civil penalties for violations, and making gambling rules. The department's Special Taxes Division collected tax receipts and reports.

Effective July 1, 1989, charitable gambling became lawful gambling and the board became a division of the new Department of Gaming. Lawful gambling activities will be controlled by a new gambling board, consisting of six members to be appointed by the Governor.

Revenues and expenditures during the audit period are summarized below:

	<u>Fiscal Year</u> <u>1987</u>	<u>Fiscal Year</u> <u>1988</u>	<u>Fiscal Year</u> <u>1989</u>
Revenues:			
Gambling Taxes	\$ 7,725,682	\$ 3,312,260	\$ 621,920
Licenses	243,375	281,908	348,072
Pull-Tab Taxes	<u>3,181,736</u>	<u>12,035,325</u>	<u>18,670,230</u>
Total Revenues	<u>\$11,150,793</u>	<u>\$15,629,493</u>	<u>\$19,640,222</u>
Expenditures:			
	<u>\$ 550,614</u>	<u>\$ 685,208</u>	<u>\$ 514,203</u>

Source: Statewide Accounting System as of September 2, 1989.

Revenues are nondedicated and deposited into the General Fund. Board expenditures are financed exclusively by General Fund appropriations.

## CHARITABLE GAMBLING CONTROL BOARD

### II. CURRENT FINDINGS AND RECOMMENDATIONS

#### 1. Procedures for collecting gambling taxes need improvement.

The Department of Revenue does not verify that distributors of pull-tabs and tipboards are remitting all the taxes they collect from charitable organizations. Manufacturers, distributors, and charitable organizations all report pull-tab and tipboard sales to the Department of Revenue on a monthly basis. However, the department does not use this sales information to verify that all tax revenue is being collected.

Manufacturers notify the department of deals and pull-tab or tipboard games with the same serial numbers sold to licensed distributors. The distributors collect the gambling tax from the charitable organizations at the time of sale. Distributors compute the tax by multiplying the ideal net of the games by the tax rate of 10 percent. Ideal net is the amount of profit possible if an organization sells all tickets and pays all winners. Distributors must submit tax returns documenting all additions to and reductions from their inventory of deals. Along with the return, the distributor is responsible for remitting the taxes collected on the deals they sold. The Department of Revenue requires distributors to provide them with a copy of each sales invoice. These invoices document the ideal net of each deal sold and the registration stamps affixed to the deals. Charitable organizations report their profits from each deal closed out on schedule B of their tax returns. Schedule C reports lawful purpose expenditures made out of the accumulated profits.

Internal controls over tax receipts are weak because nobody reconciles information reported by manufacturers, distributors, and organizations. This lack of accountability could result in tax losses at the distributor level and unreported gambling profits by organizations. Distributors could withhold taxes collected from organizations by not submitting invoices or reporting sales on their tax returns. Reconciliations of deals closed out on organization returns to those sold by distributors would detect such situations. Reconciling sales information between manufacturers, distributors, and organizations, would also identify organizations who are not reporting all profits on their tax returns. Reconciliations could verify that distributors are remitting the correct tax and that organizations are accurately reporting profits.

#### RECOMMENDATION

- The Department of Revenue should develop procedures to verify that distributors remit the correct amount of tax and organizations accurately report profits on all deals sold.

## CHARITABLE GAMBLING CONTROL BOARD

### 2. Expenditures from accumulated profits of organizations that quit gambling are not monitored.

The Department of Revenue does not verify that accumulated profits in the hands of organizations that quit gambling are properly spent. One organization ceased gambling operations in December 1987 with \$6,379 in accumulated gambling profits. No documentation exists to determine what the organization ever did with these accumulated profits. This same organization also failed to file a tax return for the month of October 1987. The Department of Revenue requires organizations to itemize expenditures from profits on schedule C of their monthly gambling tax return. Minn. Code of Agency Rules 7860.0170, Subp. 2 requires every organization to file monthly reports detailing expenditures from gambling profits. Gambling profits can only be spent for certain lawful purposes.

On August 16, 1988, the chief auditor notified the organization that they had ten days to file the missing return. The organization never responded to the letter and the return was never filed. There is no evidence of any further communication. When questioned, personnel from the Department of Revenue told us that they did the best they could with the resources provided. However, there was not enough staff to follow up on all cases like this to ensure compliance with gambling regulations. Revenue personnel informed us that they are working on legislation requiring termination plans for all charitable organizations.

### RECOMMENDATION

- The Department of Revenue should develop procedures to verify that charitable organizations that quit gambling have filed all tax returns and continue to file monthly expenditure reports.

### 3. The board needs to improve controls over employee expense reports.

Board members claimed expense reimbursements improperly in a number of instances. In addition, some employees and board members submitted incomplete expense reports. For example, some reports failed to record the reason or purpose for the travel, or identify the travel destination. We also identified two situations involving inappropriate mileage reimbursement and personal travel reimbursement.

We found that two board members had consistently claimed excess mileage from their homes to St. Paul to attend board meetings. The excess mileage claimed during fiscal years 1988 and 1989 amounted to 1,438 and 1,452 miles, respectively. As a result, the board overpaid the two board members \$388 and \$392, respectively. Department of Finance policy and procedure 06:05:15 states that trip mileage claimed on employee expense reports must be that mileage listed in the official state map or the official state mileage book published by the Department of Transportation or Public Service. The board members indicated that they were not

## CHARITABLE GAMBLING CONTROL BOARD

informed of the policy limiting the mileage claim for trip miles. They stated that the trip mileage shown on their expense reports represents actual odometer miles driven.

In another instance, a board member was reimbursed for personal expenses incurred while returning from a national conference. The member incurred an additional cost of \$45.50 for airfare and parking by extending her trip to another city for personal reasons. Department of Finance policy and procedure 06:05:15 states that when an employee combines business and personal travel, the state will only reimburse the employee for expenses incurred which directly relate to the business portion of the trip.

We believe the board members were not adequately informed of the policy limiting their mileage claim to the official state mileage book. We also believe they submitted their mileage claims in good faith. However, since the reimbursements for excess mileage and personal expenses represent overpayments under the policy, we believe repayment is necessary.

### RECOMMENDATIONS

- The Charitable Gambling Control Board should follow Department of Finance policies and procedures for employee expense reports.
- The Charitable Gambling Control Board should obtain repayment from those board members who were reimbursed for excess mileage and personal expense claims.

#### 4. The board does not record compensatory time on the central payroll system.

Compensatory time results from employees working overtime hours in addition to their normal required hours. The board does not have a formal policy on overtime worked. Employees do not submit written requests to earn overtime and do not record overtime earned or taken on their biweekly time reports. Subsequently, the overtime hours are not recorded on the state's central payroll system. The office supervisor is responsible for recording the minutes of the board meetings. When meetings go beyond her scheduled hours, she earns overtime compensation. Another staff member gives presentations as part of an outreach program. These presentations usually occur after his normally scheduled hours, and he also earns overtime compensation. While each employee keeps an informal record of compensatory time earned and completes a leave request form when the compensatory time is taken, the hours are entered into the payroll system as regular hours worked.

Department of Finance policy and procedure 07:04:22 requires that all overtime hours worked be posted to the employee's biweekly time report. Failure to post all overtime hours worked to the state's central payroll system increases the possibility of errors or misunderstandings regarding

## CHARITABLE GAMBLING CONTROL BOARD

the correct balance of overtime hours. A formal policy would identify conditions under which overtime can be worked and paid. The policy would also establish procedures necessary to ensure that overtime worked has been properly approved, accounted for, and entered into the central payroll system.

### RECOMMENDATIONS

- The executive director should develop a process for documenting approved compensatory time.
- Employees should record compensatory time on their biweekly time reports so it is maintained on the central payroll system.

5. Fixed assets are recorded on the fixed asset record management system inaccurately.

Two personal computers purchased by the board during the audit period are not recorded on the fixed asset record management system (FARMS). When the board purchased these assets, it was responsible for completing a fixed asset property record notification form. The form is submitted to the Materials Management Division of the Department of Administration for entry onto FARMS. We could not find any documentation that this form was completed.

The board had also owned four automobiles. At the time the board became part of the Department of Revenue, the automobiles were sold to Central Motor Pool. However, these automobiles are still recorded on the FARMS as board assets. Inaccurate recording of fixed assets does not allow for proper physical control of assets owned by the board.

### RECOMMENDATIONS

- The board should update the Fixed Asset Record Management System to reflect assets owned by the board.
- The board should periodically review the Fixed Asset Record Management System report to verify that all fixed assets are recorded properly.





STATE OF MINNESOTA

DEPARTMENT OF REVENUE

December 11, 1989

Mr. James Nobles  
Legislative Auditor  
Veterans Service Building  
St. Paul, MN 55155

Dear Mr. Nobles:

As you requested, I am responding to findings 1 and 2 on the draft of your Charitable Gambling Control Board Audit. The opportunity to respond to this draft is appreciated.

1. Procedures for collecting gambling taxes need improvement.

The tax on pull-tabs and tipboards is imposed on Licensed Distributors and becomes part of the selling price of the product to Licensed Organizations. The procedures used for auditing distributor tax returns include the following steps:

- a. Sales invoices are verified to insure the correct tax is paid.
- b. Ideal nets are checked against manufacturer price catalogs to insure the basis for the tax is accurate.
- c. Organization returns are sampled to insure the deals were actually sold and information on the distributor's sales invoices are accurate.
- d. Distributor purchases are verified against the manufacturers' monthly reports.
- e. Distributor disbursements are reviewed.
- f. Credits claimed are verified.
- g. We check distributor receipts to substantiate payments were actually made by organizations for gambling equipment purchased.
- h. Inventory information reported on the distributor monthly returns is verified.
- i. Shipping records are checked and, if necessary, we will look at shipping company records.
- j. If necessary, physical inventory is taken.

Mr. James Nobles  
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The development of a computerized cross-check system will enhance this effort. The cross-check system was funded by the '89 Legislative Session and is anticipated to be completed in FY '91.

In addition to the cross-check system enhancing our tax audit efforts, it will also take care of the auditor's concern about an organization failing to report all deals purchased. At this time, this is only done on a partial basis when an organization audit is done.

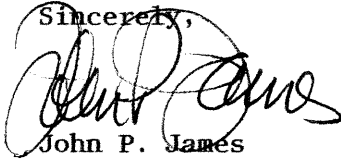
2. Expenditures from accumulated profits of organizations that quit gambling are not monitored.

This problem was known prior to the audit and is addressed by Rule 7860.0040, Subpart 3(c) enacted September 6, 1989. The organization is required to report to the Board its plan for disposal of gambling equipment and the distribution of profit carryover.

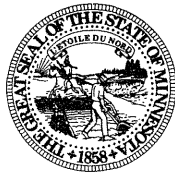
In addition, the computer system being designed will identify those organizations that have not complied with this rule. The solution to the problem is twofold; Revenue will follow up for any unpaid tax liabilities, and the Board is responsible for follow up to the organization for non-compliance of the rule.

If you have questions, please call me.

Sincerely,



John P. James  
Commissioner



**STATE OF MINNESOTA**

DEPARTMENT OF GAMING  
GAMBLING CONTROL DIVISION  
MAIL STATION 3315  
ST. PAUL, MN 55146-3315

December 5, 1989

Mr. James Nobles, Legislative Auditor  
Office of the Legislative Auditor  
Veterans Service Building  
St. Paul, MN 55155

Dear Mr. Nobles:

Enclosed are formal responses to findings 3 through 5 of the financial and compliance audit of the Charitable Gambling Control Board for the period April 1, 1986 through June 30, 1989.

Please be advised that I did not become Executive Director of the Lawful Gambling Control Board until October 16, 1989.

Thank you for providing me with the opportunity to comment on the findings which I hope can be included in the final report.

Sincerely,

A handwritten signature in cursive script that reads "Tom Anzelc".

Tom Anzelc  
Executive Director

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Enclosures

## CHARITABLE GAMBLING CONTROL BOARD

- "3. The board needs to improve control over employee expense reports."

### RECOMMENDATIONS

"The Charitable Gambling Control Board should follow Department of Finance policies and procedures for employee expense reports."

"The Charitable Gambling Control Board should obtain repayment from those board members who were reimbursed for excess mileage and personal expense claims."

### RESPONSE(S)

1. All employee and board member expense reports are reviewed as to accuracy and completeness by the Executive Director. Reports are signed and sent the the Departments of Revenue and Finance for processing.
2. An accounting officer will be hired to monitor expense reports more carefully and reimbursements in accordance with Department of Finance policy and procedure 06:05:15 will be obtained in the amounts of \$388.00, \$392.00 and \$45.50 from board members.

- "4. The board does not record compensatory time on the central payroll system."

### RECOMMENDATIONS

"The executive director should develop a process for documenting approved compensatory time."

"Employees should record compensatory time on their biweekly time reports so it is maintained on the central payroll system."

### RESPONSE(S)

1. An internal policy consistent with Department of Finance policy and procedure will be developed and be implemented by January 1, 1990.

"5. Fixed assets are recorded in the fixed asset record management system inaccurately."

**RECOMMENDATIONS**

"The board should update the Fixed Asset Record Management System to reflect assets owned by the board."

"The board should periodically review the Fixed Asset Record Management System report to verify that all fixed assets are recorded properly."

**RESPONSE(S)**

1. The Lawful Gambling Control Division, as staff to the board will update and review the Fixed Asset Record Management System to assure control of assets. The hiring of an accounting officer will correct the deficiency.

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