

**Minnesota  
Gambling Control Board  
And  
Department of Revenue**



**Report on Automation and Consolidation of  
Reporting Requirements for Lawful  
Gambling**

**January 2007**

Prepared by the Gambling Control Board in consultation with the Department of Revenue

## **Executive Summary**

The Gambling Control Board and the Department of Revenue should formulate a plan for the allowance of electronic filing of records and reports pertaining to lawful gambling activities. The plan should include the primary focus of the monthly reports currently filed with the state and the consolidation of the reports for purposes of efficiency with one agency. Given the fact that the majority of the monthly data pertains to financial/tax reporting, the Department of Revenue would be considered the lead agency for purposes of electronic data collection and share the data with the Gambling Control Board.

Additionally, the Gambling Control Board should continue its efforts to automate the license (renewal) application process and include the allowance for electronic payment of fees.

The progress towards implantation of an electronic filing system is dependent upon sufficient funding and project priority by each agency.

The cost of preparing this report was minimal (estimated to be \$500 or less) and costs were absorbed by each agency.

## **Background**

The Session Laws of 2006 – Chapter 205, directed the Gambling Control Board and the Department of Revenue to conduct a feasibility study pertaining to the consolidation and automation of reporting requirements for lawful gambling activities.

The request for the study was initiated after the passage of a bill during the 2005 legislative session requiring all licensed gambling organizations to file an annual financial summary report to its members and the Gambling Control Board. The one-page summary report from each licensed organization includes the gross receipts, prizes paid, net receipts, allowable expenses and detail (by category) for lawful purpose expenditures. The reports are submitted to the Gambling Control Board and reviewed for accuracy and manually entered into a database. The Gambling Control Board prepares the final report and submits it to the legislature and Governor annually.

The issue of this feasibility study focuses on the claim that data required to be reported in the annual financial summary by each licensed organization is already provided to the state and therefore there is no need for the organizations to file another report.

On a monthly basis, each licensed organization is required to file a financial/tax report to Revenue depicting the financial activity from lawful gambling and on a separate monthly report to the Gambling Control Board, a report depicting just the lawful purpose expenditures (charitable donations). The data contained in the monthly reports is factored into the annual financial summary but is currently provided by each individual licensed organization.

## **Initial Review**

Currently the Department of Revenue and the Gambling Control Board provide over 100 separate forms and reports for the regulation and financial/tax reporting for lawful gambling activities. The majority of those forms are used internally by the organizations. Only five forms are required for monthly financial/tax reporting to Revenue. For purposes of this study, the use and distribution of these records are divided into the following categories:

- Licensing
- Compliance
- Board Requests
- Financial/Tax Reporting
- Miscellaneous (local city/county reports)

The majority of these reports are provided by the Gambling Control Board and considered to be “internal forms” used by the licensed organizations to assist in the management and accounting of their gambling operations (i.e. physical inventory forms, pull-tab audit sheets, etc). License application forms represent another large percentage of the forms used for lawful gambling. Separate application forms are used for each licensee (manufacturers, distributors, non-profit organizations, etc).

Only a small percentage of the tax forms/reports are routinely filed with the state. On an average basis, only 5 separate forms are filed on a monthly basis with the state (four pertain to the financial/tax reporting and one pertains to the lawful purpose expenditures).

Nearly all of the forms/reports from the licensee are manually submitted to the state and the pertinent data manually entered into the state system. Currently there is no allowance or capability to file these reports/data electronically with the state.

## **Electronic Availability vs Electronic Filing**

All of the forms/reports are available to the licensees electronically. Both Revenue and the Gambling Control Board make the forms available for electronic download from their respective websites. Additionally, independent vendors/contractors (consultants, accountants) have duplicated many of the forms and reports electronically to assist in the reporting and accounting for lawful gambling activities.

Currently no lawful gambling forms or reports are permitted to be filed electronically by the licensed charitable organizations. (The only allowance for automated reporting involves the inventory records from the licensed distributors and manufacturers.) The Department of Revenue does allow for the electronic payment of taxes and fees associated with the monthly tax reports.

## **Manual Processing**

Without the ability to electronically transfer the data, much of the data from the forms and reports filed with the state are entered manually into an accounting system. Department of Revenue staff manually enters the data from the monthly financial/tax reports submitted by each licensee (approximately 1,400 each month). Organizations are required to file their monthly financial/tax report with Revenue by the 20<sup>th</sup> of the following month after the activity was conducted. The data from the tax reports is entered by Revenue and available for review usually within one month of receipt of the reports.

The Gambling Control Board separately receives the monthly report of lawful purpose expenditures from each licensee but does not enter the data into any electronic format. The reports are initially reviewed by Gambling Control Board staff for completion and manually filed. The lawful purpose expenditure reports are not reviewed again until there is a formal compliance review or random audit.

## **Priority of Form Automation/Consolidation**

For purposes of this study, the primary focus of consolidation and automation pertains to the monthly reports filed by each organization with the respective state agencies. The data contained in these relatively few reports is crucial to the auditing and regulatory oversight used by Revenue and the Gambling Control Board.

Additionally, the Gambling Control Board is currently revising their information system applications to address the license application process and hopes to include electronic filing as part of the plan. (Representatives from the Gambling Control Board have participated in the statewide Drive to Excellence project involving a centralized one-stop licensing process and will continue, but the agency also plans to continue developing its electronic filing of applications with its current software applications.)

The other forms used or maintained by the licensees, while important for internal controls and monitoring, do not merit the same focus as the state-filed forms and reports since the internal forms are maintained by each individual organization and the data is not shared with other organizations.

## **Obsolete Forms & Reports**

Both agencies regularly review all forms and reports. All Revenue forms and reports were updated as of November, 2006 and the Gambling Control Board recently completed their form review as part of the revised Rule edit and Public Advisory Committee meetings in 2006.

### **Fees with Forms**

A number of forms are associated with the payment of fees (primarily the licensing forms from the Gambling Control Board). As stated previously, the Department of Revenue does allow for the electronic payment of tax and fees related to the manually filed financial/tax reports but currently the Gambling Control Board does not have the same capability.

All license applications and fees are processed manually. For fiscal year 2006 the Gambling Control Board collected and deposited over \$1.6 million in fees and penalties. The Department of Revenue, in addition to the monthly gambling taxes also collected over \$1.3 million in regulatory fees. Each month Revenue transfers regulatory fee receipts to the Gambling Control Board's dedicated account.

### **No Duplication of Effort**

Based on a recent program evaluation by the Office of the Legislative Auditor, the data collection, review and monitoring of lawful gambling activities done by the Department of Revenue and the Gambling Control Board are independent of each other and do not duplicate regulatory efforts. The Department of Revenue monitors for tax compliance based on the sales activities and inventory reporting while the Gambling Control Board regulates the conduct and integrity of the games and the disbursement of net receipts.

### **Cost Savings Potential**

Based on current methods for filing and processing of the monthly reports, there are opportunities for savings for the organizations, i.e. no mailings; no bar codes if games reported electronically; no printing of documents for mailings; and no duplication of filing information. Savings to the Board and Revenue are minimal, because resources and efforts would be redirected to improved service and regulation. With electronic filing of the monthly reports with the state, there would be a significant increase in data to analyze which would create greater access to data. As a result, the Board and Revenue could target efforts toward improved regulation and service and also have the capability to respond to problems and data errors more quickly.

The Board does not have sufficient funding to develop a system to accept electronic filing of gambling financial/tax reports or gambling license applications. The Department of Revenue currently has not made electronic filing of gambling financial/tax reports a priority at the present time. Depending on design decisions, implementing electronic filing, including Revenue's receipt of certain forms currently filed with the Gambling Control Board, may cost up to \$200,000 and take six months to complete. The department lacks sufficient human resources to oversee such a project in this biennium.

### **Dual Systems – Manual & Automated**

If the state were to proceed and develop a method to accept electronic submission of records, provisions would still be needed for a number of charitable organizations that do not have the capability to file electronically. Alternatively, a legislative mandate could be written to require the electronic filing of reports (with adequate time for implementation) with exceptions for smaller organizations or for organizations with no access to internet services. The industry is supportive of changing to an electronic format for filing but concerned over any additional cost to achieve that result.

## **Consolidated Reporting**

The majority of the monthly reports filed with the state pertain to the financial/tax filings based on sales activities, prize redemption, inventory reconciliation, and summary of expenses. The lawful purpose contribution/expenditure reports required to be filed separately with the Gambling Control Board could be merged with the tax reports for uniformity in reporting (to one agency). The monthly detail of lawful purpose contributions/expenditures could simply be treated as an additional schedule (attachment) to the financial/tax reports filed with Revenue.

The ability to consolidate and automate the monthly reports would also eliminate the need for a separate financial summary report filed by each organization – which was the basis for this study.

Revenue estimates the cost of system changes for consolidated reporting without electronic filing would be approximately \$30,000. Revenue would perform data entry work to enter the additional schedules into the system.

## **Obstacles and issues**

Based on the core data filed (tax related), the Department of Revenue would be the lead agency to direct the consolidation and automation of the lawful gambling reports. The automation of these reports (under the Special Taxes Division in the Department of Revenue) is under consideration but will not be implemented in this biennium because other projects have a higher priority and because of a limitation of human resources available at the current time.

If progress is made towards automation of reporting by licensed organizations, allowance would still need to be considered for the few organizations that have limited or no means for electronic filing and reporting.

## **Recommendation**

The consolidation of these reports, while small in number, is significant in terms of importance for cost savings to the organizations and regulatory oversight for the state. Certain efficiencies would be achieved at the state-level and for each licensed organization. Prompt reporting and analysis would also benefit the regulation of the activity.

The Gambling Control Board and the Department of Revenue should continue to work together and formulate a plan for the consolidation and automation of the monthly reports filed with the state.

**Attachment:** Summary of lawful gambling forms used in Minnesota

FORM	FORM NAME/CATEGORY	Sent to	Fee	Attachments
	<b>TAX FORMS &amp; Worksheets</b>			
<b>G1</b>	Lawful Gambling Monthly Summary and Tax Return	DOR	No	Yes
<b>Schedule A</b>	Gambling Receipts and Expenses by Site	DOR	No	No
<b>Schedule B2</b>	Report of Barcoded Games	DOR	No	Yes
<b>Bar code labels</b>	Barcode Label Sheet (attached to Schedule B)	DOR	No	Yes
<b>G74</b>	Distributor Monthly Pulltab and Tipboard Sales Report and Tax Return (submitted by distributors)	DOR	No	
<b>G7430</b>	Refund for Tax Paid on Unsold Pulltab and Tipboard Tickets (submitted yearly)	DOR	No	No
<b>Schedule ER</b>	Tax Credit for Exempt Raffles	DOR	No	No
<b>Schedule F</b>	Gambling Fund Reconciliation	DOR	No	No
<b>LG1010</b>	Schedule C/D – Report of LPE (total on G1)	GCB	No	Maybe
	<b>Internal forms kept by organization</b>			
<b>Schedule E</b>	Gambling Combined Receipts Tax	Organization keeps		
<b>Worksheet ADV</b>	Lawful Gambling Advertising Expenses	Organization keeps		
<b>Worksheet CS</b>	Lawful Gambling Cash Shortage Reimbursement	Organization keeps		
<b>LG216</b>	Worksheet for Calculating Lawful Gambling Monthly Rent	Organization keeps		
<b>Worksheet EC</b>	Lawful Gambling Expense Calculation (Revenue form submitted to GCB if amount negative)	GCB	No	Yes

<b>LICENSED ORGANIZATIONS – LICENSING</b>				
<b>LG200A</b>	Organization License Application	GCB	Yes	Yes
<b>LG200B</b>	Organization Officers Affidavit	GCB	No	No
<b>LG201</b>	Internal Controls Form (being deleted by rule)			
<b>LG204</b>	License Termination Plan	GCB	No	Yes
<b>LG209</b>	Registration of Paid Gambling Employee	GCB	No	No
<b>LG210R</b>	Organization License Renewal (Preprinted renewal)	GCB	Yes	Yes
<b>LG212</b>	Gambling Manager Application	GCB	Yes	No
<b>LG212GMR</b>	Gambling Manager Renewal (Preprinted renewal)	GCB	Yes	No
<b>LG214</b>	Premises Permit Application	GCB	Yes	Yes
<b>LG214PPR</b>	Premises Permit Renewal (Preprinted renewal)	GCB	Yes	Yes
<b>LG215</b>	Lease for Lawful Gambling Activity	GCB	No	No
<b>LG230</b>	Application to Conduct Annual Off-Site Gambling	GCB	No	Yes
<b>LG224</b>	Lease to Conduct Annual Off-Site Gambling Activity	GCB	No	No
<b>LICENSED ORGANIZATION – MISC.</b>				
<b>LG811</b>	Bingo Occasion Summary/Hard Cards - report cash discrepancy over \$50 <b>Only if discrepancy over \$50</b>	GCB	No	No
<b>LG909</b>	Bingo Occasion Summary/Bingo Paper - report cash discrepancy over \$50 <b>Only if discrepancy over \$50</b>	GCB	No	No
<b>LG1005</b>	Request for Mentoring	GCB	No	No
<b>BOARD REQUEST FORMS</b>				
<b>LG250</b>	Fund Loss Request (Profit Carryover Adjustment) (attachments)	GCB	No	Yes
<b>LG251</b>	Rules Variance Request	GCB	Yes	Optional
<b>LG261</b>	Property Expenditures Request -meeting place or event location.	GCB	No	Yes
<b>LG262</b>	Property Expenditures Request - fire or natural disaster.	GCB	No	Yes
<b>LG263</b>	Property Expenditures Request - eminent domain (attachments)	GCB	No	Yes
<b>LG266</b>	Property Expenditures Request - capital assets used exclusively for lawful purpose.	GCB	No	Yes
<b>LG270</b>	Request to Contribute Gambling Funds to Another Licensed Gambling Organization	GCB	No	Optional

FORM	FORM NAME/CATEGORY	Sent to	Fee	Attachments
	<b>PERMITS FOR EXEMPT/EXCLUDED ORGANIZATIONS</b>			
LG220	Application for Exempt Permit (fee, attachment)	GCB	Yes	Yes
LG240B	Application to Conduct Excluded Bingo (attachment)	GCB	No	Yes
	<b>CITY OR COUNTY</b>			
LG500	City or County Annual Report, Up To 3% Regulatory	GCB	No	No
LG510	City or County Annual Report, 10% Contribution Fund	GCB	No	No
	<b>LINKED BINGO GAME PROVIDER</b>			
LG350	Linked Bingo Game Provider License Application	GCB	Yes	Yes
LG351	Linked Bingo Game Provider Personnel Information	GCB	No	No
	<b>DISTRIBUTOR</b>			
LG400	Distributor License Application	GCB	Yes	Yes
LG410	Distributor Personnel Information	GCB	No	No
LG411	Distributor Salesperson License Application (fee)	GCB	Yes	No
LG420	Distributor to Organization Lease Agreement for Pull-Tab Dispensing Device	GCB	No	No
LG422	Distributor License Termination Plan	GCB and Revenue	No	No
LG423	Distributor to Organization Sales Agreement for Pull-Tab Dispensing Device	GCB	No	No
LG431	State Registration Stamp Order Form	GCB	No	No
LG432	Registration of Permanent Equipment Form	GCB	No	No
LG460	Distributor Pricing Report (Guidelines)	GCB	No	No
LG461	Delinquent Organization Report	GCB	No	No

FORM	FORM NAME/CATEGORY	Sent to	Fee	Attachments
	<b>MANUFACTURER</b>			
LG600	Manufacturer License Application	GCB	Yes	Yes
LG610	Manufacturer Personnel Information	GCB	No	No
LG620	Manufacturer to Distributor Lease Agreement for Pull-Tab Dispensing Device	GCB	No	No
LG621	Manufacturer's Returned Equipment Report	GCB	No	No
LG623	Manufacturer to Distributor Sales Agreement for Pull-Tab Dispensing Device	GCB	No	No
LG660	Manufacturer Pricing Report	GCB	No	No
LG661	Delinquent Distributor Report	GCB	No	No
	<b>Miscellaneous Forms</b>			
LG202	Internal Control Guidelines Worksheet	Organization keeps		
LG281	Pull-tab Dispensing Device - Key Log	Organization keeps		
LG282	Pull-Tab Dispensing Device Access Log	Organization keeps		
LG283	Cash Register Cash Count Report	Organization keeps		
LG284	Cash Register Discrepancy Report	Organization keeps		
LG285	Cash Register Monthly Reconciliation Report	Organization keeps		
LG286	Pull-Tab Dispensing Device Game Receipts Tracking	Organization keeps		
LG287	Pull-Tab Dispensing Device Prize Bank Reconciliation	Organization keeps		
LG470	Progressive Tipboard Jackpot Tracking Record	Organization keeps		
LG471	Progressive Tipboard Contact Information	Organization keeps		
LG472	Progressive Tipboard Jackpot Prize Receipt	Organization keeps		
LG473	Progressive Tipboard Audit Record	Organization keeps		
LG474	Progressive Tipboard Jackpot Monthly Worksheet	Organization keeps		
LG710	Citation for Violation of Statute/Rule In-house form	Returned to GCB		
LG750	Paddlewheel with Table - Daily Report	Organization keeps		
LG751	Paddlewheel with Table - Daily Sales Report	Organization keeps		
LG752	Paddlewheel with Table - Operator's Percentage of Hold	Organization keeps		
LG807	Bingo Hard Card Sales	Organization keeps		
LG808	Bingo Checker's Sheet/Hard Cards	Organization keeps		
LG809	Prize Winner Sheet/Hard Cards	Organization keeps		
LG810	Caller Verification Form/Hard Cards	Organization keeps		
LG820	Raffle Inventory and Sales Log	Organization keeps		
LG821	Physical Inventory/Raffles	Organization keeps		
LG830	Merchandise Prize Perpetual Inventory	Organization keeps		
LG844	Perpetual Inventory/Pull-Tabs, Tipboards, and/or Paddletickets	Organization keeps		

<b>FORM</b>	<b>FORM NAME/CATEGORY</b>	<b>Sent to</b>	<b>Fee</b>	<b>Attachments</b>
<b>LG846</b>	Physical Inventory/Pull-Tabs, Tipboards, and/or Paddletickets Monthly Report	Organization keeps		
<b>LG847</b>	Current Site Inventory List	Organization keeps		
<b>LG853</b>	Pull-Tab Inspection Check List	Organization keeps		
<b>LG854</b>	Pull-Tab Dispensing Device Inspection Check List	Organization keeps		
<b>LG855</b>	Paddlewheel (W/O Paddlewheel Table) Inspection Check List	Organization keeps		
<b>LG856</b>	Paddlewheel (w/Paddlewheel Table) Inspection Check List	Organization keeps		
<b>LG857</b>	Tipboard Inspection Check List	Organization keeps		
<b>LG859</b>	Bingo Inspection Check List	Organization keeps		
<b>LG861</b>	Site Control - Tracking and Auditing of Pull-Tab Game	Organization keeps		
<b>LG900</b>	Perpetual Inventory Control/Bingo Paper	Organization keeps		
<b>LG901</b>	Perpetual Inventory Control/Commingled Bingo Paper	Organization keeps		
<b>LG902</b>	Perpetual Inventory Control/Bingo Paper Packages	Organization keeps		
<b>LG903</b>	Physical Inventory Control/Bingo Paper Monthly Summary	Organization keeps		
<b>LG904/LG905</b>	Admission Sales & Summary/Bingo Paper	Organization keeps		
<b>LG906</b>	Floor Sales/Bingo Paper	Organization keeps		
<b>LG907</b>	Bingo Game Prize Winner Sheet/Bingo Paper	Organization keeps		
<b>LG908</b>	Caller Verification Form/Bingo Paper	Organization keeps		
<b>LG910</b>	Progressive Prize Information Worksheet	Organization keeps		
<b>LG913</b>	Bingo Program Check List	Organization keeps		
<b>LG1001</b>	Speaking Engagement Request	Organization keeps		
<b>LG1003</b>	Complaint Form for Denied Funding (not on web site)	GCB	No	Maybe
<b>LG1004</b>	Monthly Gambling Report to Members	Organization keeps		
<b>LG0007</b>	Prize Receipt Form	Organization keeps		