

Lawful Gambling

January 1990

Program Evaluation Division
Office of the Legislative Auditor
State of Minnesota

Program Evaluation Division

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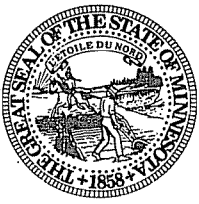
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Mary Moser
Theresa Wagner



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STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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

JAMES R. NOBLES, LEGISLATIVE AUDITOR

January 29, 1990

Senator John Brandl, Chairman
Legislative Audit Commission

Dear Senator Brandl:

From modest beginnings, charitable gambling--now called lawful gambling--has grown into a billion dollar industry in Minnesota. In recent years, lawmakers have expressed increased concern about the integrity of the games and how the proceeds are being used.

In June 1989 the Legislative Audit Commission directed the Program Evaluation Division to evaluate lawful gambling. We examined the expenses and contributions of organizations sponsoring gambling, and we assessed the controls over fraud and abuse.

We found serious problems: a lack of adequate financial controls in most organizations sponsoring gambling, numerous questionable expenditures from gambling proceeds, and inadequate state oversight. While most gambling proceeds are donated to charitable causes, some organizations divert funds for their own use and some simply cannot account for sizable amounts of money. Our report identifies steps that can help minimize--but not eliminate--these problems.

We received the full cooperation of the Gambling Control Board, Department of Revenue, Department of Public Safety, and Department of Gaming. We also thank numerous local government officials for their assistance.

This report was researched and written by Tom Walstrom (project manager) and Deborah Wemette. Assistance was provided by Kathi Vanderwall and Jim Ahrens.

Sincerely yours,

James R. Nobles
Legislative Auditor

Roger Brooks
Deputy Legislative Auditor

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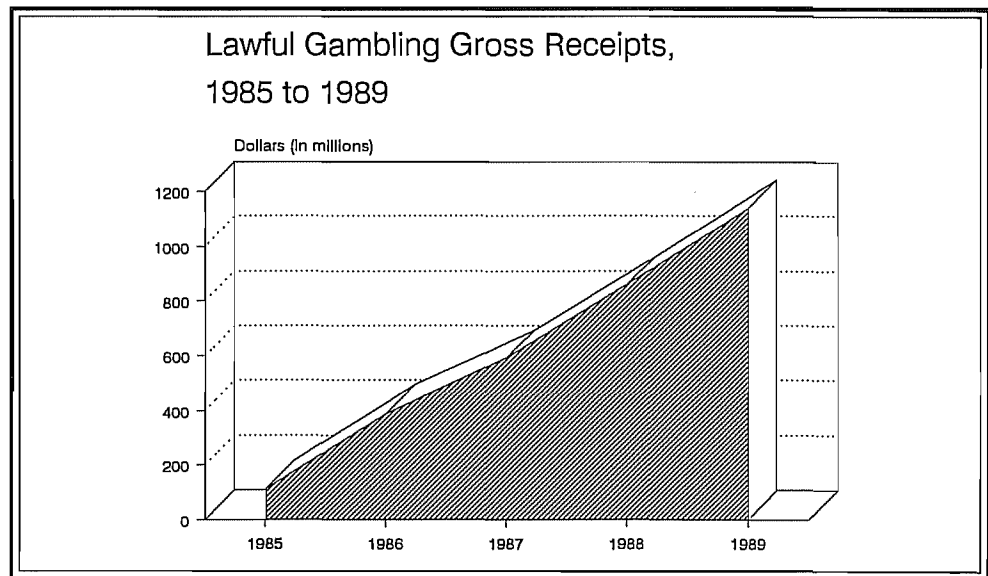
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LAWFUL GAMBLING

Executive Summary

During the 1980s, legalized gambling swept the nation. Many states established state-sponsored lotteries, permitted new forms of gambling such as parimutuel betting, or extended existing "charitable gambling" laws. A major impetus for the growth of gambling was state governments' interest in raising revenues without taxing their citizens directly. More tolerant public attitudes permitted the growth.

Minnesota has shared in these national trends. Voters approved constitutional amendments allowing parimutuel betting on horse racing in 1982 and a lottery in 1988. But the fastest growing gambling activity in Minnesota has been "charitable gambling," which grew from a \$100 million industry in 1985 to an estimated \$1.2 billion in 1989. By the end of the decade, Minnesota led the nation in this form of gambling.



Charitable gambling began in Minnesota in 1945 when the Legislature allowed certain non-profit organizations to sponsor "bingo" games for fundraising purposes. It grew significantly after paddlewheels and tipboards were legalized in 1978 and pull-tabs were allowed in 1981. With the creation of the Charitable Gambling Control Board in 1985, the state became directly involved in licensing and overseeing gambling operations.

The state's regulatory structure is complex and fragmented. Originally, the gambling board, which licenses and monitors gambling organizations, was an independent state agency. In 1988, the staff was transferred to the Department of Revenue, which is responsible for collecting gambling taxes. In 1989, the Legislature created a Division of Gambling Control in the Department of Gaming and gave it responsibility to staff the board, but the division's director is still answerable only to the Governor not to the Commissioner of the Department of Gaming. Enforcement responsibilities primarily rest with the Department of Public Safety, but some local governments are also involved.

By the late 1980s, the growth of gambling activities and stories of impropriety prompted concerns about the industry, which the Legislature renamed "lawful gambling" in 1989. In mid-1989 the Legislative Audit Commission directed the Legislative Auditor to answer the following questions:

- **How are the proceeds from lawful gambling being used?**
- **Are the controls over gambling operations adequate to prevent fraud and abuse?**

To answer these questions, we made extensive examinations of monthly gambling tax returns in the Department of Revenue. We examined the lawful purpose contributions tax records of 180 randomly selected organizations that conduct gambling operations. We examined their "lawful purpose" expenditures made between June 1988 and May 1989, and verified a small sub-sample to determine whether the reports were accurate. We contacted officials in over 70 cities regulating gambling on the local level, and also conducted extensive interviews with officials in a number of states that conduct gambling similar to that in Minnesota. In addition, we interviewed many representatives of organizations, of the gambling industry, and of state agencies involved in regulating gambling. We also conducted site visits at a number of organizations to review their compliance with state laws and rules.

Our evaluation revealed a number of serious problems. Most serious are the lack of adequate internal controls to prevent fraud and abuse in the organizations sponsoring gambling activities and the lack of effective oversight by the state.

These problems should not be tolerated. Organizations authorized to sponsor gambling have a responsibility to manage their games in a business-like manner and establish sound financial controls. The state has a responsibility to ensure the integrity of the games and make certain that net profits are used only for lawful purposes. Neither the sponsoring organizations nor the state have fulfilled their responsibilities.

LAWFUL GAMBLING PROCEEDS

Lawful gambling was legalized in Minnesota to enable certain non-profit organizations, including fraternal, veterans, and religious organizations, to raise funds for charitable causes, or lawful purposes, approved by the state. According to state law, organizations can also use the proceeds of gambling operations to pay taxes and certain expenses associated with gambling.

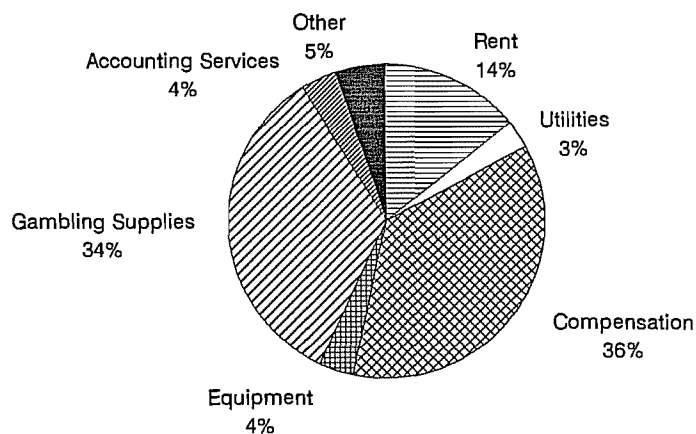
In 1988, 1,891 organizations possessed licenses to conduct lawful gambling at 3,069 sites. On a per capita basis, gambling activity is heaviest in outstate Minnesota, especially in northern counties where vacationers may add to overall receipts. In 1988, veterans organizations collected about 37 percent of gross receipts, fraternal groups about 15 percent, religious groups about 5 percent, and other non-profit organizations about 43 percent.

Less than 10 percent of gross receipts are available for charitable purposes.

Gross receipts from all lawful gambling in 1988 totaled nearly \$890 million, from which about \$725 million was paid out in prizes. Of the remainder, about \$62 million went for allowable expenses, \$20 million was paid in state taxes, and nearly \$4 million was lost in cash shortages. That left only about \$78 million--less than nine percent of total gambling receipts--for contributions to charities and other lawful purposes.

What kinds of expenses do organizations deduct from their gambling proceeds? Our evaluation revealed that most expenses are paid to the gambling industry, including manufacturers, distributors, gambling managers, and bar owners and others leasing space to the organizations. Personnel compensation and gambling supplies are the two largest categories of expenses, followed by rent and accounting services. Most of these expenditures are allowed under current rules.

1988 Allowable Gambling Expenses



However, several types of expenditure were questionable, particularly payments for utilities, compensation, and rent:

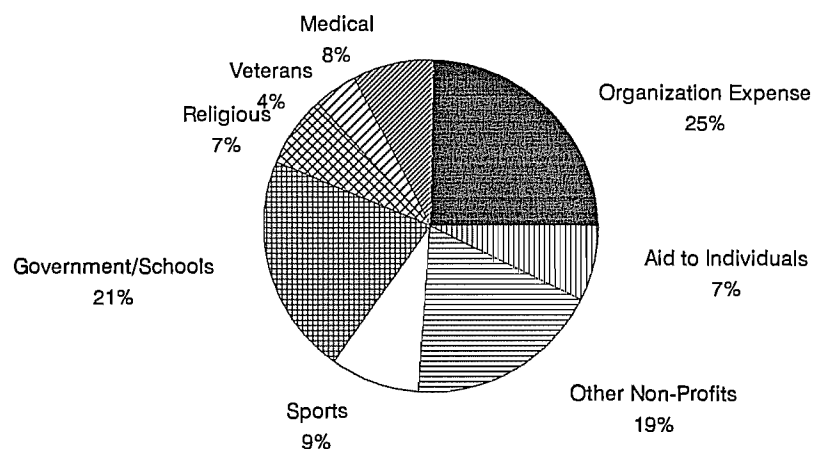
- Organizations that operate gambling on their own premises are allowed by law to deduct funds from gambling proceeds to pay the proportionate share of utilities that are used for gambling, but many organizations exceed this amount.
- Organizations are allowed to use gambling funds to pay compensation for their own employees only when they are "directly engaged in conducting gambling," but many organizations pay compensation for other employees as well.
- Organizations are allowed to use gambling funds to pay rent to a third party to conduct gambling operations, but many exceed the maximum allowable payment of \$600 per month.

Organizations have inappropriately deducted expenses, leaving less money available for lawful purposes.

One result of these practices is that some gambling proceeds are unlawfully used to support the sponsoring organization rather than being available for charitable purposes. All but one organization we visited spent some gambling money on expenses that are disallowed.

As noted above, one of the Legislature's original reasons for legalizing gambling in Minnesota was to support charitable (lawful) purposes with gambling profits. One of the purposes of state regulation of gambling is "... to provide for the use of net profits only for lawful purposes." Organizations' net profits from gambling in 1988 were over \$78 million, and they actually spent almost \$68 million for lawful purposes.

1988 Lawful Purpose Expenditures



Our review of lawful purpose contributions made in 1988 revealed that:

- **Organizations spent almost 25 percent of their contributions on themselves, mostly for building construction or repair, and property taxes. Beginning in mid-1988, most of these contributions were disallowed without gambling board approval, but "grandfathered" building loans will keep this figure high for many years.**
- **Government agencies, including fire departments, schools, and parks, received 21 percent of all charitable contributions.**
- **Medical and human service agencies each received 8 percent of all contributions, youth sports groups and needy individuals each received about 7 percent, and youth services and veterans programs each received about 5 percent of all contributions.**
- **Only a small proportion of all contributions were not allowed under current board policy, notably \$800,000, or 1 percent of the statewide total, which went for adult sports.**
- **A somewhat larger proportion of contributions were questionable, including \$83,000 which was donated to lobbying organizations and many contributions which sponsoring organization gave to themselves.**

Under previous rules, organizations could make contributions to themselves, and much confusion remains about what is permitted and what is not. Unfortunately,

- **State agencies have not developed comprehensive policies on allowable lawful purposes, nor have they effectively communicated to licensees the policies that do exist.**

When the state took over responsibility for gaming regulation, gambling board staff began to develop policies on what types of expenditures met the definition of lawful purpose. But the policies were never fully developed. When organizations requested approval for lawful purpose contributions, they were handled in an *ad hoc* way without systematic follow through.

We reviewed one randomly selected contribution from each of 100 organizations to determine 1) whether the payee actually received the funds, 2) if the funds had been used as stated by the payee, and 3) if the organization had properly approved the expenditure.

We found that the payee was accurately recorded in 95 of 100 cases. The other cases were reimbursements to the organizations' general bank account for contributions made through the general account. While this practice of reimbursing the general account for lawful purpose contributions is allowed by rule, it creates a loss of control over the gambling account. It also makes com-

pliance auditing more difficult because more than one set of accounts must be audited.

We also found that funds were received by the intended payees in all cases, and that the funds were actually used in the manner described on reporting forms in 94 of 98 cases we could verify. One of the exceptional cases was described as "post card printing for the blood program" when it was actually reimbursement for taking a group of elderly organizational members to Canterbury Downs racetrack. Another was an organization that paid itself for not charging rent at retirement parties. Two other cases were minor misstatements of what the funds went for.

Finally, we found that only 39 of the 100 organizations in our sample could verify that expenditures were approved by the full membership of the organization, as required by state rules. Thirty-two approved the contribution through an executive committee, or approved the general type of the contribution, and/or approved the contribution after it was made. The rest could provide no indication the contribution had been approved by the organization.

Based on this examination, we conclude that:

- **Although there is a potential risk for contributions to be fraudulently made to non-existent organizations, or used in ways that were not intended, that is not occurring on a large scale.**

As a result, we believe that proposed plans to register recipients of lawful purpose contributions are unnecessary and would not be cost-effective.

However, we did find that many organizations cannot fully account for all gambling funds. Our review of bank records and tax forms reveals that:

- **Statewide, millions of dollars of gambling profits may be missing from bank accounts and cash reserves.**

**Millions may
be missing
from gambling
bank accounts.**

One organization could not account for \$129,000 in accumulated gambling proceeds. Several other organizations were each missing funds totalling \$10,000 or more.

Whether these funds were missing due to theft or to honest accounting errors is unknown. Organizations are now required to have a financial audit by a licensed public accountant, but the state has not issued guidelines defining the scope or standards for such audits.

CONTROLS OVER FRAUD AND ABUSE

We reviewed the current state control system over lawful gambling to determine if it was sufficient to deter fraud and abuse. In short, we found current state controls lacking. In our view, current regulatory controls, as implemented by the state and gambling organizations, fall short of ensuring that the integrity of gambling is maintained. This is partly due to the high risk of misappropriation and theft from gambling funds. We found that:

- **The risk of fraud and misappropriation is high because large amounts of cash are involved, because without careful controls there are a variety of ways to misappropriate funds, and because inside information is possible. The risks of fraud and abuse are compounded by the organizations' knowledge that they face little risk of detection by the state.**

State law and rules contain a number of controls over the operations of gambling manufacturers, distributors, and organizations. We found that the state does not currently have a program to assure that manufacturers of gambling equipment comply with the manufacturing and packaging standards, nor have any audits been conducted of gambling equipment manufacturers. Without audits and inspection of gambling equipment there can be no assurance that the standards embodied in rule are adhered to.

Minnesota statute also requires manufacturers who sell pull-tabs and tipboards to report monthly to the Commissioner of Revenue, on a prescribed form, a record of all pull-tabs and tipboards sold to licensed distributors. We found that the Department of Revenue has not yet introduced a standard form, but the department does receive the information from manufacturers.

The incentive for organizations to sell unregistered and untaxed pull-tabs has grown with the increase in state gambling taxes. There have been a number of cases in the state where both licensed and unlicensed organizations or individuals have been selling untaxed illegal pull-tabs. Law enforcement personnel think that the sale of illegal pull-tabs is common.

We found that:

- **Controls over the distribution channel are weak because the Department of Revenue does not currently crosscheck distributor reports with organizations' reports of the actual games used. As a result, the state cannot be assured that distributors are reporting all sales to the state or that organizations report all games received.**

However, we believe that a state takeover of the distribution system offers only limited control advantages over the current distribution system. We are sceptical that such a takeover represents the most cost effective regulatory approach for the state.

Regulatory controls over manufacturers and distributors can be improved.

State law and rules also contain a number of regulatory controls over the activities of organizations conducting gambling. These controls have been much improved by recent statutory and administrative rule changes. Unfortunately, we found that:

- **Gambling organizations' compliance with state rules is poor.**

We found numerous instances where organizations were violating state rules on deposits, separate bank accounts for each gambling site, expenses, lawful purpose expenditures, reporting to the membership, and proper approval of expenditures. Local government officials performing compliance audits report similar findings, as do auditors from the Department of Revenue.

We also found that the state licensing process provided little assurance that gambling organizations complied with required rules. The Division of Gambling Control has not evaluated the internal controls of organizations or reviewed their tax forms before licensure. Many of the internal control documents filed with the board revealed serious internal control shortcomings.

In the course of our review, we found that there are many problems evident on organizations' tax returns. For example, during reviews of tax returns we found organizations that were violating rent rules, were missing funds from their bank accounts, were accounting for inventory incorrectly, were improperly deducting taxes, and were violating expense and lawful purpose rules. These problems were all apparent from reviewing the tax returns and should have been corrected before licensing. We conclude that:

- **State licensing has been largely ineffective as a means of ensuring proper organization conduct.**

We contacted over 70 cities with local gambling ordinances and found that only a few had regulatory programs designed to ensure compliance with gambling rules. We also found that most local governments were not well informed about the gambling laws and had little contact with the Gambling Control Board. We conclude that:

- **Local enforcement of gambling laws is not extensive.**

We also found that the state has conducted very few organizational audits. Only 76 audits have been conducted since the state took over responsibility for gambling regulation. We also noted that none of the 30 organizations with the largest gambling revenues have been audited.

The Department of Revenue conducted 14 limited and 5 full scale audits in 1989. The Department of Revenue plans to conduct a total of 50 audits in fiscal year 1990 and 100 audits in fiscal year 1991. At the rate projected for 1991, organizations can expect to be audited once every 20 years or so. We noted that only one of the organizations we visited had previous on-site visits by gambling regulatory officials.

Both state licensing and current local government enforcement efforts are insufficient to ensure compliance with state law.

We conclude:

- **The current level of auditing is insufficient to ensure compliance with gambling laws and regulations and to ensure that proper organizational taxes are paid.**

Little auditing has been done.

We believe that compliance with state rules can best be assured when organizations have some reasonable expectation that their operations will be reviewed by local or state regulators.

We noted a number of weaknesses in current state reporting requirements. For example, the current control over bad checks is weak because there is no way to know if bad checks that have been written off are later recovered, or if the recovered funds are properly deposited into the organization's gambling account. Another weakness we noted in the current reporting requirements is that virtually no information about bingo activity is required to be reported. Currently, only gross receipts, prizes, and net receipts from bingo must be reported.

Our evaluation of the risk of fraud and abuse revealed the possibility of inside information being used in pull-tab games. Although this is a possibility, only one site we visited had unusual patterns of winners. People that we interviewed were split on the extent to which they believe this practice occurs -- some believe it is widespread and others do not. Based on current knowledge about the extent of this problem, we believe it would be premature to set up a computer system to cross check all winners and sellers. However, we do believe some steps should be taken.

We found during our site visits that the records necessary to trace unusual patterns of winners in pull-tab games were not always present. The state has a winner registration form that is required for all prize winners of \$100 or more. However, we found the state winner registration form was not always used. Sometimes the required signatures on winning tickets were illegible, or the tickets were signed with a fictitious name. Many times the winner registration forms were not used because the winners were known to the seller. We also found that organizations that use a cash register to keep track of their games are vulnerable to employees using the register to determine if it is advantageous to buy out pull-tab games.

Organizations currently have few incentives to look after their gambling operations.

There will never be enough regulatory personnel to completely review each organization each year. That is why organizations that sponsor gambling must be encouraged to take more responsibility for their gambling operations. However, we found that the current system provides few incentives for organizations to look after their own gambling operations. For example, organizations suffer no consequences if cash is lost from gambling proceeds. Organizations know that the chance of their being audited is slim, and that the gambling board has rarely revoked licenses.

RECOMMENDATIONS

There is ambivalence about lawful gambling in Minnesota. The state has chosen to legalize some forms of gambling, but only on the condition that gambling proceeds are used exclusively for approved (charitable) purposes. This approach creates a regulatory challenge for the state. The state not only has to oversee the integrity of gambling operations, but it also has to make sure that gambling funds are spent appropriately.

This approach requires the state to establish clear guidelines and set up a system to ensure accountability. Unfortunately, as we have seen, guidelines are not in place, accountability is weak, and numerous problems have resulted.

Assuming that the state continues to allow gambling and to insist that the proceeds are used for certain approved purposes, we recommend the following:

- **State agencies need to establish clear and consistent policies on what is an "allowable expense" and what is a permissible "lawful purpose contribution."**
- **These policies need to be communicated clearly to organizations conducting gambling operations.**
- **State agencies need to establish a program of field audits to review expenses and lawful purpose contributions. Audits should be prioritized to ensure that organizations presenting the greatest risks are audited more frequently.**

At a minimum, newly required annual financial audits should include a reconciliation of the gambling bank accounts and the profit carryforward. This would enable detection of missing funds. Also, the Department of Revenue should review required tax forms to identify existing discrepancies.

Accomplishing these tasks will require additional public resources, but the number of new staff needed depends principally on the frequency of audits and the amount of risk policymakers are willing to tolerate in gambling operations.

In addition to adding new staff, other steps could be taken to reduce the risk of abuse of gambling operations. First, new requirements could reduce the sale and distribution of illegal pull-tabs. We recommend that:

- **The Legislature should require pull-tabs sold in Minnesota to be imprinted with the notice, "For Sale in Minnesota Only."**
- **The Legislature should require pull-tab manufacturers to report all sales of products sold in Minnesota.**

Second, the lawful gambling licensing process needs to be more comprehensive. We recommend that:

- **Annual license renewals by the gambling board should be contingent on a satisfactory review of tax returns, lawful purpose expenditures, financial audits, and internal control policies.**
- **Local government approval should be required before gambling licenses are issued.**
- **The Gambling Control Board should develop a program to better inform local officials about state gambling rules and regulations.**

Third, threats to the integrity of gambling from insider information are difficult to control, but the following steps can minimize the threats:

- **The Legislature should require the posting of large denomination winning tickets for each pull-tab game.**
- **Records that allow the tracing of winners should be maintained at each gambling site.**
- **The winner registration form for all winners of over \$50 should be embossed with a driver's license or state identification card.**

Fourth, to encourage gambling organizations to establish better controls over gambling proceeds, we recommend that:

- **All checks from an organization's gambling account should require two signatures.**
- **Organizations should be responsible for paying from their own funds for any cash shortages.**
- **The Gambling Control Board should approve only fund losses that result from occurrences beyond the control of the gambling organization, such as a break-in.**

Fifth, state reporting requirements need to be strengthened. We recommend that:

- **The Department of Revenue should revise the tax form so that cash shortages and bad checks are reported separately.**
- **State agencies should require more detailed reporting of lawful purpose expenditures.**

- **State agencies should require better reporting on bingo events and should require the use of prenumbered sheets of bingo paper.**

Finally, if the Legislature intends to continue restricting the use of gambling proceeds for "charitable" purposes, limiting the ability of gambling organizations to direct funds into their own accounts, some additional statutory changes are needed. We recommend that:

- **Except for certain emergencies, expenditures should only be made from an organization's gambling account, not its general account.**
- **Contributions from one licensed gambling organization to another should not be allowed.**

These changes will not eliminate all of the problems associated with lawful gambling in Minnesota. However, in our view, these steps will help minimize the risk of fraud and abuse and help restore public confidence in the integrity of the games.

INTRODUCTION

Charitable gambling--or lawful gambling as it is now called--has grown rapidly in Minnesota in recent years. From gross receipts of a little over \$100 million in 1985, gambling revenues have grown to approximately \$1.2 billion in 1989. The tremendous growth in gambling revenues has focused legislative attention on gambling as a regulatory issue and as a new source of tax revenue.

The state became directly involved in the regulation of gambling in 1985, but there is concern that the state's regulatory efforts have not kept pace with the growth of gambling activity. Although there have been a number of changes in statutes and rules designed to improve regulation, and some increased staffing was provided in 1989, questions remain about whether gambling is being properly regulated. Additionally, legislators have become more interested in finding out how gambling funds are being spent.

In June 1989, the Legislative Audit Commission responded to these concerns by requesting a study to examine the following questions:

- **Are the controls over lawful gambling sufficient to prevent fraud and abuse? How extensive and effective are local enforcement efforts?**
- **How are the proceeds of charitable gambling used? What organizations and governmental units benefit from "lawful purpose" contributions? Where are they located around the state?**
- **To what extent are "lawful purpose" contributions being used to replace or supplement local government levies?**

We examined these questions through a variety of methods. We made extensive examinations of monthly gambling tax returns in the Department of Revenue. We reviewed organization's gambling expenses and gathered and categorized 19,000 lawful purpose contributions into a data base. We contacted over 70 cities regulating gambling on the local level, and also conducted extensive interviews with officials in a number of states that conduct gambling similar to Minnesota. In addition, we interviewed many representatives of organizations, of the gambling industry, and of state agencies involved in regulating gambling. We also conducted site visits of a number of organizations to review their compliance with state laws and rules.

The scope of our study is limited. For example, we did not review the Charitable Gambling Control Board's actions, or the efficiency and effectiveness with which state agencies regulate gambling. Nor did we consider questions concerning the efficiency of the current organization structure. We also have excluded questions concerning the social costs of gambling in the state. We did review the general controls over gambling and how organizations are complying with those controls.

Chapter 1 of this report reviews the historical basis of gambling regulation and the current gambling regulatory structure. Chapter 1 also reviews gambling regulation by local governments and gambling regulation in other states. Chapter 2 examines how lawful gambling proceeds are spent on expenses and on "lawful purposes." Chapter 3 assesses the risk of gambling fraud and abuse and recommends ways to minimize the risk.

BACKGROUND

Chapter 1

In this chapter we review the history of gambling regulation, discuss Minnesota's current regulatory structure, summarize the regulatory approach of other states, and review the role of local governments in gambling regulation.

HISTORY

History of Gambling Regulation

Early Illegal Gambling

Prior to 1945, gambling was illegal in Minnesota. However, this did not seem to deter a widespread and flourishing industry which included the operation of an estimated 8,000 slot machines. Gambling became a political issue in the mid 1940's and Minneapolis Mayor Hubert Humphrey and Governor Luther Youngdahl waged successful campaigns on anti-gambling platforms. By 1950, officials felt they had successfully curtailed illegal gambling.

Local Government Regulation, 1945-1984

In 1945 the Legislature authorized "charitable gambling" in Minnesota. Much of the framework for today's lawful gambling system was constructed in the 1945 bingo law.¹ For the first time, lawmakers legalized a form of charitable gambling by allowing bingo as a "mild form of social recreation designed to raise funds." The game could be conducted only by non-profit organizations and the proceeds were to be used to benefit religious, charitable, fraternal or other associations. A strong role for local government was also established in the early law, as local governments retained ultimate control by being able to prohibit bingo within their jurisdictions. These basic elements from the 1945 law still guide the state's approach to regulating charitable gambling, except that the state is now directly involved in regulation.

¹ The source of much of the material in this section is John Williams, *Charitable Gambling Legislation and Regulations*, House Research Information Brief, (St. Paul, 1988).

In 1963 the Legislature expressed its concern that "the increasing commercialization in the conduct of the game 'bingo' is contrary to public policy and deleterious to the morals of the citizens of this state."² Nevertheless, lawmakers also recognized gambling's potential as a revenue source. When a state sales tax was first authorized in 1967, organizations sponsoring bingo games were required to pay sales tax on their gambling receipts.

The first major changes in the bingo law were made in 1976, when concerns over variations in local enforcement prompted stronger regulatory guidelines. For the first time, organizations were required to be licensed by local governments. Organizations were also required to submit monthly reports to their own members and to the licensing authority. Restrictions concerning allowable expenses and lawful purpose expenditures were instituted.

In an effort to prevent the further commercialization of bingo, organizations were limited to two bingo occasions a week to be held only on premises owned or leased by the organization. Compensation was limited to \$12 per worker per occasion and could be paid only to members of the organization or their spouses. Daily and weekly prize limits were set, and organizations were first required to have a bingo manager in charge of operations.

New forms of gambling were first allowed in 1978, when the bingo law was expanded to permit paddlewheels, tipboards, and raffles. In 1981, pull-tabs were allowed and a large increase in gambling revenues resulted.

State Regulation

1984

Continuing concerns about local enforcement and tax collection resulted in the transfer of most regulatory activities to the newly created state-level Charitable Gambling Control Board in 1984. The board consisted of 11 members appointed to three-year terms by the Governor,

FORMS OF GAMBLING ALLOWED

Bingo - A game that players win by completing combinations of spaces on a card. The first player to successfully match a randomly called set of numbers to those on their numbered bingo card wins.

Paddlewheel - A wheel with equally spaced numbered or marked sections which is spun until a pointer stops on one of the spaces. The player who has previously purchased the ticket corresponding to that space wins.

Raffles - A game in which players buy chances for announced prizes. The winner of the prize is then determined by a random drawing from among the pre-purchased chances.

Tipboards - A sectioned board with hidden numbers or symbols on it. Players buy tickets corresponding to sections of the board in hopes that that section will reveal a prize when opened.

Pull-tabs - Single-folded or banded tickets with concealed numbers or symbols. Players win if the ticket is opened to reveal certain predetermined winning combinations.

New forms of gambling were added in 1978 and pull-tabs were approved in 1981.

² Minn. Laws (1963) Ch. 855.

plus the designees of the Attorney General and the Commissioner of Public Safety. The board was given authority to issue rules on the conduct of gambling and to license the organizations conducting charitable gambling and the distributors of gambling equipment. The board was assigned a small staff under an executive secretary to carry out the administrative and regulatory aspects of the law.

The Legislature also changed the gambling tax from a sales tax of six percent of gross receipts to a special tax of ten percent of gross receipts minus prizes. Although much of the regulatory control shifted to the state, local governments still retained the right to restrict gambling activities and disapprove license applications.

1985 to 1988

Minor statutory changes were made during the 1985 legislative session, but significant changes were made in 1986, including another restructuring of the tax system. Pull-tabs were taxed at ten percent of the resale value minus all possible prizes. The state tax collection functions for pull-tabs were transferred from the Charitable Gambling Control Board to the Department of Revenue.

Other changes included the first percentage limits placed on allowable organizational expenses. Organizations' gambling expenses were restricted to not more than 40 percent of their gross receipts, minus prizes and taxes. Bingo expenses were limited to 50 percent of gross receipts.

Also, for the first time, organizations with limited gambling activity were exempted from licensure and taxation. Local governments were permitted to charge investigative fees for their role in the licensure process.

During the 1987 Legislative session, local enforcement efforts received additional support when cities and counties were allowed to levy a local enforcement tax of not more than three percent (as an alternative to the investigation fee.) Guidelines and restrictions were established, however, regarding local government requirements for lawful purpose expenditures by organizations. To prevent cities from requiring certain contributions as a prerequisite for license approval, local governments were prohibited from requiring any donations to the city or requiring any other specific donations in excess of ten percent of net profits.

The 1987 Legislature also raised the organizational expense limitations to 55 percent for bingo and 45 percent for all other forms of gambling. Also, the Charitable Gambling Control Board was given new powers to issue cease and desist orders against violators of gambling rules or laws.

In 1988, the Legislature made it more difficult for organizations to use gambling proceeds to improve their buildings. Organization expenditures for the erection, acquisition, improvement, expansion, repair, or maintenance of real property required Gambling Board approval.

In 1988, bingo halls were also required to be licensed. Bingo hall operators were forbidden to conduct bingo for the organization or to keep the organization's records. A written lease was required and limits were placed on rental amounts.

Recent Changes in Gambling Regulation

In August 1988 the Governor transferred the Charitable Gambling Control Board staff to the Department of Revenue. There was a concern that the staff had been unable to conduct regular inspections or audits of organizations conducting gambling. The executive order transferred the board's complement of 16 staff and 5 vacant positions and a FY 1989 budget of \$927,000 to a newly formed Gaming Division in the Department of Revenue. The Charitable Gambling Control Board retained powers and duties relating to licensing charitable organizations. The Department of Revenue's Gaming Division had administrative responsibility for licensing and public information. Additional Department of Revenue staff were assigned to auditing and investigations.

**Gambling
regulatory
responsibility
is fragmented.**

The 1989 Legislature made numerous changes to gambling laws. As we discuss in the next section, regulation is now a joint effort of the renamed Gambling Control Board, the Department of Revenue, the Department of Public Safety, and a new Department of Gaming. A number of new staff have been added in these departments to strengthen gambling enforcement and revenue collection.

The 1989 tax bill provided for lawful gambling other than bingo, paddle-wheels, and raffles to be taxed based on graduated gross receipts. Organizations with gross receipts from lawful gambling of more than \$900,000 pay a six percent gross receipts tax. All organizations pay an additional two percent tax on pull-tabs and tipboards.

MINNESOTA'S GAMBLING REGULATORY STRUCTURE

Gambling Control Board

The Gambling Control Board now is composed of the Commissioner of Gaming and six members appointed by the Governor. The board has responsibility for licensing organizations, for establishing gambling rules and policy, and for imposing penalties and sanctions on licensees that violate the law.

The board has established a subcommittee of three members to serve as a Compliance Review Group (CRG). The function of the CRG is to conduct informal inquiries into violations of law and rules and to recommend disciplin-

ary sanctions (if appropriate) to the full board. The board is assisted by the Attorney General's Office and staff of the Department of Gaming's Lawful Gambling Control Division.

Department of Gaming

The 1989 Legislature established the Department of Gaming to oversee the lottery, horse racing, and charitable gambling. The commissioner of the department is a voting member of the Gambling Control Board.

The Gambling Control Division of the department is headed by a director appointed by the Governor. The division is responsible primarily for carrying out the licensing of gambling organizations, manufacturers, distributors, and bingo halls. It currently has a staff of 13 and a budget of \$618,000. The Gambling Control Board has delegated to the director the responsibility for routine licensing.

The division also has a public information function. It routinely receives phone calls and visits from organization members with questions about licensing or board actions. The division is also responsible for putting together a gambling manager's handbook, and setting up a series of seminars for gambling managers around the state. After December 31, 1990, gambling managers will have to satisfactorily complete a course of instruction on the duties and responsibilities of being a manager.

Before the division was transferred from the Department of Revenue, there were a series of meetings between the Departments of Revenue, Public Safety, and Gaming to sort out what functions would be performed by each agency. The result of these meetings was a document entitled *Charitable Gambling Transition -- Function and Task Assignment*. According to this document, the division is responsible for lawful expenditure and allowable expense policy questions.³ However, the Department of Revenue is responsible for office audits of lawful purpose contributions, and the Department of Public Safety is responsible for field audits of lawful purposes.

The division also acts as staff to the board and the CRG. This gives it a role in decisions regarding discipline and sanctions of organizations violating the law. However, the division's responsibilities do not include other regulatory activities such as making site visits or dealing with complaints of illegal activity. The current staffing of the division provides personnel for a licensing and information function.

Department of Revenue

The Department of Revenue's responsibilities over lawful gambling include collecting the appropriate gambling taxes from distributors and licensed orga-

³ Memorandum from John James to Sandra Hale, June 29, 1989.

nizations and auditing to ensure compliance with tax laws. Revenue collection involves several steps. First, the tax form is processed and the tax receipts are deposited into state accounts. Second, data from Schedule A of the tax return is entered into a tax database and checked for mathematical accuracy. Third, the computer system runs certain reports to ensure that organizations are filing their tax returns. Organizations are contacted about errors in their reports or about non-filing of returns.

Revenue also performs an audit function. Revenue's Lawful Gambling Tax Enforcement unit in its Division of Special Taxes includes six auditors and an audit supervisor. Three tax investigators are also assigned gambling responsibilities. The Department of Revenue is responsible for an office review of Schedules A, B, and C of the tax return.⁴ The department is also responsible for tax audits of manufacturers, distributors, and bingo halls. Additionally, the department is responsible for maintaining and distributing tax returns, and for taxpayer information.

The department's systems division is responsible for the redesign of the gambling computer systems. Revenue received an appropriation of \$194,000 for each of fiscal years 1990 and 1991 to enhance the gambling computer systems. The first stage of that update was to rewrite the licensing programs for the Department of Gaming. The systems work is made more difficult because the Gambling Control Division, and the Department of Public Safety (who are or will be located elsewhere) need access to the information in the Department of Revenue's database.

The Department of Revenue currently employs the only gambling regulatory auditors. As a result they have been called on to do the audits necessary for the criminal investigations of the Department of Public Safety.

Department of Public Safety

The 1989 Legislature also established a Division of Gambling Enforcement in the Department of Public Safety. The Division has responsibilities relating to all legalized gambling. The division must conduct background checks on lottery employees, retailers, manufacturers or distributors of gambling equipment, bingo hall lessors, and Racing Commission license applicants. The division also has a number of responsibilities relating to Indian gaming.

The division is responsible, at the request of the director of gambling control, for inspecting the premises of gambling licensees to determine compliance with law and with rules, or to audit the records required to be kept by the licensee. The Division of Gambling Enforcement has broad powers to carry out its duties, including: access to the gambling premises without a search warrant, access to criminal histories of licensees, subpoena power, and arrest powers in certain circumstances.

⁴ Schedule A of the tax return contains a summary of gambling revenues and expenses at each gambling site. Schedule B accounts for the revenues from each game of pull-tabs, tipboards, and paddlewheels played by the organization. Schedule C contains information about each lawful purpose expenditure.

The Department of Public Safety has responsibility for most of the regulatory contact with the licensees other than tax auditing. For example, the Department of Public Safety was to do field audits of Schedule B and C of the tax return, site inspections, non-tax criminal proceedings, and investigate all complaints of illegal activity. The department received ten positions and \$351,000 to do this but it only plans to hire six personnel. Two audit positions and \$85,000 also were transferred from the Department of Revenue, but Public Safety does not plan to fill them, instead relying on the Department of Revenue to conduct audits.

As the result of legislative negotiations in 1989, Minnesota has one of the more complicated regulatory structures for lawful gambling. In the next section we review how other states have organized their regulation of charitable gambling.

GAMBLING REGULATION IN OTHER STATES

Gambling Activity

Forty-five states and the District of Columbia had some form of charitable gambling during 1988, according to the National Association of Fundraising Ticket Manufacturers. Bingo was the largest activity and accounted for over 48 percent of all amounts wagered. Pull-tabs were allowed in 26 states and represented an additional 41 percent of amounts wagered.

Contrary to national trends, pull-tabs are the leading charity gaming activity in Minnesota, representing over 88 percent of all gross receipts. As seen in Table 1.1, Minnesota is the nation's leader in gross receipts from pull-tabs and second only to North Dakota in per capita spending on pull-tabs. In fact, Minnesota accounted for almost 40 percent of national pull-tabs receipts in 1988. Minnesota and North Dakota, the states with the top payout percentages, also have by far the highest per capita spending. This is probably because the high payout provides greater incentive to play and also results in greater reinvestment of winnings.

Table 1.2 presents a 21-state comparison of lawful gambling proceeds ultimately available for use by charities. Minnesota's relatively low percentage of gross receipts available for lawful purpose contributions results in part from its high payback percentage.

Minnesota leads the nation in dollars spent on pull-tabs.

Table 1.1: National Pulltab Activity, 1988

<u>State</u>	<u>Gross Receipts (in millions)</u>	<u>Per Capita^a</u>	<u>Payout Percentage</u>
MINNESOTA	\$763.2	\$177	83%
Washington	307.9 ^b	67	69
Ohio	164.9	15	75
North Dakota	143.3	216	84
Nebraska	139.0	87	77
Louisiana	109.9	25	79
Colorado	98.6	30	75
Massachusetts	63.8	11	60
Texas	46.8	3	74
New Hampshire	45.0	41	72
Alaska	44.7	87	70

Source: Adapted from National Association of Fundraising Ticket Manufacturers, 1988 Report on Charity Gaming.

^a1988 population figures.

^bAlmost 77 percent of this amount represents sales by qualified businesses (mostly bars and restaurants) as a commercial stimulant. Only 23 percent represents sales by non-profit organizations.

Table 1.2: Net Available for Lawful Purpose Expenditure, 1988

<u>State</u>	<u>Net Proceeds</u>	<u>Percent of Gross Receipts</u>	<u>Net Proceeds Per Capita</u>
Alaska	\$11,908,365	14%	\$29.63
Arizona	8,000,000	20	2.94
Colorado	24,272,158	17	8.40
Connecticut	2,379,685	6	.76
District of Columbia	1,486,000	33	2.33
Georgia	9,575,383	32	1.75
Iowa	12,144,199	18	4.17
Maine	10,836,270	30	9.63
Massachusetts	73,800,000	27	12.86
Michigan	40,418,750	16	4.36
MINNESOTA	78,004,000	9	19.10
Nebraska	9,813,482	5	6.25
New Hampshire	10,893,244	16	11.83
New Mexico	7,811,328	17	6.00
North Dakota	16,814,959	8	25.76
Ohio	58,083,299	16	5.38
Oregon	6,232,825	18	2.38
Rhode Island	2,335,219	14	2.46
Tennessee	4,344,322	15	.95
Texas	27,865,725	6	1.96
Washington	26,127,571	12	6.32

Source: Adapted from National Association of Fundraising Ticket Manufacturers 1988 Report on Charity Gaming.

State Statutes

We reviewed current lawful gambling statutes and rules from Alaska, Colorado, Massachusetts, Nebraska, New Hampshire, North Dakota, Ohio, and Washington. Since these eight states have lawful gambling activities similar to Minnesota, we compared:

- games of chance allowed
- organizations allowed to conduct gambling
- availability of lawful gambling
- use of gambling proceeds

Games of Chance Allowed

All nine states allow bingo, pull-tabs, and raffles. Minnesota is the only state which allows tipboards. Alaska, New Hampshire, Massachusetts, Nebraska, Ohio, and Washington allow Las Vegas Nights. Alaska, Washington, North Dakota, and Minnesota permit various other games of chance. For example, Alaska allows dog mushers' contests and guessing contests concerning temperature, rainfall, and ice break-up. Washington permits social card games. North Dakota allows sports pools and recently passed a law allowing electronic video gaming devices, but this was voted down in a December 1989 public referendum.

Organizations Allowed to Conduct Gambling

The types of organizations allowed to conduct gambling tend to be similar in all nine states. In general, this includes non-profit veterans, educational, religious, fraternal, religious, civic, and charitable organizations.

Alaska and Nebraska allow municipalities to conduct certain gambling activities. Alaska also permits activity by any labor, political, dog mushers', non-profit trade, fishing derby, or outboard motor association. New Hampshire allows political committees or parties to hold raffles. Ohio allows many organizations to conduct bingo, but pull-tabs may be sold only by qualified bingo organizations that also have tax exempt non-profit status.

All nine states require eligible organizations to have been in existence for periods ranging from one to five years (although Ohio exempts organizations of volunteer firefighters from this requirement.) Three states, including Minnesota, require organizations to have a minimum number of members.⁵

⁵ Minnesota requires organizations to have a minimum of 15 members.

**Per-capita
gambling
expenditures
are greater in
states with
more gambling
opportunities.**

Washington permits businesses primarily engaged in selling food or drink to sell pull-tabs and punchboards and conduct social card games as a "commercial stimulant." This is allowed only if the adjusted net gambling receipts do not exceed the gross profit from food and drink sales.⁶ Approximately 77 percent of Washington's pull-tab gross receipts occur in establishments with commercial stimulant licenses. Washington's 1,700 commercial stimulant licensees are allowed to use net proceeds as they wish and are not limited by lawful purpose requirements. Washington's 1,000 non-profit licensees may conduct gambling on premises that they own or lease. The requirements for leased premises are fairly restrictive, so most non-profit organizations' gambling is conducted by groups owning their own clubs.

Availability of Lawful Gambling

As we expected, per capita lawful gambling expenditures directly reflect the availability of gambling opportunities. In Minnesota, Nebraska, North Dakota, and Alaska where lawful gambling (especially pull-tabs) is readily available at a variety of sites, high per capita expenditures result. Non-profit organizations in Washington do not generally sell pull-tabs in commercial establishments, but the commercial stimulant licensee sales keep the per capita gambling expenditures high. Nebraska and Washington also allow pull-tabs to be sold from coin-operated vending devices.

Massachusetts has lower per capita gambling expenditures probably because pull-tabs may be sold only in conjunction with bingo occasions. In Massachusetts, 718 of 750 licensed bingo organization sell pull-tabs at their sites. Gross receipts per capita were also lower in Colorado and New Hampshire where pull-tabs can be sold only during bingo or upon premises owned or controlled by the licensed organization.

Use of Gambling Proceeds

Expenses

States generally allow organizations to make reasonable expenditures necessary to conduct gambling. When these expenses are enumerated, the list usually includes prizes, gambling supplies, maintenance and repair of gambling equipment, rent, and compensation for bookkeeping and security services. Advertising is an allowable expense in three states.

Compensation may be paid those conducting games in Alaska, Minnesota, Nebraska, North Dakota, and Washington. The other four states specifically forbid it. Colorado and Massachusetts do not allow anyone other than members of the organization (or, in some cases, of the auxiliary) to conduct gambling. Whether or not states allow compensation to be paid is probably related to the number of gambling opportunities available in the states we studied.

⁶ Adjusted net gambling receipts is defined by rule as gross receipts minus certain specified expenses such as prizes, taxes, equipment, and compensation.

Organizations in Alaska may not deduct mortgage and interest payments or property taxes. In Ohio, when bingo is conducted on premises owned by the organization, it may pay itself the lesser of \$250 or 25 percent of gross receipts as consideration for each occasion.

Uncollectable checks and cash shortages are classified as expenses in North Dakota. North Dakota also has a graduated expense limit of 50 percent of the first \$200,000 of gross receipts minus prizes and 45 percent of all gross receipts minus prizes in excess of that.

Washington does not restrict expenses, but requires that a certain percentage of bingo receipts remain available for lawful purpose expenditures. This percentage increases with annual gross receipts and ranges from no required amount for organizations with annual gross receipts of less than \$100,000 to 15.5 percent for organizations with annual gross receipts over \$4 million. Bingo prize payout limits in Washington are also tied to this same scale and range from 85 percent for the smaller organizations to 70 percent for the largest. This works out to an expense limit of approximately 48 percent of gross profits for bingo. This payout structure is designed to help smaller operations remain competitive. Washington Gambling Commission staff members report that no similar percentage structure applies to pull-tab proceeds available for donation.

Lawful Purpose Contributions

Requirements for lawful purpose contributions tend to be rather broad and fairly similar among the states we studied. Appendix A lists the definition of lawful purposes used in 12 states and in Alberta, Canada. Most states have adopted some variant of language used in Internal Revenue Service regulations for tax exempt organizations. Generally, organizations are required to devote net proceeds to educational, charitable, religious, patriotic, or civic purposes. Some states such as Colorado and Washington simply require the organization to use proceeds for the purposes for which it was organized.

Minnesota, Nebraska, and North Dakota forbid the use of funds for the purpose of influencing legislation, but Alaska specifically permits donations for political uses.⁷ Nebraska allows organizations to use bingo proceeds for social and recreational uses, but does not allow this with pull-tab proceeds.

Massachusetts must approve donations before they are made and does not permit organizations to maintain lawful purpose bank balances larger than \$50,000. Alaska, Colorado, and North Dakota require that contributions be made within a certain period of time.

Taxes

Figure 1.1 shows that states vary widely in taxation philosophies. Washington provides for a large tax option at the local level as well as a 1.5 percent state business and occupation tax, and Ohio chooses to levy no taxes at all. Minne-

Lawful purpose definitions are broad and similar among states.

⁷ Washington requires gambling licensees to report all political contributions quarterly to the Gambling Commission whether the contributions are made from lawful purpose funds or not.

Figure 1.1: Lawful Gambling Tax

State	Tax	1988 State Tax Revenue (millions of dollars)	Comments
Alaska	Pulltabs - 3 percent of ideal net receipts. ¹ Combined receipts fee-1 percent of net receipts (minus expenses) of combined gross receipts for all activities over \$20,000.	\$.107	Revenue from combined receipts fee for 1987. Pull-tab tax not levied until 1988.
Colorado	Administrative fee of 3 percent of net receipts minus expenses.	.72	Revenue is from administrative fee.
Massachusetts	Pulltabs-Distributed by state for 10 percent of resale value. Bingo - 5 percent of gross receipts.	16.0	Up to 50 percent of pulltab revenue may be used to cover cost of distribution, remainder returned to local governments. Forty percent of bingo tax revenue credited to State Lottery Fund, 60 percent to General Fund.
MINNESOTA	Pulltabs - 2 percent of ideal gross receipts. Bingo, Paddlewheels, and Raffles - 10 percent of net receipts. Combined receipts tax - 2 to 6 percent of combined gross receipts over \$500,000 from pulltabs and tipboards. Local tax option: 3 percent net receipts.	20.9	Local tax to be used only for gaming enforcement. Tax revenue figure does not include local tax. \$360,059 reported in local enforcement tax revenue in 1988.
Nebraska	Pulltabs - 13 percent of net receipts. Bingo - 6 percent of gross receipts. Bingo local tax option: 4 percent of gross receipts.	6.02	Thirty-five percent of tax amount to fund operation of Charitable Gaming Division up to budget amount. Revenue figure excludes local tax. Local tax to be used for gaming enforcement.
New Hampshire	Pulltabs - 40 percent of wholesale cost of tickets. Pulltabs - One dollar a deal for tax stamps. Bingo - 5 percent of gross receipts for "winner-take-all" games.	1.78	Tax revenue remaining after deducting gambling regulation expenses is distributed to school districts.
North Dakota	Bingo/pulltabs - 5 to 20 percent of net receipts. Pulltabs - additional 2 percent of gross receipts.	1.76	Tax revenue used as follows: \$170,000 per quarter returned to cities or counties for gaming enforcement. \$100,000 annually to Attorney General's Operating Fund for gaming enforcement. Remaining amount to General Fund. Additional pull-tab tax not levied until 1989.
Washington	1.5 percent net receipts. Local tax option: Pulltabs - up to 5 percent of gross receipts. Bingo - up to 10 percent of net receipts.	2.35 ²	Local revenue must be used primarily for gaming enforcement. \$16.69 million reported in city and county tax revenue in 1988. ³

Source: State statutes and Program Evaluation phone interviews, September-December 1989.

¹Net receipts equals gross receipts minus prizes.

²Estimate.

³Tax figure reported in National Association of Fund Raising Ticket Manufacturers 1988 Report on Charity Gaming.

sota and North Dakota base tax rates in part on the volume of gambling activity.

Four states, including Minnesota, make provisions for tax funding of local enforcement, although several states reported concerns about how this revenue is ultimately used.

State Regulation and Enforcement

We interviewed enforcement officials in the eight states concerning their gambling regulation and enforcement programs. As seen in Figure 1.2, budgets and staffing levels vary widely. Lack of resources for enforcement is a common concern. The staffing level in Washington is much higher than other states. About 48 percent of the staff time is devoted to the regulation and enforcement of charitable gambling, and approximately 47 percent of staff time is spent on regulation and enforcement of commercial stimulant licenses, with about 5 percent of staff time spent on illegal gambling activities.

Regulatory Structure

Figure 1.2 also illustrates differing organizational structures for regulating lawful gambling. Six of the states regulate lawful gambling within one governmental agency, New Hampshire and Washington divide the responsibilities between two agencies, and Minnesota splits regulation and enforcement four ways.

Massachusetts, New Hampshire, Washington, and Minnesota include gambling boards in their regulatory structures. Minnesota and Washington are the only states of the nine we reviewed with a board dealing primarily with charitable gambling. The Massachusetts Lottery Commission and the New Hampshire Sweepstakes Commission spend the majority of their time dealing with state lottery issues. The Washington State Gambling Commission regulates commercial stimulant licensees in addition to the gambling of non-profit organizations.

Staff members in Massachusetts and New Hampshire report that these boards deal primarily with "major issues" and have little involvement in the daily operations of the commissions. Washington is similar to Minnesota in that both boards act on all individual license issues. However, Washington Gambling Commission staff members say that board action concerning licenses consists primarily of blanket approval of staff recommendations. The Washington Gambling Commission spends most of its time dealing with administrative rule issues.

Board members in all four states are primarily private citizens appointed by the governor. However, Washington's board also includes four ex-officio members from the legislature, and Massachusetts' board includes the State Treasurer and the Secretary of Public Safety.

Figure 1.2: State Regulation

State	1988 Gross Receipts (in millions of dollars)	State Regulating Body	Staff Size	FY 90 Appropriation	Comments
Alaska	\$82.4	Department of Commerce and Economic Development	6	\$574,100	Staff figures include two auditors and two investigators. Gross receipts for 1987.
Colorado	145.0	Secretary of State	10	352,686	Staff and budget are for total Licensing and Enforcement Section, which spends 50 percent of its time regulating charitable gambling. Staff figures include one clerical auditor and four investigators.
Massachusetts	257.6	Lottery Commission	47	3,000,000	Staff figures include four state auditors and 31 site inspectors. Estimated budget figure.
MINNESOTA	888.5	1. Gambling Control Board-Licensing; 2. Department of Revenue-Tax Collection; 3. Department of Public Safety-Enforcement; 4. Gambling Control Division-Licensing and Information 5. Attorney General	11 6 ^b 13 2.5	598,000 436,000 618,000	Budget for tax enforcement unit only. Positions and budget transferred from Department of Revenue.
Nebraska	167.5	Department of Revenue	20	1,406,027	Staff includes five auditors, seven field investigators, and two attorneys.
New Hampshire	76.0	Sweepstakes Commission-Licensing; Commissioner of Safety-Enforcement	2 6	300,869	Public safety staff figures include one auditor and five investigators. Gross receipts do not include local raffles or Las Vegas Nights.
North Dakota	204.9	Attorney General	11	750,000	Staff figures include six auditors.
Ohio	242.3	Attorney General	21	754,000	Staff figures include five accountants, six investigators and seven attorneys. Budget figure represents actual amount expended FY 89.
Washington	501.0 ^a	Gambling Commission Department of Revenue	102	4,800,000	Gambling Commission staff and budget figures cover all state gambling regulation; charitable gambling accounts for about 48 percent of this total. Staff figures include approximately ten auditors and 37 deputized field enforcement positions. Department of Revenue staff and budget figures unavailable.

Source: Program Evaluation Division phone interviews, September-December 1989.

^aAbout 56 percent of Washington's gross receipts are accounted for by businesses (mostly bars and restaurants) with licenses to conduct gambling as a commercial stimulant.

^bMinnesota Department of Public Safety is allocated 12 positions but is only planning to fill six.

Licensing and Reporting

Eight of the nine states require annual licenses for organizations to conduct lawful gambling; New Hampshire licenses all activities monthly. Nebraska also licenses a number of individuals involved in lawful gambling including gaming managers (primarily for bingo), sales agents (liaisons between organizations and pull-tab sites), pull-tab operators (primarily liquor establishments), commercial lessors (primarily bingo sites), and organizational supervising members and members responsible for utilizing gambling funds.

Manufacturers and distributors are licensed in six of the nine states including Minnesota. The state of Massachusetts serves as distributor for all pull-tabs, but distributes only about six games, a fraction of the variety currently available in Minnesota. Distribution is also somewhat easier in Massachusetts because pull-tabs are only allowed in bingo halls, so the number of sites is limited.

All nine states require regular reporting by organizations conducting lawful gambling. However, the reporting frequency ranges widely, from reports after every bingo occasion in Massachusetts to yearly reports in Ohio. Three states, including Minnesota, require organizations to report monthly.

Washington also requires a reporting of sorts to the players. Pull-tab sellers must maintain and display an ongoing status report on the number and amounts of winning tickets that have been redeemed. This is commonly referred to as "posting" of winning tickets. Washington Gambling Commission staff reported to us their opinion that posting winning tickets has reduced abuses caused by the trading of inside information.

On-Site Enforcement

Site visits are seen as a critical part of all states' enforcement activities, but only Massachusetts, New Hampshire, and Washington report routine site visits for all organizations. Gambling operations in Massachusetts and New Hampshire are evaluated on-site approximately four times a year. In Massachusetts, state officials also conduct on-site visits as a regular part of the license application process. The proposed bingo operation is evaluated, and the organizational leadership is educated as to its responsibilities. Staff in Massachusetts also report that state officials attend a new licensee's first (and occasionally second) bingo occasion to ensure that the games are running well.

Bingo sites in Washington are visited every three to six months with a complete on-site audit being conducted every two to three years. Although non-profit pull-tab sites are visited somewhat less often, enforcement officials try to conduct site visits at least every six months. Commercial stimulant licensee sites are visited less regularly. The remaining states currently conduct site visits as needed and as resources allow. As we discuss in more detail in Chapter 3, Minnesota reported conducting 36 limited and 12 full-scale audits in 1988.

Site visits to gambling organizations are important, according to state officials.

LOCAL ROLE IN LAWFUL GAMBLING

Minnesota has traditionally sought to provide for an active local role in gambling regulation and enforcement. Although licensing is now done at the state level, local governments retain the right to disapprove any local license. In addition, local governments may control lawful gambling in a variety of other ways. In this section, we review the experience local governments have had with gambling regulation and enforcement.

Local Ordinances

Statutory or home rule cities or counties may enact ordinances to exercise a variety of local options concerning lawful gambling.⁸ Local governments may:

- ban or restrict the conduct of charitable gambling within their jurisdictions,
- require gambling organizations to make specific expenditures of not more than ten percent of net profits,
- require organizations to expend all or a portion of lawful purpose expenditures within a defined trade area,
- levy a three percent local tax for enforcement,
- charge a local investigation fee.

Only local governments that levy a local enforcement tax are required to report to the Gambling Control Board. As a result, when we asked the Gambling Control Division staff to provide us with a list of local governments regulating gambling, they provided us a list of eighteen ordinances, only ten of which proved current.

Over 70 cities have some role in regulating gambling.

By reviewing newspaper clipping files and collecting information from municipalities, we identified over 70 cities and counties that have local ordinances governing lawful gambling.⁹ We then contacted each of these municipalities to interview local officials and obtain copies of the ordinances. A review of these ordinances shows that cities and counties are exercising the available options in a variety of ways to tailor gambling operations to the community.

⁸ Counties regulate lawful gambling activities of licensed organizations operating outside of incorporated limits.

⁹ Although this list is as complete as we could make it, we assume that there are additional cities or counties with local ordinances.

Local Restriction of Lawful Gambling

Many local governments choose to further restrict the conduct of gambling. According to a 1988 Attorney General's opinion:

The local unit of government can determine what kind of lawful gambling (if any) can take place in its jurisdiction; it can specify the hours during which lawful gambling can be conducted within the jurisdiction; it can indicate where in the jurisdiction gambling can and cannot be conducted; it can limit the number of sites within the jurisdiction where gambling will be allowed; and it can prohibit gambling altogether.¹⁰

Cities can further restrict gambling activity.

Although we found no local governments that totally banned lawful gambling, we found that some cities have chosen to severely restrict it. For instance, Plymouth and Minnetonka prohibit gambling in liquor establishments. Rochester will not allow pull-tabs in any liquor establishments except private clubs. Wayzata will license only one pull-tab operation. Columbia Heights will only approve licenses for organizations that have been in existence in the city for at least ten years. Arden Hills currently has no ordinance, but has a moratorium on the number of licenses the city will approve.

Some cities choose to further restrict existing state limits in areas such as number of gambling occasions per organization or per site, compensation paid to gambling managers and pull-tab sellers, rent paid for gambling sites, and minimum age of players or workers. For example, the Mankato Department of Public Safety must give prior approval for all bingo occasions, Fridley does not allow gambling employees to be paid more than fifty percent more than the federal minimum wage, and Annandale does not allow anyone under 21 to participate in gambling.

Many local ordinances include requirements designed to ensure that only local organizations receive licenses. Some ordinances require that a percentage of organizational membership be from a defined geographic area. Other ordinances require that the organization's headquarters be local or that the organization own property within the city. Recently there has been some question as to whether or not these requirements are legal. Since the concern of local officials is not particularly where the organization is headquartered, but rather where it spends its money, more municipalities are solving this problem by requiring expenditure of lawful purpose funds within the local trade area.

Some of the larger cities, like Minneapolis, St. Paul, and Duluth have fairly comprehensive ordinances with a variety of requirements for local conduct of gambling. For instance, Minneapolis limits organizations to three gambling sites and does not allow sales from behind the bar in liquor establishments. Although not set out in ordinance, additional requirements in Minneapolis in-

¹⁰ Op. Minn. Atty. Gen., 733, July 29, 1988.

clude requiring a driver's license imprint on winning tickets of \$100 or more and on all "last sale" tickets.¹¹

St. Paul requires that gambling managers must be licensed by the city and may not serve an organization in that capacity for more than three consecutive years. Pull-tabs must be sold from a selling counter or "jarbar" that meets city specifications. No last sales are allowed.

Duluth requires gambling managers and pull-tab sellers to be licensed by the city, and specifically allows organizations to post the status of winners that have been redeemed in a given pull-tab game. According to Duluth officials, almost all organizations do "post" redeemed winning tickets. In an effort to prevent individuals from acting on inside information and buying out a deal, players may purchase only \$20 worth of pull-tabs per visit to the counter.

Faribault and Duluth have established local charitable gambling boards. Faribault's Charitable Gambling Advisory Board makes decisions about how the ten percent lawful purpose dedication should be spent. Duluth's Charitable Gambling Commission investigates license applicants, makes licensure recommendations to the city council, and investigates complaints concerning the conduct of lawful gambling. Although not provided for in the ordinance we reviewed, Chisholm also reports a local Gambling Commission which reviews license applications.

Many ordinances require organizations to submit copies of state tax reports to local officials. These copies usually end up with the employee charged with handling the local responsibilities in the permit and licensure process (usually someone in the City Clerk's Office.) While there is some local review of the Schedule C Lawful Purpose Expenditure form, it is generally limited to ensuring that any local requirements are being met. Few municipalities said that they fully review the reports.

Lawful Purpose Dedication

As seen in Figure 1.3, many local governments exercise the options concerning lawful purpose dedication, trade area dedication, and local enforcement tax. The first of these allows authorities to require local organizations to make specific expenditures of not more than ten percent of net profits.¹² Figure 1.3 shows that almost one-third of local ordinances include a provision concerning dedication of lawful purpose funds. We found that some cities apparently make this requirement without an ordinance. For example, Long Beach requests the ten percent dedication by resolution. A city official in Walters told us they had no ordinance, but were collecting the ten percent because the Multiple Sclerosis Society told the city they could simply verbally request it.

**Cities can
require
gambling
profits be spent
a certain way.**

¹¹ "Last sale" is a cash prize awarded to the person buying the last pull-tab in the "deal" or game. This amount must be indicated on the posted game advertisement or "flare". Organizations use last sale prizes as an incentive to players to clear out the remaining pull-tabs, so a new game can be put into play.

¹² Net profits is defined as gross profit less reasonable sums actually expended for allowable expenses. Minn. Stat. § 349.12, subd. 13A.

Figure 1.3: Local Ordinances

<u>Municipality</u>	<u>Number of Organizations</u>	<u>Number of Local Sites</u>	<u>Local Tax</u>	<u>1988 Local Tax Revenue</u>	<u>Ten Percent Local Dedication</u>	<u>Trade Area Dedication</u>	<u>Comments</u>
Annandale	4	4	None	None	Yes	No	Ten percent to charitable organizations in city or to organizations approved by city council.
Anoka	6	6	None	None	Yes	No	Ten percent to city council approved purpose unless organization has given ten percent to benefit citizens of city previous year.
Baxter	3	3	None	None	Yes	No	Ten percent within city.
Blaine	8	8	None	None	No	No	
Bloomington	3	4	3%	\$0	Yes	No	Ten percent to city to distribute to charitable purposes. No tax revenue until 1989.
Blue Earth	3	3	None	None	No	No	
Brainerd	14	20	2.25%	\$20,000	Yes	No	Ten percent to benefit residents of city; 1988 tax revenue June-December.
Brooklyn Center	1	3	None	None	No	Yes	Over 90 percent pulltab profit averaged over three years spent within city.
Brooklyn Park	8	8	None	None	Yes	No	Ten percent within city or to benefit residents.
Buffalo	3	3	None	None	No	No	
Buhl	2	2	None	None	Yes	No	Ordinance and Resolution. Ten percent to city for July 4th Celebration Fund except from Multiple Sclerosis Society which is ten percent to city--half for July 4th Celebration Fund, half to make City Hall handicapped accessible.
Carlton County	5	7	None	None	No	Yes	Seventy-five percent expended within county.
Centerville	2	2	None	None	Yes	No	Five percent as designated by city council.
Chisholm	6	5	None	None	Yes	Yes	Ten percent for programs or organizations for elderly, youth, and disabled, 75 percent with ISD 695.
Cloquet	11	13	None	None	Yes	Yes	Ten percent to Cloquet Educational Foundation, Inc., 70 percent within city limits.
Columbia Heights	6	5	None	None	No	No	Ordinance and resolutions.

Local Ordinances, continued

<u>Municipality</u>	<u>Number of Organizations</u>	<u>Number of Local Sites</u>	<u>Local Tax</u>	<u>1988 Local Tax Revenue</u>	<u>Ten Percent Local Dedication</u>	<u>Trade Area Dedication</u>	<u>Comments</u>
Coon Rapids	6	6	None	None	Yes	No	Ten percent to benefit citizens of city.
Cross Lake	4	8	None	None	No	Yes	Fifty percent within or to benefit citizens of city.
Crystal	9	9	None	None	Yes	No	Ten percent within city or ten percent to city for use as specified by city council.
Darwin	0	0	None	None	No	No	Darwin has an ordinance but currently has no gambling sites.
Delano	4	4	None	None	No	No	
Duluth	35	49	3%	\$0	No	No	Tax levied as of January 1989.
Faribault	11	12	None	None	Yes	No	Five percent to local gambling board for distribution.
Falcon Heights	0	0	3%	\$0	Yes	No	Ten percent to purpose designated by city council.
Fergus Falls	5	9	None	None	No	Yes	Fifty percent within or to benefit citizens of city.
Fridley	3	3	3%	\$3,608	Yes	No	Ten percent to charitable organizations within city.
Gem Lake	1	1	None	None	No	Yes	Fifty percent to benefit residents of Gem Lake/White Bear Lake area.
Hibbing	15	15	None	None	No	Yes	Fifty-one percent within city.
Hutchinson	12	12	None	None	No	Yes	Fifty-one percent within city.
Ironton	3	4	None	None	No	No	
Janesville	2	2	None	None	No	Yes	Eighty Percent for recreational, cultural, and civic programs for citizens of city.
Lake City	5	6	None	None	No	No	
Little Canada	4	5	None	None	No	No	
Long Beach	2	2	None	None	Yes	No	Ten percent to city for Morning Glory Gardens and to promote tourism in Starbuck, Glenwood, and Long Beach. Resolution only.
Lyle	1	1	3%	\$276	No	No	
Madelia	2	3	None	None	No	No	
Mankato	13	14	3%	\$40,574	No	No	1988 tax revenue June-December.
Maple Grove	4	4	None	None	Yes	No	Ten percent to benefit citizens of city.

Local Ordinances, continued

<u>Municipality</u>	<u>Number of Organizations</u>	<u>Number of Local Sites</u>	<u>Local Tax</u>	<u>1988 Local Tax Revenue</u>	<u>Ten Percent Local Dedication</u>	<u>Trade Area Dedication</u>	<u>Comments</u>
Maplewood	2	2	None	None	No	No	
Mille Lacs County	12	16	None	None	No	No	Resolution only.
Minneapolis	90	137	3%	\$277,000	No	No	
Minnetonka	1	1	None	None	No	No	No gambling allowed in liquor establishments.
Montgomery	5	5	None	None	No	Yes	Eighty percent to recreational, cultural, and civic programs for citizens of city.
New Brighton	5	8	None	None	No	No	
New Hope	3	3	None	None	No	No	
New Ulm	5	6	None	None	No	No	
Nisswa	2	2	None	None	No	Yes	Fifty percent within or to benefit citizens of city.
North Mankato	3	5	3%	\$1,536	Yes	No	1988 tax revenue May-December. Ten percent to organizations on list drawn by city council. Resolution and ordinance.
North St. Paul	4	3	None	None	No	Yes	Sixty percent within North St. Paul/Maplewood/Oakdale.
Plymouth	0	0	None	None	No	No	Prohibits pulltabs or bingo in liquor establishments. Currently no licensees.
Prior Lake	4	4	None	None	No	No	
Proctor	3	3	None	None	No	No	
Ramsey	3	4	None	None	No	No	
Richfield	6	6	None	None	No	No	
Robbinsdale	2	2	None	None	No	Yes	Ninety percent within city.
Rochester	15	15	None	None	No	No	No pulltabs allowed in liquor establishments except clubs.
Rockford	2	3	None	None	Yes	No	Ten percent to Rockford Area Historical Society.
Roseville	8	12	1%	\$12,405	Yes	No	Ten percent to city tax-exempt, non-profit organizations.
St. Anthony	1	1	None	None	No	No	
St. Cloud	21	30	None	None	No	No	Resolution only.
St. Louis Park	11	11	None	None	No	No	

Local Ordinances, continued

<u>Municipality</u>	<u>Number of Organizations</u>	<u>Number of Local Sites</u>	<u>Local Tax</u>	<u>1988 Local Tax Revenue</u>	<u>Ten Percent Local Dedication</u>	<u>Trade Area Dedication</u>	<u>Comments</u>
St. Michael	4	4	None	None	Yes	Yes	Ten percent to purpose specified by city council; 60 percent within city.
St. Paul	44	60	None	None	Yes	Yes	Ten percent to city youth fund or to organizations on city council list, 51 percent in or to benefit city.
Scanlon	2	5	None	None	No	No	
Shakopee	10	10	None	None	No	No	
Shoreview	2	2	None	None	No	No	
Shorewood	1	1	None	None	No	No	
South St. Paul	6	10	None	None	No	Yes	Fifty percent within city, resolution only.
Wayzata	2	2	None	None	No	No	
West St. Paul	7	8	None	None	No	No	Resolution only.
White Bear Lake	5	7	None	None	Yes	Yes	Two percent to city for Community Counseling Center Fund and Park Improvement Fund. Fifty percent to benefit citizens of city.
Winnebago	2	2	None	None	Yes	No	Ten percent toward lawful purpose established by city council.
Winona County	3	5	None	None	No	No	
Worthington	7	7	3%	\$4,660	Yes	No	Ten percent for city youth or senior citizens. 1988 tax revenue August-December.
Total	529	667	Yes = 11	\$360,059	Yes = 25	Yes = 18	

Note: Total municipalities reporting ordinances - 69; total municipalities reporting resolutions only - 5.

Trade Area Lawful Purpose Expenditure

In 1989, the Legislature gave statutory or home rule cities and counties the option of requiring local organizations to expend all or a portion of lawful purpose expenditures within the city or county trade area as defined by ordinance.¹³ As shown in Figure 1.3, 17 local governments exercise that option.¹⁴ Some of the expenditures required under the ten percent local dedication portion actually more closely resemble trade area dedications.

¹³ Minn. Stat. §349.213, subd. 1.

¹⁴ Ordinance dates indicate that a number of municipalities already had some form of this requirement prior to 1989.

**Eleven cities
collect a local
gambling tax.****Local Enforcement Tax and Investigation Fees**

We found 11 cities that levy a local gambling tax. This tax may not exceed three percent of the gross receipts minus prizes and must be used solely for local regulation of lawful gambling. Interviews with officials in jurisdictions levying an enforcement tax show this revenue is used to fund personnel (generally law enforcement officers) for background checks, gambling site inspections, gambling report review, special investigations, and gambling training activities for local organizations. In addition, this revenue is being used to cover administrative costs for licensure, audit time by city finance personnel or by outside auditors, and legal services as necessary.

Minneapolis, for example, uses this revenue to fund two officers whose duties include conducting background checks, inspecting sites, handling complaints, and conducting annual compliance audits. Brainerd levies a 2 1/4 percent tax to fund an officer to do many of the same things.

In some cities, officials said that they had discontinued or were decreasing the levy because they were unable to spend the revenue generated. Several police chiefs were in favor of broadening definitions as to how the revenue could be used.

As an alternative to the enforcement tax, cities or counties may charge organizations or bingo halls license investigation fees that do not exceed the following limits: \$500 for cities of the first class, \$200 for cities of the second class, \$100 for all other cities, and \$375 for counties. Less than a third of the municipalities reported charging investigation fees. St. Paul collected this investigation fee and used the revenue to fund a License Enforcement Auditor to do many of the things described previously, including conducting monthly site visits.

When we asked other city officials why they were not levying a local tax, we were told that local enforcement was too complicated, that they were unsure how the tax could be used, and that the revenue generated would not be sufficient to the needs.

Local Regulation and Enforcement**Role in Licensure**

Before the state can issue or renew a lawful gambling license, the appropriate city council, town board or county board must be notified of the application. The local authority has 60 days to adopt a resolution disapproving the license and then notify the state.¹⁵ Cities officials told us that after this initial request for approval, they had little or no information concerning the license status of organizations within their jurisdictions.

¹⁵ Minn. Stat. §349.213, subd. 2.

Cities and counties may also require and issue a permit to conduct gambling exempt from licensing as long as the permit fee does not exceed \$100. Few municipalities report exercising this option, although some cities report charging non-exempt organizations a local license fee.

In general, local officials felt that the local role in the licensure and permit process was appropriate and sufficient. Several people expressed concern that the state might ignore local recommendations regarding licensure. In practice, however, the Gambling Control Board does not issue licenses that have been denied locally.

Cities officials report that they assume the state is monitoring the organizations and will contact local governments if necessary. They also report a lack of communication from the state concerning changes in statute and rules. Additional informational problems arise because local officials do not automatically receive *Gaming News*, the Gambling Control Division newsletter in which administration policies and clarifications are often communicated.

Local Enforcement and Monitoring

In order to learn more about local enforcement of lawful gambling, we talked to a number of local officials including police chiefs in most municipalities levying the local enforcement tax. We also talked to representatives from the Minnesota Sheriffs Association, the Chiefs of Police Association, and the County Attorneys Association. In addition, we contacted officials in areas that had experienced recent problems with lawful gambling.

Most enforcement personnel felt that lawful gambling is experiencing widespread fraud and abuse. One law officer told us that he believed lawful gambling income was being considerably underreported. Another said that lawful gambling had the classic elements for illegal activity -- opportunity and a low probability of getting caught. A county attorney told us that it is hard to convince local officials that gambling enforcement should be a high priority when it is obviously such a low priority to state officials.

Gambling enforcement is not a priority in most jurisdictions.

Local enforcement is generally handled by the city police forces and/or the county sheriff's department. A few areas have specific personnel assigned and trained to handle gambling enforcement, but most do not. According to officials we interviewed, gambling enforcement is not a priority in most jurisdictions and tends to be primarily reactive. Officials deal with a problem when it is brought to their attention, but they report that it is difficult to respond effectively after the fact.

Some of the local enforcement problems reported include lack of personnel, inadequate gambling knowledge, unavailability of audit expertise, and lack of resources for undercover operations. Some officials felt that gambling was basically the state's problem rather than a local issue. Several police chiefs stated flatly that effective local enforcement is impossible given the available resources and the complexity of the problems.

In contrast, officials in municipalities levying a local tax felt that local enforcement is not only possible, but essential. As one police chief said, "Any local government thinking the state is controlling charitable gambling is sadly mistaken." Another officer reported being astounded at the errors he found when he began a careful local review of forms being sent to the state.

Municipalities that levy an enforcement tax are considerably more proactive in their enforcement activities and generally conduct regular site visits and routinely review reports. Worthington reported dealing with the problem of audit expertise by hiring an accounting firm to perform an audit of a local organization. As one would expect, the municipalities with the most comprehensive ordinances did the most local monitoring of organizations. In order to ensure ordinance compliance, local officials reviewed organizational records and often conducted site visits. In particular, the City of Minneapolis has a good on-site compliance review process. Through this compliance audit process, city officials have uncovered numerous violations of state law and rules.

However, since only about 25 percent of gambling organizations are governed by local ordinances, and less than 10 percent of organizations operate in cities with local compliance programs in place, the vast majority of organizations receive little local gambling monitoring. We conclude:

- **Local enforcement of gambling laws is not extensive around the state. For the most part, local governments rely on the state to monitor organizations conducting gambling.**

Local officials who had used state personnel as a resource generally reported being pleased with the assistance, although all commented on the limited state assistance available. Several municipalities reported being extremely disappointed with state response to local concerns. Local law enforcement personnel wanted to be able to call on the state for audit assistance and undercover investigation support. Several cities report using officers from other jurisdictions to help deal with undercover operations. One police chief suggested using larger municipalities as regional enforcement centers to provide expertise and assistance to the area.

We asked local enforcement officers if lawful gambling is more difficult to enforce because many gambling organizations involve local leaders and community service groups. The general response was that this is no more difficult than any local enforcement issue. However, several people did report having problems convincing local councils or boards that lawful gambling is now more than "bingo at the church." We got a mixed response to the question of whether or not enforcement units should be able to receive lawful purpose donations.

Another important role in the enforcement process is that of the county attorney who must prosecute cases involving gambling violations. The county attorneys we talked to stressed the difficulties involved in putting together a gambling case. They said that it is often hard to get cooperation from organi-

Local governments generally do little enforcement of gambling laws.

zations involved because they are unaware of or unwilling to recognize problems within their gambling operations. One attorney reported a local organization that had been functioning for several years with an average monthly profit of approximately \$800. After local law enforcement officials became involved, a change in distributor and gambling manager resulted in a regular monthly profit of over \$4,600.

Another problem faced by prosecuting attorneys is that of general lack of knowledge concerning the lawful gambling process. Local law enforcement officials often do not have the particular investigative experience or audit capabilities necessary to successfully build a case concerning "white collar crimes" like gambling. (Local law enforcement officials also report having difficulty because of attorneys who lack experience with lawful gambling problems.)

When a case is finally brought to trial, problems continue as judges and juries must be carefully educated. It is often difficult to find expert witnesses capable of clearly explaining the complexities of gambling. Several attorneys reported using Charitable Gambling Control Board staff members to help build cases and to serve as witnesses, but all agreed that, although the help received was invaluable, there was too little state assistance available.

County attorneys also expressed a certain amount of frustration concerning the existing laws. They felt that the current definitions of lawful purpose were especially vague and difficult to work with. County attorneys who had prosecuted gambling cases generally felt the existing penalties were sufficient, but all cases had been prosecuted under theft statutes. One attorney reported the frustrations of successfully prosecuting a case involving a distributor only to have the distributor "sell" his license to his wife and presumably continue operations as usual.

Although the attorneys we talked with discussed varying concerns, there was general agreement that the major problem is the lack of organization's ownership and accountability for their gambling. They felt that, in many cases, the organizations' general membership is neither responsibly monitoring nor successfully policing the organizational gambling operation. As one attorney succinctly stated: "So much money; so little responsibility."

EXPENDITURE OF LAWFUL GAMBLING PROCEEDS

Chapter 2

Gross profits from lawful gambling, which exceeded \$160 million in 1988, may be spent for allowable expenses and for certain lawful purposes. In this chapter we examine the growth of lawful gambling in the state as well as how organizations are spending gambling proceeds. More specifically, we address the following questions:

- **How are the proceeds from lawful gambling used? How much is spent for gambling expenses and how much is spent on lawful purposes?**
- **What organizations and governmental units benefit from gambling?**
- **To what extent are lawful purpose contributions being used to replace or supplement local government levies?**

We used a number of methods to answer these questions. To examine expenses, we analyzed tax files at the Department of Revenue for calendar years 1987, 1988, and the first six months of 1989. We also examined selected organizations' gambling expenses in a series of site visits.

To examine lawful purpose contributions, we selected a stratified sample of 180 organizations and categorized the approximately 19,000 contributions which they made between June 1988 and May 1989 into a variety of classes of expenditure. We also contacted 100 randomly selected recipients of lawful purpose contributions to verify their receipt of the funds.

GROWTH OF LAWFUL GAMBLING IN MINNESOTA

In 1988, 1,891 organizations possessed licenses to conduct gaming activities at 3,069 sites. Table 2.1 shows what types of organizations had gambling licenses in 1988. Fraternal organizations include groups such as Lions, Moose, and Eagles clubs. Veterans groups include VFWs and American Legions. Religious organizations include churches and the Knights of Columbus and other non-profit organizations contains a wide range of groups including hockey clubs,

Table 2.1: Number of Gambling Licenses and Organizations By Type, 1988

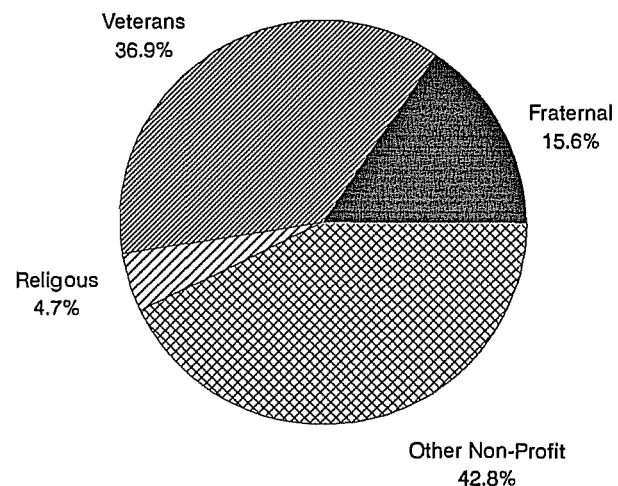
<u>Type</u>	<u>Number of Gambling Licenses</u>	<u>Number of Organizations</u>
Veterans	780	624
Fraternal	414	279
Religious	183	137
Other	<u>1,692</u>	<u>851</u>
Total	3,069	1,891

Source: Department of Revenue.

**1,891
organizations
operate
gambling at
3,069 sites.**

cultural groups, and charities for specific diseases, such as Multiple Sclerosis. Figure 2.1 shows that in 1988 veterans organizations collected about 37 percent of gross receipts, fraternal groups about 16 percent, religious groups about 5 percent, and other non-profit organizations collected about 43 percent of receipts (over \$375 million).

**Figure 2.1: Gross Receipts by
Type of Organization, 1988**



Many non-profit social service and club organizations have found gambling to be a good method of funding. Some organizations that formerly had very small budgets have become large operations because of gambling revenue. For example, one organization with an annual budget of \$15,000 in 1984 now takes in over \$50,000 profit per month from gambling. With this kind of incen-

tive it is not surprising that organizations have been interested in pursuing gambling as a method of funding. What is more surprising to many is that Minnesotans are willing to spend large amounts of money on lawful gaming activities.

Gambling activity in Minnesota has increased rapidly in the last five years. As Figure 2.2 shows, gross receipts have risen from \$111 million in 1985 to an estimated \$1.2 billion in 1989.¹ Table 2.2 shows the rise of gambling by type of activity. Almost all of the increase in receipts has come from the sale of pull-tabs and tipboards.

Gambling has grown rapidly in Minnesota.

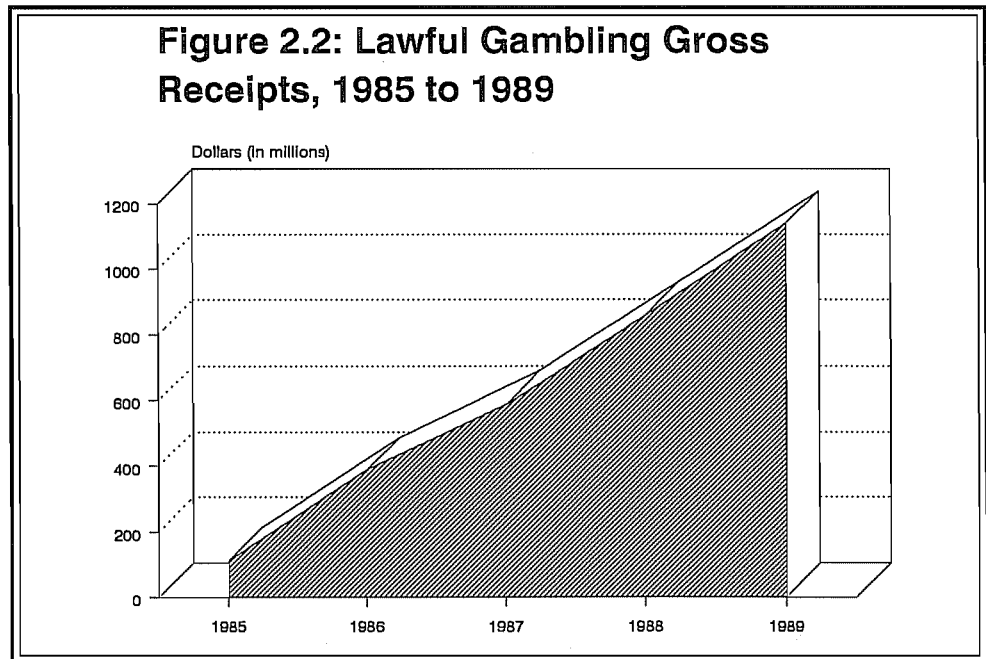


Figure 2.3 shows an estimate of the 1988 gross receipts from gaming in each county. The figure shows a concentration of gambling activity in the metropolitan area and certain other counties with urban centers. Figure 2.4 shows an estimate of gambling gross receipts per capita.² This map shows a different pattern of gambling activity, with non-metropolitan areas and northern Minnesota counties having more gambling on a per-capita basis than the Twin Cities metropolitan area. In some counties this may be because vacationers increase the amount of gaming activity. Appendix B shows our estimates of gambling gross and net receipts in each county of the state for 1988.

Although discussion of the growth in gambling activity is frequently framed in terms of gross receipts, a more reasonable way to look at the industry is in terms of total receipts minus prizes, because this is the amount actually spent by organizations. This amount is defined in statute as *gross profit*. It is what remains after the play of the games to pay taxes, allowable expenses, and to

¹ 1985 receipts reflect only 9-months of gambling activity. There was no reporting of gambling receipts before the state took over responsibility for gaming from local governments in April 1985.

² This is only an approximation because some organizations have gambling locations in more than one county.

Table 2.2: Lawful Gambling Gross Receipts, 1985 to 1989 (By Source)

(In Millions of Dollars)

Source	1985 ^a	1986	1987 ^b	1988 ^b	1989 ^c (estimate)
Bingo	\$25.6	\$56.7	\$63.6	\$70.3	\$73.7
Pull-tabs	79.6	312.4	488.4	763.2	1003.0
Tipboards	3.8	13.2	32.3	50.0	53.4
Raffles	2.0	3.7	2.4	2.4	2.0
Paddlewheels	.3	.7	1.1	2.6	3.8
	\$111.3	\$386.7	\$587.8	\$888.5	\$1,135.9

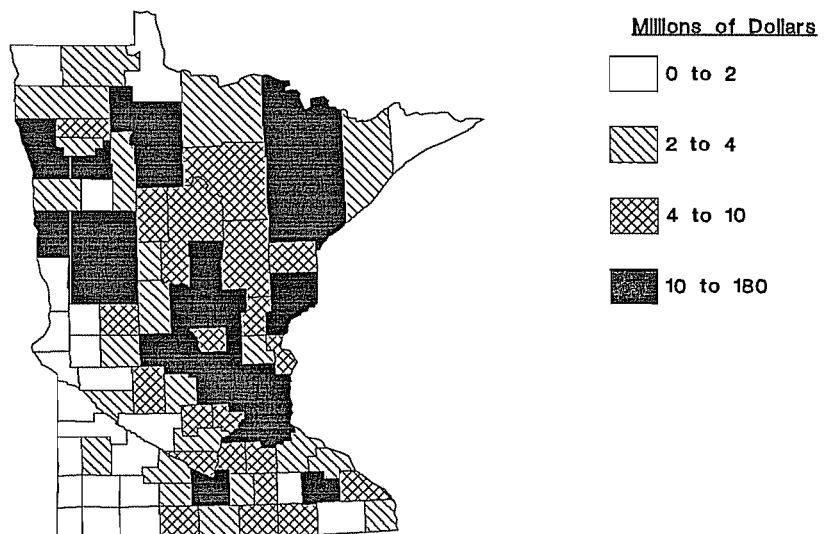
^aTotals for 1985 and 1986 are from the Annual Reports of the Charitable Gambling Board.

^bTotals for 1987, 1988, and 1989 are based on the Department of Revenues tax database as of November 1989. They differ from figures reported by the Charitable Gambling Board and the Department of Revenue because they reflect previously unreported tax returns.

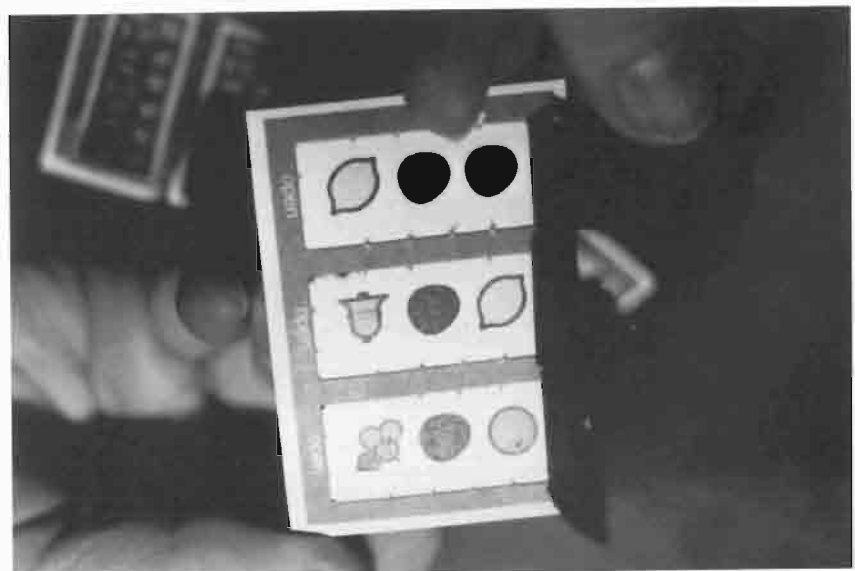
^c1989 estimates are based upon the first six months of 1989 multiplied by a factor of two. Because of the continued growth in lawful gambling, full year totals are likely to be higher.

**Lawful
gambling is a
billion dollar
industry.**

**Figure 2.3:
1988 Gross Receipts, By County**



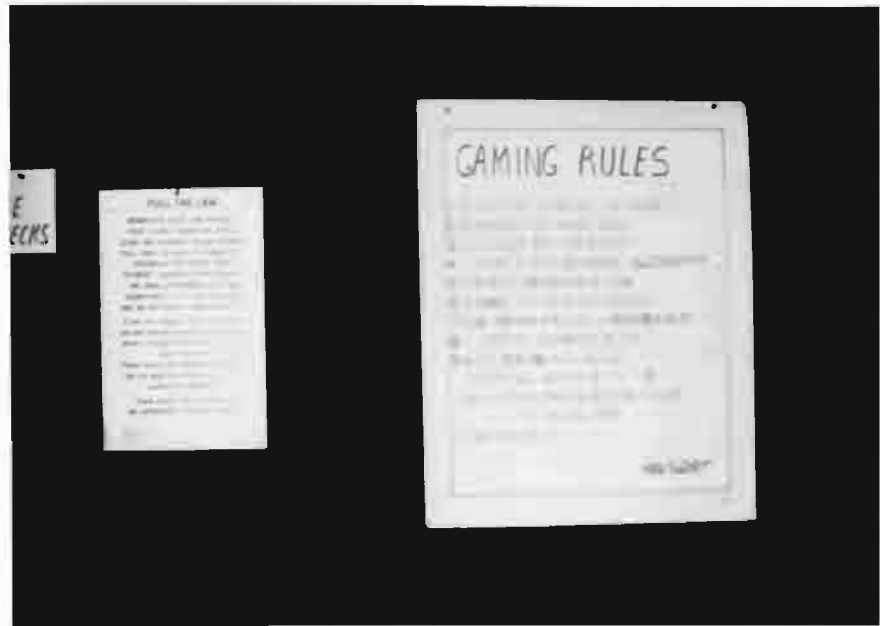
The largest lawful gambling activity in Minnesota is pull-tabs. Players pull paper tabs in the hope of revealing winning combinations of symbols.





Pull-tabs are normally sold from special selling counters called jar-bars. Games are required to display a flare or game description with a state registration stamp affixed.





Organizations
must post their
house rules.



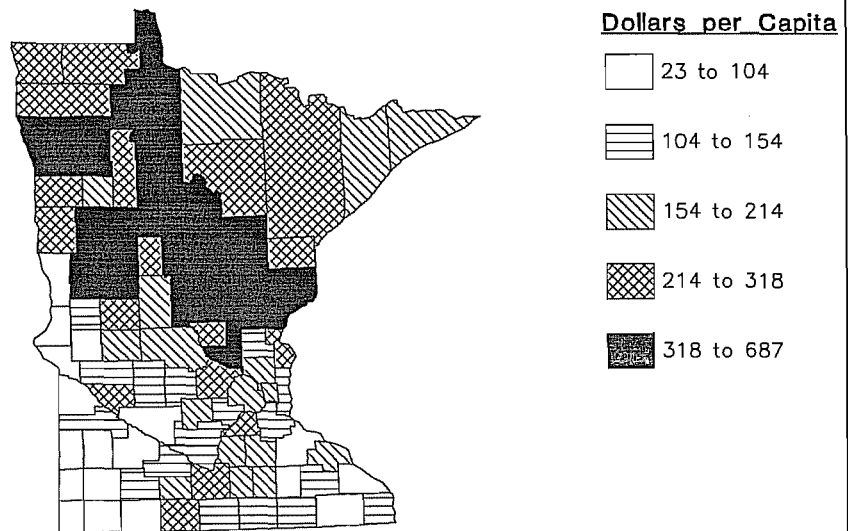
Some organizations use cash registers to account for their receipts.



Some organizations use scales and night depositories for better control over their funds.

Gambling activity is highest in northern Minnesota.

Figure 2.4:
1988 Gross Receipts Per Capita



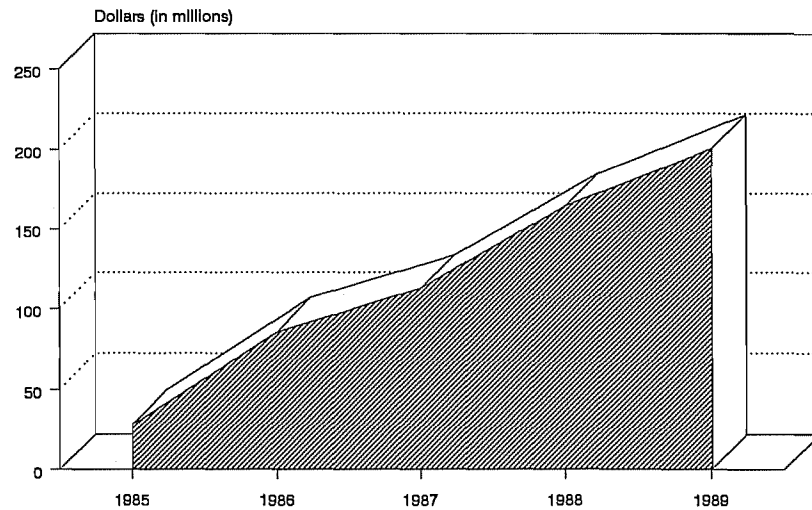
make lawful purpose contributions. Figure 2.5 shows how gross profit has changed since 1985.

Organizations subtract cash shortages, bad checks, and their gambling taxes from the amount available after prizes have been paid to arrive at their *gross profit after taxes*. Cash shortages and bad checks totalled \$2.3 million in 1987, \$3.6 million in 1988, and over \$2.1 million in the first six months of 1989. State tax is paid on the total net receipts from gambling plus any interest income. As discussed in Chapter 1, the amount and methods of calculating state taxes have changed over the years. Revenue from gambling taxes totalled over \$45.5 million in fiscal years 1987 - 89. Taxes are estimated to be \$39 million in fiscal year 1990 and over \$51 million in fiscal year 1991.

Estimated
1988 Totals
(in millions)

\$889	Gross Receipts
- 725	Minus Prizes
\$164	Equals Gross Profits
- 4	Minus Cash Shortages and Bad Checks
- 20	Minus Taxes
\$140	Equal Gross Profit After Taxes
- 62	Minus Allowable Expenses and Adjustments
\$78	Equals NET PROFIT

**Figure 2.5: Gross Profits
From Gambling, 1985 to 1989**



**Gross profits
reached \$200
million in 1989.**

After taxes, the other major categories of expenditure are gambling expenses and lawful purpose contributions. In the next section we review allowable gambling expenses.

ALLOWABLE EXPENSES

Certain expenses of organizations conducting gambling may be paid from the gross receipts.

- Prizes,
- Gambling supplies and equipment,
- Rent,
- Utilities used during gambling occasions,
- Compensation paid to members for conducting gambling,
- Maintenance of devices used in lawful gambling,
- Accounting services,
- License renewal,

- Bond for gambling manager,
- Insurance on gambling activities,
- Investigation fee,
- One-third of the amount of increase in the annual premium of the liability insurance,
- Certain legal expenses,
- Bank account service charges, and
- Audits required by the board.³

On the other hand, Minnesota rules specifically disallow other expenses, including:

Expenses are limited by law.

- Utilities when only a portion of the building is leased for gambling.
- Employer paid bonuses or payments made to or on behalf of an unallowed gambling employee.
- Decorations of the (gambling) site.
- Advertising costs.⁴

Expenses are limited by statute to no more than 55 percent of the gross profit after tax from bingo, and no more than 50 percent of the gross profit less the taxes on other forms of lawful gambling.⁵ Statute also requires that organizations approve expenses at a regular organization meeting.

Analysis of Allowable Expenses

How much money goes to each category of allowable expenses and how does it vary by different types of organization? In this section we provide a statistical summary of trends in gambling expenditures.

Gambling organization expenses go largely to the gambling industry: manufacturers, distributors, gambling managers and other gambling workers, and to bar owners and others leasing space to organizations. Figure 2.6 shows that

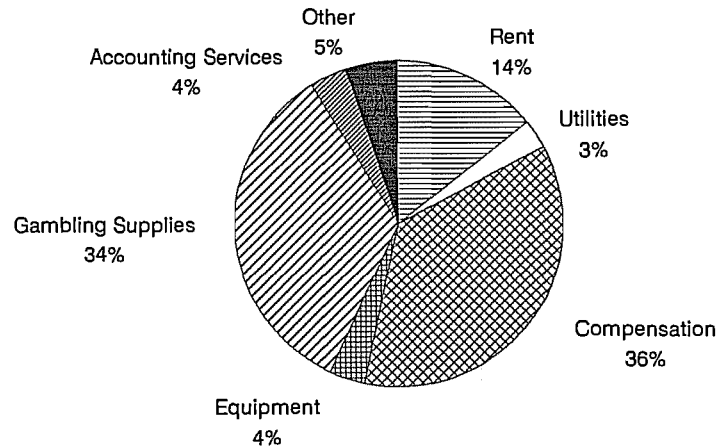
³ *Minn. Stat.* §349.15 and *Minn. Rules* 7860.0160.

⁴ *Minn. Rules* 7860.0160. Advertising has been allowed and disallowed several times. It is currently allowed but it may not be paid from gambling proceeds.

⁵ *Minn. Stat.* §349.15. Prior to 1989 the limit was 45 percent of profits for gambling other than bingo.

Compensation is the largest gambling expense.

Figure 2.6: Lawful Gambling Allowable Expenses



personnel compensation and the costs of gambling supplies are the two largest categories of expense, followed by rent and accounting services.

Table 2.3 shows the dollar amount of expenses from 1985 to 1989. We estimate that expenses will approach \$80 million this year with about \$35 million of that being paid as compensation to gambling workers.

Table 2.3: Lawful Gambling Allowable Expenses, 1985-1989

(In Millions of Dollars)					Estimated
Expense	1985	1986	1987	1988	1989
Gambling Supplies	\$2.8	\$9.2	\$13.2	\$19.4	\$24.2
Compensation	4.4	15.3	20.6	28.2	35.2
Accounting Services	-	-	.9	1.8	2.4
Rent	1.3	4.0	5.6	7.2	8.0
Purchase/Repairs/ Maintenance of Gambling Equipment	.8	1.7	1.3	1.9	2.5
Utilities	.6	1.4	1.5	1.7	2.0
Taxes	2.8	8.5	-	-	-
Other ^a	-	.5	.8	1.0	1.3
Total Expenses	\$12.7	\$40.7^b	\$43.9	\$61.3^b	\$75.8^b

Source: 1985 and 1986 expenses are taken from the 1986 and 1987 Annual Report of the Charitable Gambling Board. 1987-1989 expenses were calculated from the Department of Revenue's tax database. 1989 figures are based on the results of the first six months multiplied by two.

^aIncludes advertising, theft and liability insurance, bonds, license fees, and local tax and investigation fees.

^bDifference due to rounding.

Table 2.4 shows 1988 expenses as a percent of profit after taxes, broken down by the size of the organization's gambling operation. We divided organizations into three groups, each accounting for one-third of the total profits after tax in 1988. In 1988, there were 1,576 smaller gambling organizations with profits less than \$93,180, 309 medium-sized gambling organizations with profits between \$93,180 and \$255,000, and 98 large gambling organizations with profits over \$255,000.⁶

Table 2.4: Expenses as Percent of Profit After Tax by Size of Organization, 1988

Expense Category	Size of Organization			Overall Average
	Small	Medium	Large	
Goods Used	15.5%	13.9%	13.7%	15.1%
Compensation	18.1	21.6	20.1	18.8
Accounting Services	2.0	1.2	1.4	1.8
Advertising	0.6	0.4	0.4	0.6
Rent	10.7	4.6	3.7	9.4
Utilities	1.6	1.6	1.1	1.5
Equipment	1.9	1.3	1.4	1.8
Theft Insurance	0.1	0.0	0.0	0.1
Liability Insurance	0.0	0.0	0.0	0.0
Bond	1.6	0.1	0.1	1.0
Investigation Fee	0.1	0.0	0.0	0.1
Total Expenses	52.2%	44.7%	41.9%	47.3%
Number of Organizations	1,569	309	98	1,976

As noted earlier, state law currently restricts expenses to not more than 50 percent of gross profit after taxes.⁷ The tables show that:

- **Actual expenses were about 47 percent of profits after taxes in 1988.⁸**

Minnesota rule requires the gambling board to check compliance with the expense limitation once per year at the time of license renewal. In reviewing the required expense forms for 1988 and 1989, we noted that the Gambling Control Division does not use "gross profits" as the base for calculating the expense limitation. Rather, in the past, expense forms have subtracted cash shortages and bad checks from the gross profits figure and then used this smaller number as the base.

⁶ The number of small organizations includes some which were inactive and only had interest income during the year.

⁷ Bingo expenses are restricted to not more than 55 percent.

⁸ The definition of allowable expenses changed in 1989. Expenses were limited by statute in 1988 to 55 percent of gross profits from bingo and 45 percent of other gaming gross profits. Under the 1988 definition, total expenses as a percent of gross profits were about 7 percent less than under the current definition.

- The Gambling Control Division currently uses the wrong number to calculate the expense limits.

This confusion is probably due to the fact that the tax form refers to gross profit as something other than the statutory definition.

We expected that large organizations would have lower expenses as a percent of after tax profit (or similarly as a percent of gross profit) because of the effects of economies of scale. As Table 2.4 shows, large organizations spend a total of 41.9 percent of after tax profit on expenses, medium-sized organizations spend an average of 44.7 percent, and small organizations spend 52.2 percent. As a percent of profits, larger organizations pay more compensation than smaller organizations, but much less in rent.

Large organizations have lower expenses as a percent of profit.

Table 2.5 compares the ratio of total expenses to gross profit by organization size. In 1988, the overall average total expenses as a percent of gross profit was 39.6 percent. For small organizations the average ratio was 40 percent. The average ratio for medium-sized organizations was 38 percent and for large organizations the ratio averaged 36 percent. We found that there were 163 organizations with ratios over the 1988 expense limitation of 55 percent.⁹ Smaller organizations were more likely to be above the expense limitation with 149 of the 1,576 small organizations above 55 percent, compared with 13 of 309 medium-sized organizations, and one of 98 large organizations.

Table 2.5: Expenses as Percent of Gross Profit by Size of Organization, 1988

Expense Category	Size of Organization			Overall Average
	Small	Medium	Large	
Goods Used	11.6%	11.8%	11.7%	11.6%
Compensation	14.3	18.4	17.2	15.1
Accounting Services	1.6	1.0	1.2	1.5
Advertising	0.5	0.4	0.4	0.5
Rent	8.1	4.0	3.1	7.2
Utilities	1.2	1.3	0.9	1.2
Equipment	1.4	1.1	1.2	1.4
Theft Insurance	0.0	0.0	0.0	0.0
Liability Insurance	0.0	0.0	0.0	0.0
Bond	1.1	0.1	0.1	0.9
Investigation Fee	0.2	0.0	0.0	0.1
Total Expenses	40.0%	38.1%	35.8%	39.6%
Number of Organizations	1,569	309	98	1,976

⁹ Organizations only need to be below the expense limit at the time their license is issued.

Leaving aside the extreme cases, we found that high expense-to-gross profit ratios were generally caused by compensation expenses, and often rent expenses, much above average. The most important factor in explaining low ratios, on the other hand, was low rent. The ratio of compensation expenditures to gross profit was also low in those cases. We conclude that:

- **Total expenses as a percent of gross profit varies by organization size. Some smaller organizations may have difficulty meeting the expense limitations, although in general, organizations had expense ratios below the limitation.**

Organizations by definition are allowed a higher expense percentage than the Gambling Control Division's form has allowed. As a result, we believe that:

- **The Legislature should reconsider the statutory definition in *Minn. Stat.* §349.15 of how gross profits from gambling may be expended. The Legislature should also consider lowering the expense limitation percentage for large organizations.**

Problems With Allowable Expenses

During the course of our review we noted a number of problems involving allowable expenses. All of the organizations we visited that owned their own buildings were paying some club or organization expenses from gambling funds. We found that:

- **Many organizations use gambling proceeds to pay for organization expenses which are disallowed under current rules.**

Many organizations write off expenses inappropriately.

In particular we noted problems with utilities, compensation, and rent expenses. In addition to being a violation of gambling rules, these expenditures effectively reduce the amount of money remaining for organizations to distribute to charities and other lawful purposes.

Utilities

Organizations that own the premises where gambling is conducted may deduct from the gross receipts of gaming as expenses "... the proportion of the utilities providing heating, cooling, and lighting attributable to that portion of a totally owned or totally leased premises and the amount of time it is used for lawful gambling".¹⁰ We found that:

- **Many organizations that operate gambling in their own buildings commonly write off as gambling expenses more than a pro-rata share of utilities.**

¹⁰ *Minn. Rule 7860.0160, Subpart 2D.*

For example, one organization we visited was paying 50 percent of its utilities from gambling funds, when we estimate the pro-rata share was closer to 10 percent.

Compensation

According to Minnesota Rules, employees or members must be "directly engaged in conducting gambling."¹¹ However, we found that:

- **Many organizations that operate gambling in their own buildings use gambling funds to pay compensation to employees not directly involved in gambling.**

Six of seven club sites we visited were writing off portions of the salary of club employees as gambling expenses. For example, one organization we visited paid 50 percent of cocktail waitresses salaries, 25 percent of janitor and maintenance employee salaries, and 10 percent of bartenders' and food waitresses' salaries from gambling funds. None of these employees were directly involved in selling pull-tabs or in conducting other forms of lawful gambling. According to officials at the Department of Gaming, these are not allowable expenses. They have the effect of subsidizing the operation of the organization's club operation. These expenses also diminish the funds available for distribution as lawful purpose expenditures.

Rent

Rent for the purpose of conducting gambling is limited to \$24 per square foot per month up to \$600 per month.¹² Rent for bingo is limited to \$400 per bingo occasion based on the amount of space leased.¹³ The rationale behind limiting rent is to prevent bidding wars between organizations for profitable gambling sites. Thus, more funds will be available for lawful purposes.

However, we found that:

- **Many organizations pay more than the allowed \$600 per month as rent.**

Some organizations do this directly; others pay lessors (most commonly bars) from other organization funds, or pay for janitorial or other services. One of the organizations we visited, the Crystal Lions, paid \$1,000 per month for rent to a bar and reported this amount on the tax return. Another organization we visited was terminating its lease at a local bar because of the bar owner's insistence on being paid more than \$600 per month rent.

Some organizations rely on bartenders to sell their pull-tabs. In some of these cases, compensation is paid to the bar for selling the pull-tabs. In effect, com-

¹¹ *Minn. Rule 7860.0160*, Subpart 2E.

¹² *Minn. Rule 7860.0090*, Subpart 3A.

¹³ *Minn. Rule 7860.0090*, Subpart 3B.

pensation paid for bartenders selling pull-tabs can serve as additional rent to the bar owner when the check is made out to the bar. Compensation paid in this way can amount to well over \$1,000 per month. Gambling Control Board officials report that this practice is not allowed under the rules or statute unless the compensation is paid directly to the individual bartenders selling the pull-tabs. Another organization we visited, paid only \$100 per month in rent but also was paying the bars \$20 per game sold. Based on our visits, we believe this practice is fairly common around the state in bar operations.

Another organization we visited, the Spring Lake Park Lions, paid \$600 per month to each of three bars where they conduct gambling. However, the organization also paid \$1,300 per month in compensation to the bar owners and their spouses as non-management assistants. According to the organization's gambling manager, two of the bar owners became members of the Lions in October 1989. The bar owners were employed "to keep an eye on" the gambling operation in their bar. This organization changed the way it conducts gambling at these bars in August 1989. The bars were previously responsible for hiring the employees selling the pull-tabs. The organization compensated the bars based on the number of tickets they sold at a rate of approximately \$84 per game. This is a high rate of compensation, and the practice violates the current statute and Gambling Control Board compensation rules. The organization subsequently began hiring the employees that sell tickets at the bar locations. As the result of not having the bars running gambling, compensation expenses decreased from a three-site total of \$29,200 in August 1989 to \$21,853 in September.¹⁴

Finally, we found instances where organizations owning a club building were in effect paying themselves rent. One of the organizations in our sample, the Owatonna Knights of Columbus, paid rent to a non-profit organization, the Columbian Center, that holds the deed to their building. The Columbian Center has the same officers as the Knights of Columbus. In addition to rent, the Knights of Columbus also deducted a portion of their utility payments and 40 percent of the cost of janitorial services. Also, this organization recently spent \$19,182 from gambling funds for a handicapped access bathroom for the building they lease.

Paying for unallowed expenses lowers the amount available for charitable purposes.

Other Unallowed Expenses

All but one organization that we visited spent some gambling money on unallowed expenses. Other unallowed expenses we noted were for security services and check recovery services, which are not allowed by the current rule. The effect of spending for unallowed expenses is to lower the amount available for charitable purposes.

¹⁴ The sites were open the same period of time in the two months, but receipts were slightly lower in September.

LAWFUL PURPOSE CONTRIBUTIONS

One of the Legislature's original reasons for legalizing gambling in Minnesota was to support charitable (lawful) purposes with gambling profits. One of the purposes of the state regulation of gambling is "... to provide for the use of net profits only for lawful purposes."¹⁵

The definition of lawful purposes has changed several times over the years. Prior to the 1989 legislative session lawful purposes were defined as benefiting persons by:

- enhancing their opportunity for religious or educational advancement;
- relieving or protecting them from disease, suffering or distress;
- contributing to their physical well-being;
- assisting them in establishing themselves in life as worthy and useful citizens;
- increasing their comprehension of and devotion to the principles upon which this nation was founded;
- initiating, performing, or fostering worthy public works;
- enabling or furthering the erection or maintenance of public structures;
- lessening the burdens borne by government; and
- voluntarily supporting, augmenting or supplementing services which government would normally render to the people.¹⁶

Payment of local or federal gambling taxes imposed on the receipts from lawful gambling is also allowed. However, lawful purpose does not include the erection, acquisition, improvement, expansion, repair, or maintenance of any real property owned or leased by the organization, unless the Gambling Control Board specifically authorizes the expenditure.

In 1989 the Legislature added a number of new lawful purposes:

- Any expenditure by, or any contribution to, a hospital or nursing home exempt from taxation under 501(c) (3) of the Internal Revenue Code;

¹⁵ *Minn. Stat.* §349.11.

¹⁶ *Minn. Stat.* §349.12 (11).

- Payment of reasonable costs incurred in complying with the performing of annual audits ...;¹⁷
- Payment of real estate taxes and assessments on licensed gambling premises wholly owned by the licensed organization;
- If approved by the board, construction, improvement, expansion, maintenance, and repair of athletic fields and outdoor ice rinks and appurtenances, owned by the organization or public agency.¹⁸

Where Do Lawful Purpose Contributions Go?

Organizations' net profits from gambling in 1988 were over \$78 million, and they actually spent almost \$68 million for lawful purposes. In this section, we examine what types of lawful purpose expenditures organizations have made.

Methods

We examined lawful purpose contributions using several methods. We sampled 180 organizations' lawful purpose contributions for the period June 1988 through May 1989.¹⁹ The sample was stratified by size. Organizations were structured into four groups. The first group consisted of the 30 organizations with the largest lawful purpose contributions in 1988. The other three groups were determined by separating the remaining organizations into small, medium, and large categories and randomly selecting 50 organizations from each category. The organizations were also picked to be representative of the four major types of organizations conducting gambling (veterans, fraternal, religious, and other non-profit) based on the amount each type of organization contributed to lawful purposes in 1988.

We then separated the approximately 19,000 contributions into 48 categories of expenditure.²⁰ We examined over \$24.3 million in contributions in our sample. We then extrapolated the results to estimate the distribution of lawful purpose expenditures between categories in 1988.²¹

In addition, we examined 100 randomly selected contributions from different organizations more closely. We examined the check, verified that the named recipient received the donation, and examined the minutes of the meeting where the donation was approved.

¹⁷ *Minn. Stat.* §349.12(11)(a).

¹⁸ *Minn. Laws* (1989 First Special Session) Chapter 1, Article 13, Section 1.

¹⁹ These were the most current tax returns available at the time we sampled (August - September 1989).

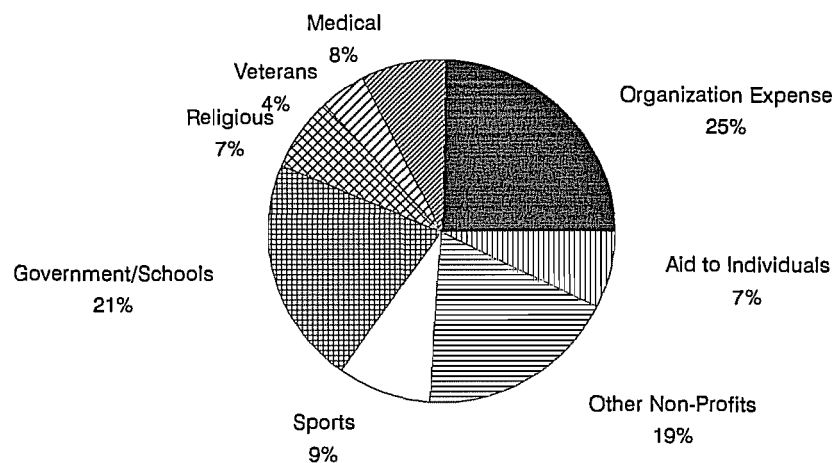
²⁰ Appendix C presents a description of the categories involved in our detail of lawful purpose expenditures.

²¹ We weighted based on the percentage of contributions in our sample that went to each category and the type and size of organization. Based on the weighted percentage we allocated lawful purpose contributions in calendar year 1988 into the categories we used.

Results

Figure 2.7 shows lawful purpose expenditures in 1988 by major categories of expenditure. The leading category, representing almost 25 percent of lawful purpose expenditures was organization expenses, including mortgage payments, payment of property taxes, and other organization expenses. Government agencies and schools received about 21 percent of lawful purpose contributions, other non-profit organizations received about 19 percent of contributions (most going to youth and human service agencies), religious groups received about 7 percent of contributions, and 7 percent went for aid to individuals.

Figure 2.7: 1988 Lawful Purpose Expenditures



Most lawful purpose expenditures go for local purposes.

We also categorized expenditures by whether they were made for local, state-wide, or national purposes. We found that the overwhelming majority, over 90 percent of lawful purpose expenditures, were spent on local purposes, about 4 percent went to statewide causes, 5 percent to national causes, and the remainder was undetermined.

Table 2.6 breaks down contributions into the 48 specific categories we used. Taxes account for about five percent of expenditures, with the bulk of that being paid to local units of government as property taxes. Although property taxes were not initially allowed by statute or rule, the Charitable Gambling Control Board ruled that all of an organization's property taxes could be taken as a lawful purpose expenditure.²² The 1989 tax bill made this specific in statute.²³

The aid to individuals category includes a variety of mostly small contributions made directly to individuals, or directly to benefit individuals. These contribu-

²² Board minutes October 28, 1985.

²³ *Minn. Laws* (1989 First Special Session) Chapter 1, Article 13, Section 1.

**Table 2.6: Estimated Lawful Purpose Expenditures,
Calendar Year 1988**

<u>Expenditure Class</u>	<u>Estimated Expenditures</u>	<u>Percent Of Total Expenditures*</u>
Taxes:		
Local Taxes	\$3,043,274	4.53%
State Taxes	7,417	0.01
Federal Taxes	<u>772,371</u>	<u>1.15</u>
Subtotal Taxes	\$3,823,062	5.68%
Aid to Individuals:		
Individual Awards/Prizes	\$100,427	0.15%
Parties/Picnics	793,182	1.18
Dinners/Lunches	483,740	0.72
Gifts to Individuals	164,558	0.24
Individual Housing	19,139	0.03
Individual Food	962,073	1.43
Individual Clothing	26,791	0.04
Individual Transportation	185,560	0.28
Condolences/Flowers	99,473	0.15
Scholarships	552,331	0.82
Individual Other	348,940	0.52
Individual Medical Aid	711,411	1.06
Individual Hardship Aid	<u>482,475</u>	<u>0.72</u>
Subtotal Individual Aid	\$4,930,100	7.33%
Medical:		
Medical Research	\$2,791,342	4.15%
Hospital Donations	1,893,919	2.82
Nursing Homes	162,525	0.24
Veterans Hospital/Nursing Home	<u>429,932</u>	<u>0.64</u>
Subtotal Medical	\$5,277,718	7.85%
Veterans Programs:		
Ceremonial	\$318,002	0.47%
Other	2,371,754	3.53
Scholarships	103,085	0.15
Legionville	<u>65,178</u>	<u>0.10</u>
Subtotal Veterans	\$2,858,019	4.25%
Government:		
Parks & Recreation	\$3,299,574	4.91%
Police	541,286	0.80
Fire	4,385,844	6.52
School Sports	747,770	1.11
Schools - Academic	188,340	0.28
Schools - Extracurricular	1,655,527	2.46
Schools - Scholarships	570,823	0.85
Other Government	<u>3,040,971</u>	<u>4.53</u>
Subtotal Government	\$14,430,135	21.46

Table 2.6, continued

Youth Sports:		
Youth Baseball/Softball	\$975,369	1.45%
Youth Hockey	3,118,837	4.64
Other Youth Sports	<u>951,773</u>	<u>1.42</u>
Subtotal Youth Sports	\$5,045,979	7.50%
Adult Sports:		
	\$814,457	1.21%
Other Organizations:		
Youth Services	\$3,363,233	5.00
Other Human Services	5,549,022	8.25
Conservation Organizations	221,289	0.33
Civic Festivals	646,421	0.96
Other Charitable Groups	2,202,606	3.28
Lobbying Organizations	<u>83,744</u>	<u>0.12</u>
Subtotal Other Organizations	\$12,066,315	17.94%
Religious Groups	\$4,610,145	6.86%
Organizational Expenses:		
Travel	\$40,065	0.06%
Buildings	12,140,248	18.05
Gambling Seminars	245,590	0.37
Other	209,314	0.31
Lobby Related	48,249	0.07
Public Service Announcements	<u>54,604</u>	<u>0.08</u>
Subtotal Organization Expenses	\$12,738,070	18.94%
Senior Citizens:	<u>\$656,680</u>	<u>0.98%</u>
TOTAL	\$67,250,680	100.00%

*Some subtotals do not add due to rounding differences.

tions varied from cash grants to individuals suffering from medical or other problems to dinners honoring individuals for achievement. For example, it is common practice for organizations owning their own building to host dinners and parties for a wide variety of groups (seniors, visiting guests, blood donors, and others) and then reimburse their club account from gambling funds for the retail cost of the dinner. These sorts of dinners and parties account for over \$1 million per year in expenditures. Another \$1 million per year goes to food shelves and donations of food to needy individuals. Approximately one-half million dollars goes for scholarships paid directly to individuals.

The medical category accounts for over \$5 million, or about 8 percent of lawful purpose expenditures. The major beneficiaries, about \$3 million, are medical research projects including projects of the Multiple Sclerosis Society, muscular dystrophy, and various cancer funds. Hospitals received about \$2 million in gambling funds. Nursing Homes received about \$.5 million in 1988.

**Governmental
units received
over \$14 million
in 1988.**

About \$2.9 million in 1988 lawful purpose expenditures went into veterans programs. About \$300,000 went for color guards and ceremonial purposes, about \$100,000 went to scholarship programs sponsored by veteran's groups, and about \$65,000 went to sponsor school patrol training. The remainder of funds in this category, about \$2.4 million, went to a variety of veterans' groups and causes including: blood banks and blood donor programs, VFW national home, airport servicemen's center, district or statewide veterans' programs, transportation to the veterans' hospital, and other contributions specifically to veterans' causes.

We found that, overall, governmental units received about \$14.5 million or 21.5 percent of lawful purpose contributions. The three largest governmental beneficiaries of gambling funds are fire departments (over \$4 million), parks and recreation agencies (over \$3 million), and schools (over \$3 million). We found:

- **It was impossible to determine whether these programs and capital equipment would have been purchased without gambling funds.**

Approximately 250 volunteer fire departments have gambling licenses, and they donate the proceeds largely to benefit themselves. In addition, many volunteer and other departments are supported by contributions from other organizations conducting gambling. Fire departments received lawful purpose contributions primarily for capital equipment, such as fire trucks, rescue vehicles, and other equipment such as "the jaws of life".²⁴ Approximately \$2.2 million was spent on equipment in 1988. Fire departments also received donations for fire education and training programs. Some fire departments donate gambling proceeds to their pension funds.²⁵ It was difficult to determine the use of some contributions to fire departments that were listed on the organizations' Schedule C forms because the description was vaguely worded. We assume these funds were used for the general budget of the volunteer department.

Law enforcement agencies received approximately \$.5 million in 1988. Almost all (90 percent) of this went for equipment, including police cars, vans, bulletproof vests, cameras, etc. The remainder went to police crime and drug awareness programs.

Parks and recreation agencies received approximately \$3.3 million in 1988. About \$3.0 million of this amount was for land acquisition and park development and most of the remainder went to conduct recreation programs. Typical contributions were to sponsor athletic leagues.

Schools also received about \$3.3 million in 1988. The largest category of contributions to schools (almost \$1.7 million) was for extracurricular programs. This category includes contributions for drug awareness and prevention programs, foreign language clubs, bands, choirs, and other non-athletic extracurricular programs.

²⁴ The "jaws of life" is a piece of equipment used to extract victims from car accidents.

²⁵ This practice was approved at a meeting of the Charitable Gambling Control Board on June 29, 1987.

Other governmental units accounted for about \$3 million in 1988 expenditures. This category includes a wide variety of contributions to the state, counties, cities and other units of government. Expenditures included construction of community centers, flags for government facilities, funds for Regional Treatment Centers, donations to conservation organizations, and spending money and Christmas gifts at correctional facilities.

Youth sports is a major beneficiary of lawful purpose expenditures, receiving about \$4.4 million in 1988. This category includes donation of money, equipment, and fees to non-school teams. Youth hockey received the most funds of any sport, about \$2.5 million in 1988. Much of this went toward the expenses of running ice arenas, as well as coaches' salaries and equipment, and ice time.

Adult sports teams of various types received about \$760,000 by our estimate. Some of these contributions were listed as adult sports, and others were listed more generally, but appeared to be for adult teams. As a general rule, the Gambling Board has not allowed contributions to adult sports activities.

About 18 percent of lawful purpose contributions went to other non-profit groups. The largest categories were contributions to human service organizations (\$5.6 million) and to youth service groups (\$3.4 million). Human service organizations included groups such as the United Way and other combined fund drives, meals on wheels, homeless shelters, Minnesota Special Olympics, Camp Courage, Camp Confidence, and many others. Youth services includes groups such as the Boy and Girl Scouts, anti-drug abuse programs, Campfire Girls, and other youth-related programs.

Other non-profit organizations received about \$2.2 million in 1988. This includes groups such as the Jaycees, chambers of commerce, arts and cultural organizations, public television, the Minnesota Chiefs of Police Association, and other non-profit groups.

Funds also went to support conservation organizations (\$.2 million) and civic festivals and community events (\$.7 million). Lobbying type organizations received about \$.1 million. This latter category includes donations to groups whose primary purpose is to influence public opinion and the opinions of lawmakers in a way favorable to their cause. This category included donations to Minnesota Citizens Concerned for Life and other anti-abortion groups, as well as to Greenpeace, Mothers Against Drunk Driving, and others.

Religious groups were the recipient of about \$4.6 million in 1988. These contributions went primarily to churches, religious youth groups, parochial schools, and other religion related groups.

Senior citizens programs and groups received about \$.7 million in 1988.²⁶

The last major category is administrative aid to the organization conducting gambling. Approximately 20 percent of lawful purpose funds went for this purpose. The majority of these funds are for capital projects started before

About 20 percent of lawful purpose expenditures directly benefit the gambling licensees.

²⁶ This counts only the contributions directly to seniors groups; some services to seniors were included in the aid to individuals categories.

the law was amended in 1988. As a result of these "grandfathered" capital projects, many organizations that own buildings are paying their mortgages with lawful purpose contributions. About 95 percent of this category was for capital expenses.

Lawful Purpose Contributions by Type of Organization

We also examined how lawful purpose contributions vary by the type of organization donating the funds. Table 2.7 shows what percent of lawful gambling expenditures each type of organization contributed to each expenditure category. We found considerable variation among them in the ways they spend charitable gambling receipts.

Table 2.7: Lawful Gambling Contributions By Type of Organization

Expenditure Class	Percent Expenditures by Type of Organization*			
	Fraternal	Veterans	Religious	Nonprofit
Taxes:				
Local Taxes	8.6%	6.7%	0.3%	0.9%
State Taxes	0.0	0.0	0.0	0.0
Federal Taxes	0.8	0.6	0.3	2.1
Subtotal Taxes	9.5%	7.4%	0.6%	3.0%
Aid to Individuals:				
Individual Awards/Prizes	0.1%	0.2%	0.0%	0.2%
Parties/Picnics	1.2	1.9	0.0	0.5
Dinners/Lunches	1.8	0.8	0.0	0.2
Gifts to Individuals	0.2	0.4	0.0	0.1
Individual Housing	0.0	0.0	0.0	0.0
Individual Food	2.1	1.0	1.3	1.6
Individual Clothing	0.1	0.0	0.0	0.0
Individual Transportation	0.3	0.5	0.0	0.0
Condolences/Flowers	0.2	0.2	0.0	0.0
Scholarships	1.3	1.0	0.1	0.5
Individual Other	0.4	0.4	0.1	0.8
Individual Medical Aid	1.2	0.9	0.4	1.4
Individual Hardship Aid	1.2	0.6	0.1	0.8
Subtotal Individual Aid	10.2%	8.2%	2.0%	6.2%
Medical:				
Medical Research	1.7%	3.0%	0.2%	7.6%
Hospital Donations	0.4	2.8	0.1	4.6
Nursing Homes	0.2	0.2	1.7	0.0
Veterans Hospital/Nursing Home	0.1	1.5	0.0	0.0
Subtotal Medical	2.3%	7.4%	2.0%	12.3%
Veterans Programs:				
Ceremonial	0.0%	1.1%	0.0%	0.0%
Other	0.1	8.2	0.0	0.2
Scholarships	0.0	0.4	0.0	0.0
Legionville	0.0	0.2	0.0	0.0
Subtotal Veterans	0.1%	9.9%	0.0%	0.2%

Table 2.7, continued

<u>Expenditure Class</u>	<u>Percent Expenditures by Type of Organization*</u>			
	<u>Fraternal</u>	<u>Veterans</u>	<u>Religious</u>	<u>Nonprofit</u>
Government:				
Parks & Recreation	6.4%	1.9%	10.3%	6.6%
Police	0.7	0.7	0.0	1.1
Fire	1.0	3.4	0.7	14.2
School Sports	3.0	0.9	0.8	0.5
Schools - Academic	0.4	0.3	0.0	0.2
Schools - Extracurricular	7.6	1.5	0.8	1.6
Schools - Scholarships	1.5	0.4	0.0	1.3
Other Government	<u>2.2</u>	<u>2.0</u>	<u>0.6</u>	<u>9.5</u>
Subtotal Government	22.8%	11.2%	13.2%	35.1%
Youth Sports				
Youth Baseball/Softball	0.9%	2.7%	0.3%	0.4%
Youth Hockey	1.7	1.5	0.2	10.8
Other Youth Sports	<u>1.0</u>	<u>1.8</u>	<u>0.0</u>	<u>1.4</u>
Subtotal Youth Sports	3.6%	6.1%	0.5%	12.6%
Adult Sports:	1.7%	1.0%	0.0%	1.6%
Other Organizations:				
Youth Services	7.0%	5.1%	1.9%	4.7%
Other Human Services	11.0	3.4	5.9	13.4
Conservation Organizations	0.2	0.2	0.0	0.7
Civic Festivals	0.4	1.0	0.1	1.4
Other Non-Profit Groups	4.0	2.4	0.9	4.5
Lobbying Organizations	<u>0.6</u>	<u>0.0</u>	<u>0.2</u>	<u>0.0</u>
Subtotal Other Organizations	23.2%	12.0%	9.0%	24.7%
Religious Groups:	2.9%	0.5%	71.9%	1.7%
Organizational Expenses:				
Own Organization Travel	0.0%	0.0%	0.5%	0.0%
Own Organization Buildings	20.9	33.8	0.0	1.7
Own Organization Gambling				
Seminars	0.3	0.7	0.0	0.0
Own Organization Other	0.1	0.5	0.0	0.2
Lobby Related	0.0	0.1	0.0	0.0
Public Service Announcements	<u>0.1</u>	<u>0.2</u>	<u>0.0</u>	<u>0.0</u>
Subtotal Organization Expenses	21.5%	35.4%	0.5%	2.0%
Senior Citizens:	2.2%	0.9%	0.1%	0.7%
Total Dollars	\$10,899,015	\$28,010,577	\$5,232,454	\$23,108,647
Percent of Total Dollars	16.2%	41.7%	7.8%	34.4%

*Some subtotals do not add up due to rounding differences.

Some of the variation is predictable. For example, religious organizations spend 72 percent of their net profits on religious groups, and veterans organizations spend 10 percent of profits on veterans programs. But veterans groups spend the largest share, over one-third, of their profits on expenses of their own organizations.²⁷ Of that share, most is spent on their buildings. Fraternal groups also spend a large share, 22 percent, on buildings and other expenses of their own organizations. In contrast, non-profit groups directly spend only two percent, and religious groups only one-half percent, on expenses of their own organizations.²⁸

All four types of organizations spend fairly large amounts on youth and other human services (for example, United Way, homeless shelters, Special Olympics), and for aid to governmental units. Other non-profits spent over half of their charitable gambling profits in those categories, especially for donations to fire departments. They also spent a greater portion (13 percent) of profits for youth sports, mainly hockey, than did the other types of organizations.

Problems With Defining Lawful Purposes

The Definition is Vague

The use of gambling funds for lawful purposes has always presented regulatory difficulties. There has been a tension between the desire of gambling organizations to use gambling proceeds to benefit their own organization or cause, and the statutory requirement that a lawful purpose be satisfied. This tension is heightened by the fact that:

- **The legal definition of what constitutes a "lawful purpose" contribution is vague.**

Lawful purpose is difficult to define.

For example, it is difficult to say what constitutes protecting people from disease, suffering, and distress. Does this include for example, sending an automatic payment of \$50 or \$100 to every organization member if they are hospitalized? Does buying cancer insurance for auxiliary members of a VFW Post qualify? Without more clearcut policies defining lawful purposes there is no definitive answer.

Organizations are required to state on Schedule C of the tax return the lawful purpose that is satisfied by their contribution. We found in reviewing lawful purpose contributions that:

- **The statutory justifications cited by organizations were inconsistent.**

For example, organizations coded the same contribution differently from month to month. Different organizations also coded the same type of contri-

²⁷ This does not include many expenditures included in other categories that are made to benefit individual members of the organization.

²⁸ This may be misleading because, as we discuss later, we have no way of knowing what happens to funds contributed by other non-profit organizations to themselves.

bution differently. While there is nothing inherently wrong with this, it illustrates the difficulty of determining whether a lawful purpose is satisfied or not. Also, gambling board staff have in the past acted inconsistently in interpreting the statute. One gambling manager told us that if he didn't like the answer he got from calling the board staff about whether something was a lawful purpose, he would just wait a few days, call back, and talk to a different person. We believe the more vague the definition of lawful purpose, the more likely individuals and organizations are to stretch the rules.

Problems With Lawful Purpose Policies

We also found that:

- **State agencies have not developed comprehensive policies on allowable lawful purposes, nor have they effectively communicated the policies that do exist to licensees.**

When the state took over responsibility for gaming regulation, gambling board staff started to develop policies on what types of expenditures met the definition of lawful purpose. Unfortunately, these policies were never fully developed, nor were they widely disseminated to gambling licensees. Organizations frequently wrote letters requesting approval of lawful purpose contributions. But these requests were handled in an *ad hoc* way without systematic follow through.

The other major method of clarifying lawful purpose questions was during question and answer sessions with gambling board staff at gambling seminars. Again, while these sessions were probably useful for the participants, they do not result in systematic communication about what the policy of the state is with regard to lawful purpose expenditures. Gambling Control Board rules have not further defined lawful purpose expenditures either. With the exception of allowing a \$50 contribution to a gambling lobbying organization, the rules simply repeat the statute's definition of lawful purpose expenditures.

According to the former executive secretary of the board, the general philosophy behind lawful purpose policy decisions was that the lawful purpose expenditures were not to go to directly benefit the members of the organization conducting gambling.

Lawful purpose expenditures were not to go to benefit the organization's members.

The organization cannot use gambling funds to improve the capital assets by purchasing such things as business equipment, furnishings, etc. Lawful purposes do not include the use of gambling funds for the (organization's) operation. Such things as staffing the organization and providing equipment for staff would not satisfy lawful purpose. The cost of a unique or special project of the organization, but not the staff who conduct it would be acceptable if the project satisfied a lawful purpose. An organization would be expected to generate its own revenue for the purpose of conducting its ongoing activities and not look to gambling as the sole or major source of income for its organization.²⁹

²⁹ Roger Franke, Statement to the Joint Senate-House Gaming Study Commission July 19, 1988, Page 3.

Problems with Accountability

Another somewhat problematic aspect of the lawful purpose statutory provisions is the treatment of many other non-profit organizations that contribute solely or primarily to themselves. We believe that:

- **When organizations contribute gambling proceeds to themselves, accountability is effectively lost because gambling money is commingled with other organization funds.**

Commingling raises the risk that gambling funds will be used directly or indirectly to pay for non-gambling related administrative costs of these other non-profit organizations -- a practice that is not allowed for other types of organizations.

Reporting and Review Requirements

Organizations are required to report the uses of lawful purpose contributions on Schedule C of the Monthly Gambling Tax Return. Schedule C requires the organization to list the gambling account check number, the payee, a description of the contribution, the amount, and the code of the lawful purpose it satisfies.

From 1985, when the state took over regulation of gambling, until August 1988 the staff of the Charitable Gambling Board conducted a review of the lawful purpose contributions during desk audits of the gambling return. The Gambling Board staff reviewed Schedule C's and returned questioned expenditures to the organization for more information. If the organization could not justify the expenditure as a lawful purpose, they were required to reimburse their gambling account from the organization's general fund. However, the situation is different today. We found:

- **State monitoring of lawful purposes is weak and ill-coordinated. No gambling regulatory agency has reviewed Schedule C lawful purpose contributions since January 1989. Little review occurred between August 1988 and January 1989.**

According to the documentation regarding the transfer of responsibilities from the Department of Revenue after the 1989 legislative session, the responsibility for reviewing lawful purpose contributions is currently split four ways. The Department of Revenue is responsible for desk reviews, the Department of Public Safety is responsible for field reviews, and the Gambling Control Division and the Lawful Gambling Board are responsible for policy decisions regarding lawful purposes. The board must also specifically approve requests for capital expenditures. The Department of Revenue has not assigned any staff to reviewing lawful purpose contributions.

The Department of Revenue has not reviewed lawful purpose expenditures since January 1989.

Compliance With Lawful Purpose Requirements

We believe that the lack of clearcut, consistent policies on what is and is not a lawful purpose creates problems. Despite the policies that had been developed by the board and staff, there are still many uncertainties, and existing policies have not been well communicated to licensed organizations. In reviewing contributions:

- **We found many questionable lawful purpose expenditures. Their principal failing was that they only benefited the organization or their members.**

Although the definition of lawful purposes is vague and policies have not been well developed, we did find some expenditures that were clearly in violation of state policies. Others fall into a gray area that may not square with Legislative intent.

Below we list a few of the many lawful purpose contributions we found that violate state policy or are questionable.

- **Many organizations have standard policies of sending "cheer checks" of \$50 or \$100 to all hospitalized members.**
- **A number of organizations reimburse themselves in lieu of rent to organizations for using their halls. For example, Kay Sea Club, Inc. of Austin wrote a \$1,500 check to itself each month in lieu of charging rent to the Boy Scouts, the Minnesota Citizens Concerned for Life, and "Pro-Life".**
- **VFW Post 1223 in Moorhead paid \$4,970 for cancer insurance for their auxiliary members.**
- **Several organizations paid for janitorial services and cleaning supplies as a lawful purpose contribution. Several organizations also paid groups like the Boy Scouts and DAC clients to do lawn maintenance and janitorial work for their organization.**
- **Some organizations paid cabfare so senior citizens could play bingo at their organizations.**
- **American Legion Post 170 spent \$5,805 on "dedication ceremonies and reception for dedication of flags and new post home".³⁰**
- **Many organizations were contributing to adult sports activities that are not allowed by board policy.**

Many lawful purpose expenditures were questionable.

³⁰ The flagpole and flags were also a lawful purpose expenditure.

- **Organizations paid for advertisements and photos to publicize their charitable contributions. This may have been an appropriate *expense* before the August 1989 rule change prohibiting advertising, but it is not an allowable lawful purpose.**

Many organizations reimbursed themselves for travel to meetings where Gambling Board personnel spoke. We found many organizations are paying for members other than gambling officers to attend conferences and conventions. For example, VFW Post 6843 spent \$1,221 in June 1988 and \$2,250 in July 1988 to pay for 12 delegates and honor guard to attend two conventions at which a gambling board representative spoke. Another Twin City American Legion Post spent \$2,695 for a gambling seminar at the Holiday Inn in Hopkins. VFW Post 4210 sent 16 members and their wives to the state VFW conference at a cost of \$1,952. We found that it was a standard practice in many organizations to use gambling funds as a way to pay for members to attend conventions around the state. This use of lawful purpose contributions was approved by the gambling board if a board employee spoke at the meeting. The rationale behind the gambling board approving this practice was to encourage education about gambling regulations. Understandably, gambling board employees were in great demand as speakers at various organizations' state and district conventions. However, we believe that organizations paying for their color guards and non-gambling officer members and their wives to attend conventions is an abuse of this policy. Further, attending gambling seminars is more properly regarded as a gambling expense than as a lawful purpose contribution. We recommend that:

- **Payment for gambling seminars should be an allowable expense and should be strictly limited to five or fewer gambling officers of the organization.**

This will result in more funds being available for contributions to charitable purposes.

Organizations are contributing to other gambling licensees.

We found numerous instances where organizations were contributing to other organizations conducting gambling. For example, one organization gave money to four other VFW Post building funds. These kinds of contributions could allow an organization to skirt lawful purpose restrictions on capital spending. It also could be used as a way to move funds from an organization's gambling account to its general account. As a result, we recommend that:

- **Contributions from one licensed gambling organization to another should not be allowed.**

The gambling board has had a policy for several years that contributions for lobbying or to lobbying organizations is not a lawful purpose expenditure. This policy was established in August 1989 in rule.³¹

³¹ *Minn. Rules* 7860.010, Subpart 16 G states in part: that lawful purpose does not include: "... the expenditure of gambling funds for the purpose of influencing or attempting to influence any public official or the outcome of any public decision..."

Organizations have contributed to groups that lobby.

- We found approximately \$100,000 in contributions to groups whose primary purpose is lobbying or influencing public policy on some issue.

Whether these contributions meet the requirements of the rule is difficult to determine. Most of the groups trying to influence policy have both an educational and lobbying program, and they assert that the gambling funds are not used for lobbying. However, to what extent they supplant funds that would otherwise go to educational purposes, and to what extent they pay for administrative expenses that support both activities is unknown in most cases.

Minnesota rules allow a contribution of up to \$50 per year "for membership in organizations comprised entirely of licensed organizations." This provision has funded Allied Charities, an organization formed to do lobbying and education for gambling organizations. While this is a small amount of money per organization, we find this provision inconsistent with the provisions prohibiting expenditure of gambling funds to attempt to influence public policy.

We also found that at least one gambling organization spent gambling funds to send representatives to St. Paul to lobby against the increased gambling tax during the 1989 legislative session. Interestingly, they represented the lawful purpose being satisfied as "relieving the burden of government."

In summary, we found problems with a number of lawful purpose contributions, including those made to benefit organization members, adult sports, and lobbying. Some of these are clearly in violation of state policies and others fall into a gray area because state policies have not been fully developed. In spite of the problems we found with lawful purposes, we believe that it is important to note that many worthwhile purposes, that most people would regard as charitable, are being served by lawful contributions. Although many organizations are paying for organizational expenses from gambling funds, some of these expenses were formerly allowed and are "grandfathered in." Our examination of lawful purposes did not try to directly determine whether every contribution we reviewed was in compliance with current rules and policies. Nonetheless, based on our examination, we believe that, other than organizational capital expenses, less than 10 percent of other contributions are either unallowable or in a gray area. We conclude:

- The majority of lawful purpose contributions go to causes that most people would regard as charitable in nature.

However, most contributions are charitable in nature.

Other Lawful Purpose Compliance Issues

Schedule C Reporting

We were interested in exploring to what extent organizations accurately reported information on Schedule C of the tax return. As we discuss in the next chapter, misappropriation of lawful purpose contributions is one of many gam-

bling fraud risks. For example, there have been recent cases in St. Paul and Cannon Falls where contributions were given to non-existent charities.

We found that some organizations failed to accurately or fully report some of their lawful purpose contributions on the tax form. For example, Legion adult softball teams were described as "Legion ball." One organization in Brainerd described a \$16 filing fee necessary to obtain a judgment against a bad check passer as "A contribution to the Crow Wing County legal system." Another organization described reimbursement to its own account (\$100 each time) for not charging rent at a series of retirement dinners as "Retired to help the needy."

We reviewed one randomly selected contribution from each of 100 organizations to determine if the payee actually received the funds, if the funds had been used as stated by the payee, and if the organization had properly approved the expenditure.

Statute requires that all expenditures of gambling profits must be authorized and recorded at a regular meeting of the conducting organization. This provision has been interpreted by the gambling board to mean expenditures must be approved by the full membership before the expenditure is made. We found that this was true for only 39 of 100 organizations in our sample. About 29 could provide no indication the contribution had been approved by the organization. Another 32 approved the contribution through an executive committee, or approved the general type of the contribution, and/or approved the contribution after it was made.

We found that the payee was accurately recorded in 95 of 100 cases. The other cases were reimbursements to the organizations' general bank account for contributions made through the general account. This practice of reimbursing the general account for lawful purpose contributions is allowed by rule.³² We believe this practice creates a loss of control over the gambling account. It also makes compliance auditing more difficult because more than one set of accounts must be audited. Except perhaps for certain emergencies, expenditures should not have to be made from an organization's general account. We recommend that:

- **Organizations should pay all expenses and lawful purpose contributions directly from the gambling bank account(s), except for amounts previously approved by the organization membership for certain types of emergencies.**

We also tried to check with the actual recipients of the contributions to ensure they were received and used as intended. We were able to contact 98 of 100 payees. We found that funds were received by the payees in all cases, and that the use of the funds was as described on the Schedule C in 94 of the 98 cases. One of the exceptional cases was described as "Post card printing for the blood program" when it was actually reimbursement for taking a group of organizational members who were "senior citizens" on a trip to Canterbury

Although there is a risk that contributions can be made to non-existent organizations, all of the payees in our sample actually received the funds.

³² Minn. Rule 7860.0170

Downs. Another was the previously discussed case of the organization that was paying itself for not charging rent at retirement parties. The other two cases were minor misstatements of what the funds went for.

Based on this examination, we conclude that:

- **Although there is a potential risk for contributions to be fraudulently made to non-existent organizations, or used in ways they were not intended, that is not occurring on a large scale.**

As a result, we believe that proposed plans to register recipients of lawful purpose contributions are unnecessary and would not be cost-effective.

Problems With Profit Carryforward

Organizations are required to spend all of their net profits on lawful purposes. However, organizations are not required to spend the funds within any specific period of time. This results in what is known as a profit carryforward -- net profits that have been earned but have not yet been spent for lawful purposes. Profit carryforward for all organizations in Minnesota amounted to \$43.1 million as of June 30, 1989. Organizations must have the funds that they have accumulated in their gambling bank accounts, inventory, and in cash banks.

From examining the monthly tax return it is possible to get a rough idea of whether the profit carryforward is accounted for. The organization must report its inventory, gambling bank account balance, unpaid liabilities, and profit carryforward on the tax return.³³ Although these numbers are reported on the tax return, Revenue has not yet entered them into their computer system.³⁴

Reviews of tax returns showed money was missing from gambling bank accounts.

We reviewed 100 organizations' tax returns to determine if the gambling bank account, plus the ending inventory and minus the unpaid liabilities, approximated the profit carryforward. We found over \$500,000 was apparently missing from organization's bank accounts. While many of the discrepancies are small and are probably accounted for by timing and other differences, we found 12 discrepancies of over \$10,000.

We visited two of the organizations with larger discrepancies and conducted a gambling fund reconciliation. We found that these two organizations were in fact missing money from their gambling bank accounts.

³³ Only an approximation is possible because of a number of timing differences in accounting for gambling proceeds. Also, the total organization cash bank is not reported. However, these differences are usually no more than a few thousand dollars one way or the other.

³⁴ The Department of Revenue plans to begin entering these numbers soon.

Our visit to the Tri-City American Legion Post revealed a discrepancy of over \$129,102.³⁵ We found a number of other problems with the Legion's gambling operation, some of which are noted elsewhere in the report. Gambling Control Division staff also visited the organization and noted some of the same problems. The organization's operations are currently being reviewed by the Gambling Control Division, the Department of Revenue, and the Department of Public Safety.

The second organization we visited, the Spring Lake Park Lions, was missing over \$37,000 from its gambling bank account.

There are several reasons why funds might be missing from the gambling bank account. First, the organization could have experienced a theft or a misappropriation. Second, the organization could have transferred money improperly to its non-gambling bank accounts. Third, there could have been accounting mistakes.

In the course of our site visits we conducted gambling account reconciliations and found that several other organizations were missing funds from their gambling accounts. The Crystal Lions were missing approximately \$14,000 from their bank account. The Fergus Falls Elks were missing approximately \$2,000.³⁶

The Glenwood Volunteer Fire Department appeared to have a discrepancy of approximately \$1,400. It was difficult to tell the exact size of the discrepancy because the organization made numerous mistakes in filling out its tax return, including how it reported games played and how it valued and reported inventory.

There were numerous discrepancies, both positive and negative, between profit carryforward and gambling bank accounts.

We believe there may be many more problems than are reported on the tax returns. For example, it is not uncommon that organizations list the same number on the tax form for profit carryforward and gambling account balance. It would be highly unusual if this were true because of inventory and cash banks for making change.

Also, we found a number of organizations that report gambling account balances of more than the profit carryforward. This may indicate that the organization is underreporting receipts to the state, therefore raising the gambling account balance but not the profit carryforward amount.

Based on this limited review:

- **We estimate that there are several million dollars of gambling profits that are missing from organization's gambling bank accounts.**

³⁵ We did not conduct a physical inventory or count cash banks in any of our site visits. We relied on the figures reported by the organization. The Tri-City Legion discrepancy is a minimum because we subtracted all cash on hand at the end of the month we reviewed, although some of the cash was attributable to games in play at month end, but not yet reported to the state. In this case, as in others, a full financial and compliance audit would be necessary to determine the exact amount the organization would be required to reimburse its gambling account from other organization funds.

³⁶ Both the Crystal Lions and the Elks had previously written to the Department of Revenue about resolving the discrepancies, but had received no response.

Organizations are now required to have a financial audit by a licensed public accountant. The Gambling Control Board has not issued standards for what this audit is to consist of. While an audit is probably helpful, many of the organizations that we reviewed that had problems with expenses and profit carryforward shortages, also had returns and financial statements prepared by Certified Public Accountants. The normal scope of a financial audit does not include reviewing compliance with gambling laws, or expense and lawful purpose limits. We recommend:

- **The required financial audit should at a minimum contain a reconciliation of the gambling bank accounts and the profit carryforward.**

In addition, we believe that:

- **The Department of Revenue should review the tax forms to identify existing discrepancies.**

Profit carryforward discrepancies, both positive and negative, will be a promising means of targeting organizations that need a state audit.

DISCUSSION

Defining Lawful Purpose

In our view, the definition of lawful purpose will likely remain a problem. As we noted in Chapter 1, other states have also struggled with an appropriate definition for lawful purpose. Many states (such as Illinois, South Dakota, and Michigan) have essentially defined away the problem by stating that licensed organizations can use the funds to support any of the purposes for which they are chartered. This is one option for Minnesota.

The definition of lawful purpose should be specified in rule and administrative policies.

However, legislators have generally felt that contributions from gambling funds should be subject to some limits. In general, the guiding philosophy has been to ensure that the funds went exclusively for charitable or community purposes and not to benefit individuals of the organizations conducting gambling. If the current definition of lawful purpose is kept, we believe that it should be more clearly specified in rule and in administrative policies. Certain types of expenditures should be allowed and others not allowed. We believe that the Legislature should resist the temptation to specify every allowable lawful purpose in statute.

Another possibility the Legislature could consider is to narrow the lawful purpose definition to more clearly defined purposes, such as education, youth sports, government services, or others. There are many worthwhile purposes that need funding and charitable or lawful gambling cannot fund all of them.

The Legislature might want to emphasize some purposes over others in specifying lawful purposes. The state has done this with the lottery proceeds, specifying that the money is to go to the Environmental Trust Fund and the Greater Minnesota Corporation. This would eliminate much of the hair splitting about what is and is not a lawful purpose, and would allow more clearcut enforcement. However, this alternative would be likely to decrease the interest of some organizations in conducting gambling operations.

Reviewing Compliance with Lawful Purpose Restrictions

If the state wants to assure that net profits are only used for lawful purposes we believe several steps are necessary. We recommend that state administrative agencies should:

- **Establish clear and consistent policies on what is an allowable expense and what is an allowable lawful purpose contribution.**
- **Communicate these policies clearly to organizations.**
- **Perform a desk review of lawful contributions.**
- **Review expenses and lawful purpose contributions in the field during audits and compliance reviews.**

The state's regulatory effort will require more resources to be assured that gambling laws are followed.

We did not evaluate the efficiency with which Minnesota's administrative agencies regulate lawful gambling. Nevertheless, we feel comfortable saying, based on the study we did, that the state's regulatory effort will need more resources to ensure compliance with restrictions on the use of net profits. The nature of the regulatory structure and the complicated set of rules governing gambling inherently means that regulation is expensive. The level of assurance one wants to have that gambling is being conducted in accordance with statute and rule will largely dictate the amount of staffing needed.

In the next chapter, we review the risk of fraud and abuse in gambling in greater detail. We discuss the need for increased resources there, in the context of the risk of fraudulent activity and the level of assurance one wants to have over gambling.

CONTROLS OVER FRAUD AND ABUSE

Chapter 3

One of the state's primary goals in regulating gambling is "to insure integrity of operations". Since the state took over control of gambling regulation in 1985, a number of administrative and organizational controls have been put in place to deter fraud and abuse. In this chapter we ask:

- Are the controls over gambling adequate to prevent fraud and abuse?

In order to examine this question we reviewed the existing accounting and administrative controls over gambling, interviewed persons knowledgeable about the gaming industry, and reviewed organizations' gambling operations in a series of site visits.

We should emphasize that the control system and the level of deterrence is better than at any time since the state took over control of gambling in 1985. Nonetheless, despite the significant improvements embodied in recent legislation and rule changes, there are still control weak points. In short, we conclude that the current control system is insufficient to *prevent* fraud and abuse. In fact, it is probably impossible to *prevent* fraud and abuse in gambling. However, in our view, the current control system and its implementation does not sufficiently *deter* abuse. No set of controls can be effective if the gambling organizations do not follow them. In this chapter we analyze the risk of fraud and discuss our evaluation of controls at the state level and at the local organization level.

Although the controls over gambling are better than ever before, they still do not sufficiently deter abuse.

RISK EVALUATION

The first step in determining the appropriate level of control over the gaming industry is to assess the risk of fraud and misappropriation of funds. We regard the risk of fraud as high because:

- Gambling is conducted largely in cash, and skimming and other fraudulent schemes to divert gambling proceeds are possible.
- The nature of the pull-tab game allows for inside information.

The Potential for Skimming

Because gambling is a cash business, there is the risk of skimming or theft. This is especially true with pull-tabs -- the largest gambling activity. Skimming is possible in a number of ways by both sales employees and by gambling management. It would not be judicious to identify in detail all of the methods of skimming possible. However, our general discussion below highlights the risk.

Risk from Employees

The most common method of skimming is probably for sales employees to remove funds from the cash bank or till. Also, without close supervision and control by the organization, employees can steal tickets from the game themselves, or they could give tickets to a player without charge. Similarly, employees can intentionally overpay winning players. Obviously, there are a number of possible variations on these themes, and they vary little from the sorts of theft problems experienced by any business with a cash till. Most of the organizations we visited reported problems at some time from employee theft.

Without careful controls over gambling, organizations are vulnerable to employee theft and fraud.

In the case of bar employees selling tickets, without careful controls, it is easy for the organization's gambling funds to be commingled with the bar's funds. This has happened in a number of instances, especially in cases where the organization has turned over responsibility for running the games to the bar owner and employees.

Organizations are also vulnerable from employees conspiring with players to share inside information that gives the players an advantage. This most commonly is done by the seller sharing information about the number of large winning tickets left in the game, or about the status of the cash receipts for the game. Either piece of information can allow a player to determine if it is advantageous to "buy out" the remainder of that box or game. The most sophisticated schemes can be difficult for anyone but the conspirators to detect.

A very limited sample of winning recipients has been developed by the Internal Revenue Service and the North Dakota Attorney General's Office. On the basis of this sample from 34 sites in North Dakota, they believe that inside information is rampant in North Dakota. However, there is no evidence that these practices are widespread in Minnesota. We noticed a suspicious pattern of winners at only one site we visited.

Risks From Organization Management

Without adequate controls by the organization, gambling managers, assistants, or others functioning in that capacity, can also skim from gambling proceeds. This is possible in a number of ways. The schemes may originate before the game is put into play, during play, or after play is finished. However, in all cases persons may remove money from the games' net proceeds before deposit to the bank. Depending on the internal control policies followed by the

organization, this may or may not require the alteration of records or collusion between two or more people.

There is also a risk that organizations may underreport the number of games played to the state. Organizations could either play unregistered and untaxed games or not report games that have been properly registered and taxed by the distributor. Organizations could also underreport the number of tickets in the game and thereby underreport receipts and tax liability to the state. In the case of tipboards and raffles, there is also the risk that organizations may overstate the value of prizes awarded and thereby underreport the net proceeds.

There is a large risk of theft, misappropriation, and fraudulent reporting by organization members.

There is also a risk associated with reporting the proceeds from bingo events. Currently, only the gross receipts, prizes, and net receipts from bingo must be reported to the state. Organizations are not required to use numbered bingo sheets. Therefore, there is a substantial risk that the receipts from bingo can be underreported by organizations with little risk of detection. Organizations are required to keep records of the number of players present, the amount wagered, the total cash and noncash prizes awarded, the number and type of cards sold, and certain information about winners of over \$100. However, organizations do not report any of this information to the state.

It is also possible for gambling managers or others in the organization with control over the gambling bank account to misappropriate funds after deposit to the bank. There are obviously a variety of ways in which to do this, but they all involve writing checks on the gambling bank account for items that are not allowable expenses or lawful purpose contributions and that go to benefit the perpetrator of the fraud. There have been a number of cases around the state where gambling managers and other organization employees have been convicted of misappropriating organization funds. Misappropriation of funds is made easier when only one individual has control over the gambling bank account, as happened in several of these cases.

In summary, lawful gambling is vulnerable to fraud and abuse because large amounts of cash are involved, because without careful controls there are a variety of ways to misappropriate funds, and because inside information is possible. The risks of fraud and abuse are compounded by the organization's knowledge that they face little risk of detection by the state. If an organization has a good system of administrative and accounting controls, the risks of fraud and abuse are minimized.

Accountability for Cash Shortages

All of the above problems, except inside information and management misappropriation, should result in a report of a cash shortage to the state. In our opinion, most of the funds reported as a cash shortage result from theft. As we noted in Chapter 2, cash shortages and bad checks had amounted to over \$2.1 million in the first six months of 1989.

Almost all of the organizations we visited had at one time or another problems with "cash shortages." However, organizations that had what we considered good internal controls had minimal cash shortages. Several gambling managers told us that if there was more than \$10 or so missing from a game, they investigated who was stealing.

Organizations have little responsibility to account for cash shortages, other than reporting them to the state. Shortages are not considered an expense of the organization, nor are they reviewed by Gambling Control Division when considering licensing questions. In fact, there is now little incentive at all to be concerned with cash shortages, because shortages are treated as an adjustment on the tax return regardless of the size.¹ This practice results in an additional organizational risk because organizations can skim from gambling proceeds and report the missing funds as cash shortages.

**Organizations
are not
accountable for
cash shortages.**

The tax return calls for bad checks and cash shortages to be listed on the same line of the form with no differentiation.² This is a problem because the gambling board cannot distinguish between organizations that are having problems with writing off bad checks and those that have experienced cash shortages. In many organizations, bad checks are sent to a check recovery service and most if not all of the funds are recovered. We conclude:

- **The current control over bad checks is weak because there is no way to know if bad checks that have been written off are later recovered, or if the recovered funds are properly deposited into the organization's gambling account.**

CONTROLS AT THE STATE LEVEL

The state has instituted a number of controls over gambling in both statute and rule in order to insure the integrity of gambling operations. They fall into three general categories, controls over:

- the manufacture of gambling equipment,
- the distribution channel, and
- the organizations conducting gambling.

¹ The gross receipts tax, however, is calculated on proceeds before cash shortages and bad checks are deducted.

² Comparisons between Schedule B of the monthly gambling tax return (where the cash shortage is listed game by game) and Schedule A (where the total of cash short and bad checks is listed) shows that, in most cases, the funds reported on Schedule A are cash shortages rather than bad checks.

Control Over Manufacturers

There are 19 manufacturers of gambling equipment licensed in Minnesota. Currently, all but three manufacturers are located outside Minnesota. Manufacturers may not sell gambling equipment to any person not licensed as a distributor. The Commissioner of Revenue and the Department of Public Safety's Gambling Enforcement Division may also inspect the records of any manufacturer.

In addition to these reporting and licensing requirements, manufacturers are required to manufacture the equipment to certain standards. For pull-tabs, these standards include:

- The winning pull-tabs or tipboards must be randomly distributed and not distinguishable.³
- Pull-tab games must be manufactured so the winning tickets can not be distinguished ahead of time.⁴
- Pull-tabs must be packaged at the factory with a seal including a notice that the game may have been tampered with if it is broken.⁵

The state does not currently inspect gambling equipment.

The state does not currently have a program to ensure that manufacturers comply with the manufacturing and packaging standards. The Department of Revenue and the Gambling Control Board before it have not conducted any audits of manufacturers.⁶ Without audits and inspection of gambling equipment there can be no assurance that the standards embodied in rule are adhered to. We recommend that:

- **The state should establish a program of inspecting of manufacturers' products. If necessary, tickets could be put through a forensic testing process similar to that used for lottery tickets.**

Minnesota statute requires manufacturers who sell pull-tabs and tipboards to report monthly to the Commissioner of Revenue, on a prescribed form, a record of all pull-tabs and tipboards sold to licensed distributors. We found that the Department of Revenue has not yet introduced a standard form. However, the department does receive the information from manufacturers. A sound reporting system is necessary to ensure that all pull-tab games sold to distributors are accounted for and the proper taxes are paid. Also, the current statute does not require manufacturers to report sales of any product that is transported into Indian reservations. Adding this statutory requirement would strengthen controls over illegal pull-tabs being sold in the state.

³ Minn. Rules 7860.0210.

⁴ Minn. Rules 7860.0210 and 7860.0300.

⁵ Minn. Rules 7860.0300.

⁶ Revenue reports that there are 11 audits of manufacturers scheduled to be completed in fiscal year 1990.

The incentive for organizations to sell unregistered and untaxed pull-tabs has grown with the increase in state gambling taxes. One way to control the sale of illegal pulltabs would be to require any ticket sold in Minnesota to be exclusively sold in Minnesota, with a printed notice on the ticket to that effect. Manufacturers could be prohibited from shipping tickets expressly printed for Minnesota to any other state. This provision would make the detection of illegal tickets much easier. Organizations could be required to post in their rules of play that the tickets must have the **For Sale in Minnesota Only** notice. Local and state enforcement officials and players would have a far easier time detecting illegal tickets.

There are also a number of other restrictions on manufacturers included in Minnesota rule, including restrictions on manufacturer interest in gambling operation. Manufacturers are also required to provide for the marking of all gambling equipment so that the buyer may be identified.⁷

Control Over the Distribution Channel

The Current Distribution System

Minnesota also requires that distributors of gambling equipment be licensed and that organizations buy equipment from a licensed distributor. Distributors may sell equipment in Minnesota only to licensed organizations. There are currently 39 licensed distributors of gambling equipment who sold approximately \$19.4 million of equipment to licensed organizations in 1988.

Distributors' function is to receive equipment from manufacturers, to apply state registration stamps to the equipment, to modify the game's flare if there is a last sale, to collect certain taxes from organizations, and to transport the equipment to the gambling site or organization.⁸ Distributors are required to apply a state registration stamp to all equipment purchased or possessed for resale in Minnesota.

The state does not currently crosscheck manufacturers' sales with reports from distributors and organizations.

Distributors are required to report to the Department of Revenue all gambling equipment sold to organizations. Currently the Department of Revenue receives a copy of all sales invoices. However, as we noted in our recent financial audit, Revenue does not currently crosscheck distributor reports with organizations' reports of the actual games used.⁹ As a result, the state cannot be assured that distributors are reporting all sales to the state. A system to crosscheck manufacturers' sales with distributor and organization reporting

⁷ Minn. Rules 7860.0400.

⁸ A flare is a posted display that sets forth the rules and odds of winning for a particular pull-tab, tipboard, or paddlewheel game. A state registration stamp must be put on each flare.

⁹ *Charitable Gambling Control Board Financial and Compliance Audit*, Office of the Legislative Auditor (St. Paul, 1989).

can also help to ensure that organizations do not underreport their receipts. The department has plans to develop such a crosscheck system in fiscal year 1991.

Distributors are restricted from participating in gambling activities other than distributing the equipment.¹⁰ In addition, Minnesota rules restrict many other aspects of how distributors may promote and conduct their business.¹¹

The Department of Revenue audits distributors in order to ensure that state tax receipts are being collected properly. As of December 1989, Revenue has conducted 13 distributor audits this fiscal year and has 12 additional audits scheduled.

The State as Sole Supplier of Gambling Equipment

The 1989 tax bill provides for the state to take over the distribution of gambling equipment. The Department of Revenue is required to present the 1990 Legislature with a plan for the takeover. The department is reviewing several options, including running a distribution system with state employees and having a bonded warehouse to receive all shipments of equipment into the state.

The ostensible reason for the state takeover is to curb abuses in the current distribution system. To our knowledge, there have been only two cases in which distributors have been convicted of fraudulent activity. In the first case, a distributor and a gambling manager in Pine County were running illegal pull-tab games. In a related case, a distributor was convicted of opening the pull-tab games and removing tickets that were later redeemed by family members. Organizations have been told by the gambling board to return any games that have their seals broken or appear in any way to have been tampered with.

There are certain control advantages to having the state take over distribution. The primary advantage is that the state would know exactly what equipment and games had been delivered to each organization without relying on the distributor as an intermediary. It also would eliminate the risk of collusion between manufacturers and distributors in providing games that do not meet current Minnesota manufacturing standards. However, a state-run system does not assure that organizations are using properly registered and taxed equipment. For example, it would still be possible to bring in untaxed equipment from another state illegally.

It may be possible to get many of the advantages of a state-run system through a program of quality assurance testing and product distribution requirements. For example, as we mentioned earlier, manufacturers could be required to provide samples of all equipment sold to ensure that it met Minnesota manu-

¹⁰ There are currently two distributors that are also manufacturers. This practice presents control problems because there is no independent reporting of sales by the manufacturer/distributor. It also presents more of a risk for the manufacture and distribution of illegal games.

¹¹ See *Minn. Rules* 7860.0200.

facturing standards. The state could also sample the inventory of organizations and distributors to ensure that the product actually being supplied met state standards.¹²

Controls Over Organizations Conducting Gambling

Controls Contained in State Rules

Organizations are required to obey certain rules in conducting gambling. Minnesota rules govern the conduct of bingo, pull-tab games, tipboards, paddlewheels, and raffles.¹³ Organizations are required to post their license, and the odds of winning or the number of winning tickets must be displayed on the flare of pull-tab or tipboard games.

Organizations are required to maintain accounting records sufficient to substantiate all gambling transactions. Every organization must file a monthly report to its members including a copy of the tax return and a copy of the bank account reconciliation.¹⁴ Organizations are required to maintain a separate checking account for each gambling location they operate, and they are required to deposit a game's proceeds within 24 hours after the game is completed.¹⁵ In addition, the organization is required to have filed with the board a current written system of internal and administrative controls for its gambling operations.¹⁶

Unfortunately, we found that:

- **Gambling organizations' compliance with state rules is poor.**

We found numerous instances where organizations were violating state rules on deposits, separate bank accounts for each gambling site, expenses, lawful purpose expenditures, reporting to the membership, and proper approval of expenditures. Local government officials performing compliance audits report similar findings, as do auditors from the Department of Revenue.

Organization Licensing

Organizations that conduct lawful gambling are required to be licensed annually by the Gambling Control Board.¹⁷ As noted earlier, there are

¹² The state of Washington currently has such a system for testing gambling equipment.

¹³ Minn. Rules 7860.0230 - 7860.0270.

¹⁴ Minn. Rules 7860.0120.

¹⁵ Minn. Rules 7860.0140.

¹⁶ Minn. Rules 7860.0150.

¹⁷ Organizations are exempt from licensing and taxation if they meet certain conditions specified in Minn. Stat. §349.214. Generally, they must be conducting gambling infrequently and below certain prize limits. The organizations are required to report to the board before and after the event as well as to notify local officials.

Gambling organizations do not comply with all state rules.

approximately 1,900 organizations holding licenses to gamble at about 3,100 sites around the state.

The licensing process is mostly routine. Organizations must submit a properly completed application containing information about the organization and its proposed gambling operation. Additionally, the organization must submit:

- A compensation schedule identifying tasks and rate of compensation for each task.
- A copy of the lease agreement for any leased premises.
- A license termination form.
- A copy of the organization's written internal accounting and administrative control system for its gambling operations.
- An authorization to inspect bank records of the gambling bank account.
- A copy of an annual financial audit of its lawful gambling activities.

Each organization also must notify the local governing body that it is applying for a license. The locality has 60 days to disapprove the license. Most localities do not act on license applications. However, the gambling board provided us with a list of about 100 organizations that did not receive local government approval.

We did not review the licensing process or the administrative practices of the Gambling Control Division. However, since we were interested in controls over gambling, we did review the file of statements that organizations must submit indicating what accounting and administrative internal controls they have established. We reviewed a sample of 185 such statements filed with the board. Six internal control statements were not present in the files and could not be located by board staff.

Most internal control statements were standard forms provided by distributors.

We found that the majority of internal control statements were standardized forms that had been provided by distributors or statewide organizations. There were four variations that accounted for over 45 percent of the internal control statements we reviewed. We found that the majority of the control documents were not current. Also, the gambling board staff does not review the internal control system for sufficiency. Based on our review, it appears that if there is a piece of paper titled internal controls in the file, then the board considers the organization in compliance with the licensing requirement.

However, in our view, a large percentage of the internal control statements in the file were inadequate. For example, many of the control systems on-file showed no segregation of duties -- the gambling manager was responsible for all facets of the operation. Although the board may require that the organiza-

tion revise its internal accounting and administrative control systems, it has rarely done so. We conclude:

- **The Gambling Control Division's review of organizations' internal and administrative controls is inadequate.**

According to the Gambling Control Division, because of a shortage of staff, the licensing process has in the past been largely *pro forma* and not very thorough. For example, one of the organizations we visited had recently filed months of back tax returns. The Gambling Control Board granted them a license when they were delinquent in their tax returns.

Licensing provides little assurance that organizations comply with state laws.

During our study we reviewed many tax returns. We found that there are many problems evident on the tax returns. For example, during reviews of tax returns we found organizations that were violating rent rules, were missing funds from their profit carryforward, were accounting for inventory incorrectly, were improperly deducting taxes, and were violating expense and lawful purpose rules. These problems were all apparent from reviewing the tax returns.

The Gambling Control Division does not review the organization's tax returns or lawful purpose contributions before licensing recommendations are made. For most organizations, if the proper paperwork has been filed the license is issued. We conclude:

- **The current licensing system provides little assurance that licensees are conducting gambling in accordance with statute and rule.**

Auditing and Enforcement

Under the current regulatory structure, auditing and enforcement activities fall largely to the Department of Revenue. The Department of Revenue has seven auditing positions and three tax investigators assigned to lawful gambling.¹⁸ In addition, other personnel in the Division of Special Taxes have been conducting audits of distributors. The Department is scheduled to receive five additional positions in fiscal year 1991.

We found:

- **Very little auditing of organizations has occurred in the past.**

In 1988, the Charitable Gambling Board and Department of Revenue staff conducted a total of 36 limited and 12 full-scale audits. In 1987, a total of five limited and two full-scale audits were conducted by Gambling Board staff. Gambling Board staff conducted one audit in 1985 and one in 1986.

The Department of Revenue plans to conduct a total of 50 audits in fiscal year 1990 and 100 audits in fiscal year 1991. Revenue conducted 14 limited and five full scale audits in 1989. Recently, most of the auditors' time has

¹⁸ Revenue just filled three of these positions in December 1989 and a fourth position is currently vacant.

Infrequent audits have not ensured compliance with state laws.

been taken up by revising the tax forms and answering organizations' tax-related questions. For example, Revenue reports an average of 1,400 gambling telephone calls per month and 50 organization representatives that walk in seeking tax advice. The result is that not very many audits actually get conducted. The audits that are conducted are largely in response to problems that have already occurred and have been brought to Revenue's attention by law enforcement officials. Almost all of the audits the Department is currently conducting are at the request of law enforcement officials. At the rate projected for 1991, organizations can expect to be audited once every 20 years or so. We noted that only one of the organizations we visited had previous on-site visits by gambling regulatory officials. We also noted that none of the 30 largest gambling organizations in the state had ever been audited by the department or the gambling board. We conclude:

- **The current level of auditing is insufficient to ensure compliance with gambling laws and regulations and to ensure that proper organizational taxes are paid.**

The Department of Public Safety's Division of Gambling Enforcement also has audit and enforcement responsibilities. However, as we discussed in Chapter 1, Public Safety does not plan to fill its audit positions, relying instead on the Department of Revenue to conduct the necessary audits.

LIMITING THE RISK OF FRAUD AND ABUSE

The state should take reasonable and cost effective steps to provide the desired level of assurance that gambling is properly controlled. The underlying thesis of our recommendations is that the gambling organizations must be held strictly accountable for the proper and lawful conduct of gambling. In our view, this means ensuring that organizations are held accountable for honest play of the games they run, as well as being accountable for the proper use of the proceeds. If organizations fail to meet these standards they should not receive state gambling licenses.

Limiting Inside Information

Because there is a real risk of inside information, we believe that several steps are warranted. Although not a panacea, one way to minimize the use of inside information is to:

- **Require the posting of large denomination winning tickets.**

Posting of winning tickets allows all players the same access to information about the number of winning tickets that have been redeemed.

The State of Washington requires posting winning tickets, and North Dakota has proposed rule changes that would require it. Posting normally results in games not being sold-out completely. Organizations that we visited in the Fergus Falls area had a policy of disclosing the number of large winning tickets that had been redeemed. The effect of posting for the organization is to raise its cost of goods sold somewhat. These organizations reported averaging 15 to 20 percent of tickets being unsold when games were removed from play.

We also recommend that:

- **Records that allow the tracing of winners should be maintained.**

We found during our site visits that the state winner registration form was not always used. Sometimes the required signatures on winning tickets were illegible, or the tickets were signed with a fictitious name such as "Mickey Mouse". We recommend:

- **The use of the state winner registration form with a driver's license or state identification card and an embossing machine should be required on any winner greater than \$50.¹⁹**

This will make it possible for regulators to trace possible inside information problems. These forms should be required of all winners, regardless of whether they are well known to the seller.

Another way to reduce the risk of inside information is to make it difficult for the seller to obtain comprehensive information on the play of the game. This can be done by requiring that winning pull-tab tickets are immediately defaced and deposited into a locked secure receptacle that the seller does not have access to. At the end of a seller's shift, the receipts from that shift also should be deposited into the secure receptacle. These steps would help minimize transfer of information about the games' status between sellers.

Another possibility is to ban "last sales." A pull-tab last sale is a prize (normally \$50 to \$100) awarded to a player who buys the last ticket in a game. The purpose of last sale prizes is to encourage game buyouts. Normally organizations that post large winning tickets do not have last sale prizes. Last sales are also a problem because organizations can withdraw games from play without paying the last sale and therefore increase their profits. As we note in the section on local ordinances and enforcement, the City of St. Paul does not allow last sale prizes. Another possibility that has been proposed in North Dakota is to effectively ban last sales by limiting the number of tickets that can be bought at one time by one player to 20. The City of Duluth reports requiring this practice.

Organizations that use a cash register to keep track of their games are vulnerable to employees using the register to determine if it is advantageous to buy

¹⁹ This should include any pull-tab last sale winners and any pull-tab game buyouts if they continue to be allowed.

Records of winners should be kept.

out pull-tab games. Rules should require that if a cash register is used, organization managers are trained on the register's operation so that they could detect improper register use.²⁰

The state should consider gathering evidence on the patterns of winners in pull-tab games for a sample of sites. This would allow a more reasonable assessment of the extent of this problem in Minnesota. Although unusual patterns of winners might indicate potential inside information problems, it also might reflect the simple fact that players that spend more money usually receive more of the prizes.

Limiting Organizational Risk

Changing Organizational Incentives

There will never be enough regulatory personnel to completely review each organization each year. That is why organizations must be encouraged to take responsibility for lawful gambling operations. We believe one of the ways to do this is to provide incentives for organizations to become involved and interested in the proper conduct of gambling.

One way to encourage the proper level of organizational involvement is to give the organization a financial incentive to have a proper set of controls over gambling. We recommend:

Organizations should be responsible for most fund losses.

- **Organizations should be responsible for paying from their own funds for any cash shortages.**

The Gambling Control Board allows organizations to file requests for "fund losses due to questionable means."²¹ The purpose of this provision was to allow organizations to adjust the amount that should be present in their gambling bank accounts when a theft occurs. There was approximately \$150,000 in adjustments in 1988. We recommend:

- **Standards for funds lost through questionable means should be more strict.**

Only fund losses that result from break-ins and from people outside the organization should be approved by the board. If fund losses occur because of not following proper internal controls, the organization should be required to make up the loss from organization funds. We found it interesting that very few organizations now buy theft insurance or blanket employee honesty bonds.

²⁰ Registers should be programmed to run a tape (maintained with the game) of all subtotal inquiries and nosale entries.

²¹ Minn. Rules 7860.0150, Subpart 7.

of the organizations required only one signature on checks from gambling bank accounts. This gives one person too easy an opportunity to misappropriate funds. Gambling managers and others have in the past used easy access to the gambling account as an opportunity to misappropriate funds.

We recommend:

- **Organizations should be required to have two signatures on all checks from the gambling account.**

Organizations should be accountable for problems with their gambling activities.

In our opinion, organizations that have good sets of internal controls and carefully monitor their gambling activity should have little problem with these requirements. Despite the fact that most organizations conducting gambling are "charitable" in nature and use the proceeds for "good purposes," if they can not conduct gambling honestly and according to state rules they should not be allowed a gambling license. Organizations have often argued against disciplinary actions because the theft (or misappropriation or rule violation) was caused by one dishonest employee or manager, and the charitable organization should not have to suffer for the actions of one person. We believe that most of the problems we found, and most of the disciplinary cases brought against organizations in the past, resulted as much from organizational failures to set up good controls over gambling and to properly monitor them, as from the actions of any single person.

Changes in Reporting Requirements

Regulatory agencies' ability to detect organizational problems could be improved by several changes in reporting requirements. In general, the reports to the state should include information sufficient to provide indications of potential problems. As we noted earlier, there is a problem with reporting and accountability for cash shortages and bad checks. Even if these are no longer allowed as adjustments on the tax return, they should continue to be reported because they are indications of problems. We recommend:

- **The Department of Revenue should revise the tax form so that cash shortages and bad checks are separately reported.**

Another weakness we noted in the current reporting requirements is that virtually no information about bingo activity is required to be reported. Currently, only gross receipts, prizes, and net receipts from bingo must be reported. Statute requires that if an organization conducts both bingo and other forms of gambling it must report separately on its gross receipts, expenses, profits, and expenditure of profits.²² However, separate reporting does not occur because the tax return is not designed for it. We recommend:

- **The state should require additional reporting on bingo events.**

The state should consider requiring additional information from organizations that conduct bingo, including a break down of gross receipts and prizes and

²² Minn Stat. §349.19, Subd. 5.

Better reporting is needed for bingo and lawful purpose expenditures.

any discrepancies between checkers' records and gross receipts. Additionally, we recommend that, except in special circumstances:

- **Organizations conducting bingo should be required to use prenumbered sheets of bingo paper.**

Without prenumbered sheets, it is very difficult to ensure that all bingo chances sold are accurately reported to the state.

As we noted, in Chapter 2, many of the descriptions of lawful purpose expenditures did not fully explain the expenditure. We recommend:

- **The state should require more detailed reporting of lawful purpose expenditures.**

We believe that organizations should be required to keep documentation for each contribution made. Many organizations use a standard one page request form, filled out by the potential donee, that describes in more detail the amount of the request and how the funds would be used. We believe this is a good idea. No lawful purpose expenditure that is not adequately described on Schedule C should be approved by the reviewing agency.

Licensing

The licensing process needs to be more comprehensive to provide assurance that gambling laws are complied with. The Division of Gambling Control currently has 13 positions to license the approximately 1,900 organizations gambling at 3,100 sites around the state. As we noted in Chapter 1, the division is currently involved in an extensive gambling education and seminar program. We expect that proper training will help ensure better compliance with state rules. In addition, the division serves as staff to the Gambling Control Board and they spend a significant portion of time dealing with enforcement questions.

The division reports that no personnel are available to review internal control forms or tax returns prior to licensure. They also report there are no personnel available to review lawful purpose expenditures.

It is unlikely the state will hire enough auditors and other regulatory personnel to make on-site visits to each organization every year. But, some review of the tax returns and internal controls is needed prior to licensure. We recommend:

- **Each organization should either be visited by regulatory personnel or have a desk review of their tax returns, lawful purpose expenditures, financial audits, and internal control policies before its annual license is renewed.**

Licensing reviews need to be improved.

One possibility for extending the state's resources is to sign delegation agreements with local governments that have compliance programs that would meet state standards.

Most of the information filed with the Gambling Control Division tells very little about the gambling operation of the licensee. For compliance purposes, the tax returns are far more valuable. If tax returns are not filed in a timely way it is an indication that the organization is having problems.

- **Organizations should have their licenses suspended if tax returns are more than three months delinquent. Licenses should not be reissued if tax returns are not current.**

We also believe that the more local government involvement in gambling regulation the better. State licensing officials should do several things to encourage greater local government involvement. Local governments may currently disapprove organizations seeking gambling licenses within their jurisdiction, but they do not have to approve them. We recommend:

- **Local government approval should be required before organizations can be licensed.**

Local governments should be encouraged to become involved in gambling regulation.

We believe this will have the effect of getting local governments more involved in reviewing the gambling organizations within their jurisdiction.

As we noted in Chapter 1, most local governments were not well informed about the gambling laws and had little contact with the Gambling Control Board. As we noted, there are over 70 cities or counties with local gambling ordinances but the Gambling Control Board staff only knew about 18. We recommend:

- **The Gambling Control Board should develop a program to communicate better with local jurisdictions regulating gambling.**

The more widely information about proper gambling conduct is disseminated, the more active one can expect local governments to be in regulation and enforcement of gambling laws.

Compliance and Tax Auditing

As we mentioned in Chapter 1, several cities have compliance audit programs. We think that the City of Minneapolis program serves as a good model of a way to ensure better compliance with state law. Minneapolis compliance audits are performed by police officers from the city licensing bureau and generally cover compliance with the city ordinance and state rules. These compliance audits, as well as compliance programs in other cities, have caught and corrected a number of problems with organizations' gambling operations. We believe that compliance with state rules can best be ensured when organizations' have some reasonable expectation that their operations will be reviewed by local or state regulators.

Based on our conclusion that the current state auditing presence does not ensure even minimal compliance with state law and rules, and that local enforcement is not very extensive, we recommend:

- **The state should establish a program of on-site compliance auditing of gambling organizations.**

Compliance audits could be more limited than tax audits and therefore, many more could be conducted. We would suggest that, at a minimum, compliance audits should consist of a review of the gambling bank account and other documentation for some period of months to ensure compliance with expense and lawful purpose limitations of statute and rule. Additionally, the internal control structure of the organization should be verified along with compliance with other state rules for the conduct of gambling. Tax audits could be requested if necessary. Based on our experience, and that of the City of Minneapolis, we think that such compliance reviews would require about three person-days each. Compliance reviews would not necessarily have to be conducted by accountants or law enforcement officers, but should be supported by them.

How many reviews should be conducted and how many personnel are needed? The answer to this question depends on the level of assurance desired by the state to ensure that gambling laws are properly observed. Whatever number of personnel are employed, compliance reviews and tax audits should be targeted. As noted earlier, none of the largest gambling organizations have ever been reviewed by the state. As we showed in Chapter 2, two-thirds of gambling profits are generated by about 20 percent of the organizations. We recommend that:

- **Both tax audits and compliance reviews should be targeted, with more frequent reviews of larger organizations.**

In addition, we believe the Department of Revenue should develop a program of conducting tax audits based on audit selection criteria that target organizations with the greatest risk.

The state should conduct more compliance reviews and tax audits, targeted on larger organizations and those with greater risk.

OTHER LAWFUL PURPOSE DEFINITIONS

Appendix A

ALASKA

Net proceeds after prizes must be used for political, educational, civic, public, charitable, patriotic or religious uses in the state. "Political, educational, civic, public, charitable, patriotic, or religious uses" means uses benefiting persons either by bringing them under the influence of education or religion or relieving them from disease, suffering, or constraint, or by assisting them in establishing themselves in life or by providing for the promotion of the welfare and well-being of the membership of the organization within their own community, or through aiding candidates for public office or groups which support candidates for public office, or by erecting or maintaining public buildings or works, or lessening the burden on government, but does not include the erection, acquisition, improvement, maintenance, or repair of real, personal or mixed property unless it is used exclusively for one or more of the uses stated.

ALBERTA, CANADA

The following are examples that may be considered eligible expenditures of gaming proceeds:

- Purchase or rental of equipment, furnishings and supplies that are essential to the delivery of the organization's charitable services or programs.
- Costs of providing a specific educational experience for students that would otherwise be unavailable and that is not primarily recreational or social.
- Costs of providing specific educational equipment and supplies that would otherwise be unavailable.
- Relief for individuals or families in personal distress or the victims of a physical disaster.

- Travel, accommodation and meal costs directly related to the delivery of the licensee's charitable services within the Province of Alberta. Travel for a purpose which is social, recreational or administrative is not an eligible use of gaming proceeds.
- Capital or rental costs of providing a facility for community service or public benefit, as well as the costs necessary for the operation of that facility.

COLORADO

Lawful purpose means the lawful purpose of organizations permitted to conduct games of chance.

ILLINOIS

The entire net proceeds from (bingo) (charitable games) (pulltabs and jar games) must be exclusively devoted to the lawful purposes of the organization permitted to conduct that game.

LOUISIANA

The entire net proceeds of games of chance are devoted to educational, charitable, patriotic, religious or public spirited uses. Educational, charitable, religious, patriotic, or public spirited uses are:

1. Uses benefiting those organizations which are exempt from federal taxation under section 501(C)3 of the Internal Revenue Code.
2. Uses benefiting an indefinite number of persons either by bringing them under the influence of education or religion or relieving them of disease, suffering or constraint.
3. Fraternal uses specified by an organization's constitution, charter, or bylaws not of direct benefit to the eligible organization or any member thereof.
4. Uses increasing comprehension of and devotion to the principles upon which the nation was founded, not of direct benefit to the eligible organization or any member thereof.
5. The erection or maintenance of public buildings or works.

6. Uses otherwise lessening the burden of government.
7. Uses benefiting a definite number of persons who are the victims of loss of home or household possessions through explosion, fire, flood, or storm and the losses uncompensated by insurance.
8. Uses benefiting a definite number of persons suffering from a seriously disabling disease or injury causing severe loss of income or incurring extraordinary medical expense which is uncompensated by insurance.
9. Uses, for community service projects, by chambers of commerce exempt from federal income tax under section 501(C)(6) of the Internal Revenue Code. A project qualifies as a community service project if it promotes the common good, enhances the social welfare of the community, and benefits an indefinite number of persons. The specific goals of a community service project may be to develop or promote public services in areas such as education, housing, transportation, recreation, crime prevention, fire protection and prevention, safety, and health. Uses that directly benefit a chamber of commerce do not qualify.

Such uses do not include the erection, acquisition, improvement, maintenance, or repair of real, personal, or mixed property unless it is used exclusively for one or more of the stated uses. Uses shall not include any activities consisting of attempts to influence legislation or participation in any political campaign on behalf of any active official or person who is or has been a candidate for public office.

MASSACHUSETTS

The profits shall be the property of the organization and shall be used for charitable, religious, or educational purposes, and shall not be distributed to the members of such organization.

MICHIGAN

The entire net proceeds of a bingo game or a millionaire party shall be devoted exclusively to the lawful purposes of the licensee. The entire net proceeds of a charity game shall be devoted exclusively to the lawful purposes of the qualified organization which conducted the charity game.

NEBRASKA

Pull-tabs

1. Lawful purpose, for a licensed organization making a donation of its net profits derived from its lottery by the sale of pickle cards (called pull-tabs in Minnesota) solely for its own organization, shall mean donating such net profits for any activity which benefits and is conducted by the organization, including any charitable, benevolent, humane, religious, philanthropic, youth sports, educational, civic, or fraternal activity conducted by the organization for the benefit of its members.
2. Lawful purpose, for a licensed organization making a donation of its net profits derived from its lottery by the sale of pickle cards outside of its organization, shall mean donating such net profits only to:
 - a. The State of Nebraska or any political subdivision thereof, but only if the contribution or gift is made exclusively for public purposes;
 - b. A corporation, trust, community chest, fund, or foundation:
 - i. Created or organized under the laws of Nebraska which has been in existence for five consecutive years immediately preceding the date of the donation and which has its principal office located in Nebraska;
 - ii. Organized and operated exclusively for religious, charitable, scientific, literary, or educational purposes, for the prevention of cruelty to children or animals, or to foster national or international amateur sports competition;
 - iii. No part of the net earnings of which inures to the benefit of any private shareholder or individual;
 - iv. Which is not disqualified for tax exemption under section 501(c)(3) of the Internal Revenue Code by reason of attempting to influence legislation; and
 - v. Which does not participate in any political campaign on behalf of any candidate for political office; or
 - c. A post or organization of war veterans or an auxiliary unit or society of, trust for, or foundation for any such post or organization:
 - i. Organized in the United States or in any territory or possession thereof; and
 - ii. No part of the net earnings of which inures to the benefit of any private share hold or individual.

3. No donation of profits under this section shall (a) inure to the benefit of any individual member of the licensed organization making the donation except to the extent it is in furtherance of the purposes described in this section or (b) be used for any activity which attempts to influence legislation or for any political campaign on behalf of any elected official or person who is or has been a candidate for public office.

Bingo

1. Lawful purpose, for a licensed organization making a donation of its profits derived from activities under the Nebraska Bingo Act solely to and for its own organization, shall mean donating such profits for any activity which benefits and is conducted by the organization, including any charitable, benevolent, humane, religious, philanthropic, recreational social, education, civic, or fraternal activity conducted by the organization for the benefit of its members.
2. Lawful purpose, for a licensed organization making a donation of its profits derived from the conduct of bingo outside of its organization, shall mean donating such profits only to:
 - a. A state, a territory or possession of the United States, any political subdivision of such state, territory, or possession, the United States, or the District of Columbia, but only if the contribution or gift is made exclusively for public purposes;
 - b. A corporation, trust, community chest, fund, or foundation:
 - i. Created or organized in the United States or in any territory or possession thereof or under the laws of the United States, any state, the District of Columbia, or any territory or possession of the United States;
 - ii. Organized and operated exclusively for religious, charitable, scientific, literary, or educational purposes, for the prevention of cruelty to children or animals, or to foster national or international amateur sports competition;
 - iii. No part of the net earnings of which inures to the benefit of any private shareholder or individual;
 - iv. Which is not disqualified for tax exemption under section 501(c)(3) of the Internal Revenue Code by reason of attempting to influence legislation; and
 - v. Which does not participate in any political campaign on behalf of any candidate for political office; or
 - c. A post or organization of war veterans or an auxiliary unit or society of, trust for, or foundation for any such post or organization;

- i. Organized in the United States or in any territory or possession thereof; and
 - ii. No part of the net earnings of which inures to the benefit of any private shareholder or individual.
3. No donation of profits under this section shall (a) inure to the benefit of any individual member of the licensed organization making the donation except to the extent it is in furtherance of the purposes described in this section or (b) be used for any activity which attempts to influence legislation or for any political campaign on behalf of any elected official or person who is or has been a candidate for public office.

NEW JERSEY

"Authorized purpose" - An educational, charitable, patriotic, religious or public-spirited purpose, which terms are defined to be the purpose of benefiting an indefinite number of persons either by bringing their minds or hearts under the influence of education or religion, by relieving their bodies from disease, suffering, or constraint, by assisting them to establish themselves in life, or by erecting or maintaining public buildings or works, or otherwise lessening the burden of government. Such terms do not include the erection, acquisition, improvement, maintenance or repair of property, real, personal, or mixed, unless such property is and shall be used exclusively for one or more of the purposes hereinabove stated.

NORTH DAKOTA

Net proceeds to be devoted to educational, charitable, patriotic, fraternal, religious, or other public-spirited uses.

"Education, charitable, patriotic, fraternal, religious, or other public spirited uses" are:

- a. To the extent used for purposes enumerated in subdivisions c through j, uses benefiting those organizations that are exempt from federal taxation under section 501(c)(3) of the Internal Revenue Code.
- b. To the extent used for purposes enumerated in subdivisions c through j, uses benefiting an organization registered with the North Dakota secretary of state under Chapter 50-22.
- c. Uses benefiting an indefinite number of persons either by bringing them under the influence of education, cultural programs, or religion or relieving them of disease, suffering, or constraint.

- d. Fraternal uses specified by an organization's constitution, charter, or bylaws not of direct benefit to the eligible organization or any member thereof.
- e. Uses increasing comprehension of and devotion to the principles upon which the nation was founded, not of direct benefit to the eligible organization or any member thereof.
- f. The erection or maintenance of public buildings or works.
- g. Uses otherwise lessening the burden of government.
- h. Uses benefiting a definite number of persons who are the victims of loss of home or household possessions through explosion, fire, flood, or storm and the losses uncompensated by insurance.
- i. Uses benefiting a definite number of persons suffering from a seriously disabling disease or injury causing severe loss of income or incurring extraordinary medical expense which is uncompensated by insurance.
- j. Uses, for community service projects, by chambers of commerce exempt from federal income tax under section 501(c)(6) of the Internal Revenue Code. A project qualifies as a community service project if it promotes the common good, enhances the social welfare of the community, and benefits an indefinite number of persons. The specific goals of a community service project may be to develop or promote public services in areas such as education, housing, transportation, recreation, crime prevention, fire protection and prevention, safety, and health. Uses that directly benefit a chamber of commerce do not qualify.

Such uses do not include the erection, acquisition, improvement, maintenance, or repair of real, personal, or mixed property unless it is used exclusively for one or more of the stated uses. Uses do not include any activities consisting of attempts to influence legislation, promote or oppose referendums or initiatives, or participation in any political campaign on behalf of any active official or person who is or has been a candidate for public office.

OHIO

A charitable organization shall use receipts for the charitable purposes listed in its license application. To use gross receipts for a charitable purpose means that the proceeds of the bingo game are used by, or given, donated, or otherwise transferred to, any organization that is described in subsection 509(a)(1), 509(a)(2), or 509(a)(3) of the Internal Revenue Code and is either a governmental unit or an organization that is tax exempt under subsection 501(a) and described in subsection 501(c)(3) of the Internal Revenue Code; that the proceeds of the bingo game are used by, or given, donated, or otherwise transferred to a veteran's organization, as defined in division (K) of this section, that is a post, chapter, or organization of war veterans, or an auxiliary

unit or society of, or a trust or foundation for, any such post, chapter, or organization organized in the United States or any of its possessions, at least seventy-five percent of the members of which are war veterans and substantially all of the other members of which are individuals who are veterans (but not war veterans) or are cadets, or are spouses, widows or widowers of war veterans, or such individuals, provided that no part of the net earnings of such post or organization insures to the benefit of any private shareholder or individual, and further provided that the bingo game proceeds are used by the post or organization for the charitable purposes set forth in division (B)(12) of section 5739.02 of the Revised Code, are used for awarding scholarships to or for attendance at an institution mentioned in division (B)(12) of section 5739.02 of the Revised Code, are donated to a governmental agency, or are used for nonprofit youth activities, the purchase of United States or Ohio flags that are donated to schools, youth groups, or other bona fide nonprofit organizations, promotion of patriotism, or disaster relief; that the proceeds of the bingo game are used by, or given, donated, or otherwise transferred to a fraternal organization that has been in continuous existence in this state for fifteen years for use exclusively for religious, charitable, scientific, literary, or educational purposes, or for the prevention of cruelty to children or animals and contributions for such use would qualify as a deductible charitable contribution under subsection 170 of the Internal Revenue Code; or that the proceeds of the bingo game are used by a volunteer firemen's organization and are used by the organization for the purposes set forth in division L of this section.

SOUTH DAKOTA

The statute does not define what constitutes a charitable or lawful purpose but instead limits the operation of lotteries or bingo games to bona fide religious, charitable, or educational institutions.

WASHINGTON

Proceeds must be used for organizational purposes as stated in organizational by-laws.

LAWFUL GAMBLING -- GROSS RECEIPTS AND NET PROFITS, Calendar Year 1988

Appendix B

	<u>Gross Receipts</u>	<u>Net Profits</u>	<u>Gross Receipts Per Capita</u>
Aitkin County	\$ 5,024,358.85	\$ 499,433.20	\$377.43
Anoka County	46,923,793.41	4,995,287.23	209.65
Becker County	14,004,906.51	1,014,097.32	448.69
Beltrami County	13,708,260.93	1,246,045.25	404.56
Benton County	8,161,851.94	718,122.77	292.68
Big Stone County	178,785.22	27,131.35	23.50
Blue Earth County	16,724,059.03	1,354,681.83	317.97
Brown County	4,130,274.64	434,342.45	147.26
Carlton County	7,406,631.04	504,438.56	260.48
Carver County	5,769,142.04	539,776.80	133.91
Cass County	8,270,782.30	643,960.39	390.39
Chippewa County	3,501,561.84	350,161.80	243.13
Chisago County	8,842,345.60	778,764.10	305.35
Clay County	12,198,709.42	789,320.85	246.70
Clearwater County	2,813,424.94	284,284.45	310.69
Cook County	877,471.70	83,246.78	205.19
Cottonwood County	1,631,281.47	158,429.01	121.14
Crow Wing County	28,191,326.04	2,185,045.20	646.85
Dakota County	26,199,516.14	2,583,756.95	109.39
Dodge County	1,154,362.00	115,332.39	76.09
Douglas County	7,671,158.40	688,077.40	256.17
Faribault County	2,656,254.37	266,412.55	146.42
Fillmore County	1,696,752.33	205,190.07	79.80
Freeborn County	5,218,434.27	471,855.84	150.84
Goodhue County	3,494,366.65	354,302.34	86.72
Grant County	769,190.87	65,757.01	109.79
Hennepin County	180,273,370.34	14,826,870.95	184.96
Houston County	2,467,815.33	398,775.43	129.99
Hubbard County	6,652,084.67	452,947.80	427.42
Isanti County	3,242,552.82	282,176.82	122.28
Itasca County	9,873,763.51	881,096.44	227.27
Jackson County	1,046,040.42	97,256.44	80.81
Kanabec County	6,304,842.65	480,164.59	492.46
Kandiyohi County	5,340,217.10	520,424.50	132.87
Kittson County	1,543,321.17	95,774.36	236.55
Koochiching County	3,379,169.22	255,292.76	214.19
Lac Qui Parle County	960,248.77	108,968.23	97.37
Lake County	2,168,612.86	228,244.84	192.88
Lake Of The Woods County	1,845,465.80	165,134.71	475.39

	<u>Gross Receipts</u>	<u>Net Profits</u>	<u>Gross Receipts Per Capita</u>
Le Sueur County	\$5,034,219.94	\$468,577.87	\$214.31
Lincoln County	446,845.00	41,166.39	58.07
Lyon County	2,300,084.53	257,065.28	90.00
Mahnomen County	1,065,519.90	76,572.98	191.96
Marshall County	2,760,812.84	205,064.90	220.87
Martin County	5,583,863.95	522,271.94	234.63
McLeod County	5,384,219.89	514,264.55	175.60
Meeker County	2,703,144.69	302,474.10	128.46
Mille Lacs County	12,888,549.18	1,197,698.09	686.63
Morrison County	12,811,549.73	927,805.39	424.61
Mower County	5,209,694.06	591,268.99	133.94
Murray County	333,983.55	46,670.91	31.11
Nicollet County	4,397,835.37	410,280.30	154.31
Nobles County	1,832,529.39	184,648.98	85.87
Norman County	2,801,044.81	204,831.46	312.89
Olmsted County	11,387,993.95	1,231,559.97	113.35
Otter Tail County	18,620,245.78	1,201,973.80	337.77
Pennington County	6,751,850.54	494,279.76	498.01
Pine County	10,876,307.93	1,124,998.11	516.09
Pipestone County	696,412.00	94,798.30	62.98
Polk County	15,537,013.70	1,249,674.90	461.09
Pope County	1,944,819.01	182,154.43	166.97
Ramsey County	78,666,838.82	7,620,339.94	167.43
Red Lake County	1,966,289.66	176,685.89	396.29
Redwood County	1,252,252.86	96,352.98	69.00
Renville County	1,315,122.54	125,053.42	69.41
Rice County	8,219,314.25	780,776.11	171.54
Rock County	928,796.09	84,372.21	90.03
Roseau County	3,797,627.06	306,018.32	271.04
Scott County	13,828,208.41	1,267,234.25	257.94
Sherburne County	18,143,241.95	1,774,166.59	495.72
Sibley County	2,321,508.54	203,406.20	151.15
St Louis County	62,624,267.78	4,049,655.48	312.11
Stearns County	24,969,019.07	2,723,286.64	213.25
Steele County	5,627,798.71	534,062.89	182.26
Stevens County	1,015,489.82	98,996.78	92.72
Swift County	1,837,091.88	146,997.29	150.23
Todd County	4,353,388.24	346,026.27	172.22
Traverse County	455,725.25	(81,371.56)	91.83
Wabasha County	3,901,839.43	376,017.43	202.13
Wadena County	4,007,428.64	274,513.16	292.52
Waseca County	3,061,588.25	259,826.34	162.67
Washington County	17,057,658.72	1,824,539.56	130.52
Watsonwan County	2,053,174.75	189,611.56	178.94
Wilkin County	709,667.00	56,427.60	87.88
Winona County	4,884,855.52	627,294.81	103.62
Wright County	14,639,834.28	1,164,710.42	222.35
Yellow Medicine County	<u>1,761,377.59</u>	<u>170,167.17</u>	<u>141.13</u>
Grand Total	\$877,084,451.46	\$76,875,650.91	\$221.73

CLASSIFICATION OF LAWFUL PURPOSE CONTRIBUTIONS

Appendix C

The classification system described below was developed after discussions with gambling officers, legislators, and other people. The system's 48 classifications are an attempt to accurately show where the money from lawful gambling went during the period examined. But gambling proceeds go to many different purposes and places, and an exact classification is difficult. The high number of "other" categories shows how many donations just didn't fit in to the system.

The classification of individual contributions was based almost completely on the description of the donation given on the Schedule C by the gambling licensee. With the exception of some expenditures chosen at random for a more detailed follow up, few of the organizations were contacted regarding what they had reported on their tax form.

If there was any doubt as to where the funds went, a decision rule based on the actual recipient of the donation was used. In most cases, though, the classification of the individual donations was fairly clearcut.

TAXES

- **Local Taxes:** Property taxes and local gambling taxes.
- **State Taxes:** Gambling taxes paid to distributors, and other miscellaneous state taxes.
- **Federal Taxes:** Federal Gaming Taxes and some unspecified withholding taxes.

AID TO INDIVIDUALS

These classifications are for lawful purpose expenditures which directly benefited an individual or group of individuals, as opposed to donations to an orga-

nization. Many of these expenditures seem to have benefited members of the licensee organization or their families. For example, many organizations have a standing policy of sending cash or flowers to hospitalized members. No specific breakdown of such contributions was done, and an accurate listing could not be made without membership lists or similar information.

- **Awards and Prizes:** Plaques, trophies, prizes, and cash awards for a variety of programs.
- **Parties and Picnics:** Parties and entertainment organized for various groups. These include bingo parties for nursing home or VAMC (Veteran's Administration Medical Center) residents, senior citizen's dances and trips, high school graduation parties, and children's picnics and holiday parties.
- **Dinners/Luncheons:** Dinners and banquets for a variety of purposes, including sports banquets, senior citizen's dinners, police and fire appreciation banquets, funeral lunches, and blood donor dinners.
- **Gifts to individuals:** Includes personal care items given to nursing home residents and hospital patients, toys for needy children, fruit baskets, and cash gifts to individuals.
- **Individual Housing:** Housing related expenses, such as rent, major home repairs, or utilities assistance for individuals. This category also includes lodging costs for indigents, stranded travelers, and veterans traveling to a VAMC.
- **Individual Food:** Donations to food shelves and food given to individuals.
- **Individual Clothing:** Articles of clothing donated to individuals.
- **Individual Transportation:** Furnishing transportation to individuals, such as rides to the VAMC for blood donors or taking nursing home residents shopping.
- **Condolences/Flowers:** Flowers for hospital patients and funerals, memorials to individual persons, condolences, and similar expenses.
- **Scholarships for individuals:** Scholarships given directly to individuals. Scholarships given to schools are classified under schools.
- **Other Individual Aid:** Includes sponsoring contestants in beauty pageants, Boys/Girls State participants, individual camperships, and other unclassified aid to individuals.

- **Individual Medical Aid:** Medical equipment for individuals and for community use, donations for hospital costs, and other medical expenses for individuals. This category also includes donations to funds for medical aid to specific individuals.
- **Individual Unspecified Hardship Cases:** Cash donations to individuals. Also includes paying organization dues for needy members and similar expenses.

MEDICAL

- **Medical Research:** Includes donations to groups such as the MS Society, Muscular Dystrophy, and the American Cancer Society, as well as to certain proprietary research funds such as the Lion's Heart Fund, and the Eagle's Art Ehrman Cancer Fund.
- **Donations to Hospitals, Donations to Nursing Homes, Donations to Veteran's Hospitals/Nursing Homes:** Donations of equipment, gifts for patients, as well as donations of funds for patient/resident parties, hospital auxiliaries, and similar purposes. Some of these are similar to expenditures recorded under some of the individual categories. The difference is that in this case, donations went to the hospital or nursing home instead of directly to individuals.

VETERAN'S ORGANIZATIONS

- **Ceremonial:** This includes expenses for color guards, ritual burial squads, and similar groups, as well as the purchase of flags for general distribution.
- **Veterans Other:** Donations to veterans or military related causes, activities, or organizations. This includes donations to the various state- or nation-wide funds run by veterans groups, and various war memorial funds, as well as to individual posts of veterans groups.
- **Veteran's Scholarships:** Scholarship funds sponsored by veteran's groups.
- **Legionville:** Donations to the American Legion's school patrol training camp.

AID TO GOVERNMENTAL UNITS

- **Park & Recreation Departments:** Donations for programs such as youth sports or senior recreation, land acquisition or other capital projects, equipment, and maintenance.
- **Police:** Donations to law enforcement agencies for a variety of purposes, including bullet-proof vests, communications and other equipment, and youth programs.
- **Fire:** Donations to Fire Departments for a variety of purposes, including major equipment purchases such as fire trucks and rescue equipment, pension and benefit funds and youth programs. This category also includes donations to rescue units.
- **School Sports:** Donations to public schools for sports teams and programs.
- **Schools - Academic:** Donations to public schools for academic programs and equipment.
- **Schools - Extracurricular:** includes flags donated to schools, drug awareness and prevention programs, foreign language clubs, bands, choir, and other non-athletic extra-curricular activities.
- **Scholarships given to schools:** Scholarship funds given directly to public schools.
- **Other Government:** Donations of funds and services to units of state and local government for a wide variety of purposes. This includes flags for government display, construction of community centers, Christmas decorations, donations to county historical societies, Regional Treatment Centers, and Christmas funds for juvenile correctional facilities.

YOUTH TEAM SPORTS

These categories include donations of money, equipment, and fees directly to non-school teams as well as to various sports booster clubs which may or may not be aligned with school teams.

- **Baseball/Softball**

- **Hockey:** Donations of money, equipment, and fees, as well as costs incurred by certain youth hockey associations in building and operating ice arenas.
- **Other Youth Sports:** Major components of this category include basketball, soccer, and wrestling.

ADULT TEAM SPORTS

This category includes donations for what appeared to be adult teams as well as those for which it wasn't specified whether the program was for adults or youth, but most likely adult sports. Included in this category are bowling teams, men's and women's softball, and many other sports.

GENERAL CONTRIBUTIONS TO CHARITABLE GROUPS

- **Youth Services:** Boy and Girl Scouts, Campfire, gun safety programs, and many anti-drug abuse programs and other youth-related programs.
- **Other Human Services:** Includes United Way and other combined fund drives, meals on wheels programs, shelters for the homeless, Minnesota Special Olympics, Camp Courage, Camp Confidence, and many others.
- **Conservation:** Ducks Unlimited, Pheasants Forever, and other conservation groups, as well as various deer feeding programs.
- **Civic Festivals & Community Events:** Donations for Fourth of July and Memorial Day celebrations, as well as more specific celebrations such as, for example, the Hopkins Raspberry Festival and other local events.
- **Other Groups:** Fraternal and service organizations, chambers of commerce, and Jaycees, as well as professional organizations such as the Minnesota Chiefs of Police Association, arts and cultural groups, public television, and other non-profit organizations.
- **Religious Groups:** Churches, religious youth groups, and religious fraternal organizations, as well as donations to parochial schools.

- **Lobbying Organizations:** Donations to groups whose primary purpose it is to influence the opinions of legislators, voters, and the general public and/or to effect the passage of legislation favorable to their cause. The category includes donations to Minnesota Citizens Concerned for Life and other anti-abortion groups, as well as to Greenpeace, the NAACP, and Mothers Against Drunk Driving.

ADMINISTRATIVE AID TO OWN ORGANIZATION

- **Travel:** Unallocated travel expenses which appear to be used primarily for organizational purposes.
- **Building:** Capital and maintenance costs for a building owned or used by the organization primarily for the organization's meetings and/or gambling. In the case of organizations whose buildings serve a primary purpose different from that of a meeting place for the group, such as youth hockey associations or shelters, their building and maintenance costs are coded under the service provided by the group.
- **Gambling Seminars and Training:** Expenses for attendance at gambling seminars and training, usually including travel and housing costs for the seminar.
- **Other:** Organization officer and staff training unrelated to gambling, as well as public relations and advertising costs, and other unclassified organizational costs.
- **Lobby Related:** Dues for Allied Charities, and expenses incurred in connection with legislative breakfasts and other lobbying activities.
- **Public Service Announcements:** Radio announcements regarding Veterans Day, Memorial Day, and others.

CONTRIBUTIONS TO SENIOR CITIZEN PROGRAMS

This category is used only for donations to groups serving or consisting of seniors, such as the Retired Senior Volunteers, the Seven County Senior Federation, and various local senior citizen's centers. Services rendered by licensees to individual seniors (such as senior transportation for shopping trips) are coded under the appropriate "Aid to Individuals" category.

SELECTED PROGRAM EVALUATIONS

<i>Board of Electricity, January 1980</i>	80-01
<i>Twin Cities Metropolitan Transit Commission, February 1980</i>	80-02
<i>Information Services Bureau, February 1980</i>	80-03
<i>Department of Economic Security, February 1980</i>	80-04
<i>Statewide Bicycle Registration Program, November 1980</i>	80-05
<i>State Arts Board: Individual Artists Grants Program, November 1980</i>	80-06
<i>Department of Human Rights, January 1981</i>	81-01
<i>Hospital Regulation, February 1981</i>	81-02
<i>Department of Public Welfare's Regulation of Residential Facilities for the Mentally Ill, February 1981</i>	81-03
<i>State Designer Selection Board, February 1981</i>	81-04
<i>Corporate Income Tax Processing, March 1981</i>	81-05
<i>Computer Support for Tax Processing, April 1981</i>	81-06
<i>State-sponsored Chemical Dependency Programs: Follow-up Study, April 1981</i>	81-07
<i>Construction Cost Overrun at the Minnesota Correctional Facility - Oak Park Heights, April 1981</i>	81-08
<i>Individual Income Tax Processing and Auditing, July 1981</i>	81-09
<i>State Office Space Management and Leasing, November 1981</i>	81-10
<i>Procurement Set-Asides, February 1982</i>	82-01
<i>State Timber Sales, February 1982</i>	82-02
<i>Department of Education Information System,* March 1982</i>	82-03
<i>State Purchasing, April 1982</i>	82-04
<i>Fire Safety in Residential Facilities for Disabled Persons, June 1982</i>	82-05
<i>State Mineral Leasing, June 1982</i>	82-06
<i>Direct Property Tax Relief Programs, February 1983</i>	83-01
<i>Post-Secondary Vocational Education at Minnesota's Area Vocational- Technical Institutes,* February 1983</i>	83-02
<i>Community Residential Programs for Mentally Retarded Persons,* February 1983</i>	83-03
<i>State Land Acquisition and Disposal, March 1983</i>	83-04
<i>The State Land Exchange Program, July 1983</i>	83-05
<i>Department of Human Rights: Follow-up Study, August 1983</i>	83-06
<i>Minnesota Braille and Sight-Saving School and Minnesota School for the Deaf,* January 1984</i>	84-01
<i>The Administration of Minnesota's Medical Assistance Program, March 1984</i>	84-02
<i>Special Education,* February 1984</i>	84-03
<i>Sheltered Employment Programs,* February 1984</i>	84-04
<i>State Human Service Block Grants, June 1984</i>	84-05
<i>Energy Assistance and Weatherization, January 1985</i>	85-01
<i>Highway Maintenance, January 1985</i>	85-02
<i>Metropolitan Council, January 1985</i>	85-03
<i>Economic Development, March 1985</i>	85-04
<i>Post Secondary Vocational Education: Follow-Up Study, March 1985</i>	85-05
<i>County State Aid Highway System, April 1985</i>	85-06
<i>Procurement Set-Asides: Follow-Up Study, April 1985</i>	85-07

<i>Insurance Regulation</i> , January 1986	86-01
<i>Tax Increment Financing</i> , January 1986	86-02
<i>Fish Management</i> , February 1986	86-03
<i>Deinstitutionalization of Mentally Ill People</i> , February 1986	86-04
<i>Deinstitutionalization of Mentally Retarded People</i> , February 1986	86-05
<i>Management of Public Employee Pension Funds</i> , May 1986	86-06
<i>Aid to Families with Dependent Children</i> , January 1987	87-01
<i>Water Quality Monitoring</i> , February 1987	87-02
<i>Financing County Human Services</i> , February 1987	87-03
<i>Employment and Training Programs</i> , March 1987	87-04
<i>County State Aid Highway System: Follow-Up</i> , July 1987	87-05
<i>Minnesota State High School League</i> , * December 1987	87-06
<i>Metropolitan Transit Planning</i> , January 1988	88-01
<i>Farm Interest Buydown Program</i> , January 1988	88-02
<i>Workers' Compensation</i> , February 1988	88-03
<i>Health Plan Regulation</i> , February 1988	88-04
<i>Trends in Education Expenditures</i> , * March 1988	88-05
<i>Remodeling of University of Minnesota President's House and Office</i> , March 1988	88-06
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*These reports are also available through the U.S. Department of Education ERIC Clearinghouse.