

CHARITABLE GAMING COMMONWEALTH OF VIRGINIA

Auditing Techniques



Charitable Gaming in Virginia

- ❑ An activity conducted by qualified non-profit organizations to raise funds for their charitable, religious, educational or community purposes.
- ❑ Bingo, instant/pull-tabs, and raffles are the only activities permitted.
- ❑ Primarily conducted by volunteer workers.
- ❑ Managed and conducted by the non-profit organization.

Charitable Gaming Background

- ❑ Currently, 367 non-profit organizations are licensed to conduct charitable gaming in Virginia.
- ❑ Licenses are required when receipts in any 12-month period are expected to exceed \$40,000.
- ❑ Licensed organizations are required to disburse 10% of gaming gross receipts for charitable, religious, educational or community purposes each calendar year (Use of Proceeds).
- ❑ Licensed organizations are required to file quarterly and annual financial reports.
- ❑ An audit and administration fee of 1.125% of gross receipts is charged.

Audit Program

- ❑ Current audit staff of 5
- ❑ Audit team also conducts administrative functions such as report processing, revenue reconciliation and collections.
- ❑ Assists local and State Police with criminal investigations.
- ❑ The program also employs game inspectors and licensing staff.



Goals of Program

- ❑ To Ensure:
 - All gaming receipts are reported.
 - All gaming funds are disbursed for allowable purposes.
 - Internal controls are in place.
 - The 10% Use of Proceeds requirement is met.



Initial Scope

- ❑ In most cases audits are initially assigned as a financial audit which consists of:
 - A paper analysis
 - An instant/pull-tab analysis
 - An electronic bingo comparison
 - A review of Use of Proceed Disbursements

Ensure all Gaming Receipts are Reported

- ❑ Organizations are required to purchase all gaming supplies from a registered supplier.
- ❑ Suppliers report all sales transactions to our office annually.
- ❑ For both bingo paper and instant deals inventory, organizations must:
 - Maintain storeroom inventory records.
 - Conduct a physical inventory count as of December 31st.
 - Report ending inventory on the annual financial report.

Paper Analysis

An initial analysis is conducted based on the game program, beginning inventory, purchases from the supplier, and ending inventory:

$$\text{Expected Receipts} = (\text{Beginning Inventory} + \text{Supplier Purchases} - \text{Ending Inventory}) \times \text{Sales Price}$$



Paper Analysis Worksheet

- ❑ Data is entered onto a worksheet to calculate expected receipts and compare to reported receipts.
- ❑ Auditor makes adjustments, based on:
 - Game program
 - Player count
 - Average purchases of paper types
 - Electronic Sales

Audit Workbook- Paper Analysis Excerpt

Game Description per Game Program	Description of Paper	PKN	PKF	Purchases (units per supplier)	Beginning Inventory (units)	Ending Inventory (units)	Net change (purchases - ending + beginning)	Inventory Expected (units)	Receipts	Adjustment	Expected Receipts	Comments
Electronic control as a unit				0.000								
Games on computers												
Player Count				0.000								
Circle Admission	Admission Large	1	18	2000	100	94	1906	2000	\$	\$	\$	
Circle Admission	Admission Small	1	18	2000	100	94	1906	2000	\$	\$	\$	
	Totals			4000	200	188	3812	4000	\$	\$	\$	Adjustment for Paper Count
Circle Entry	Complete Entry packs different from admission	1	18	2000	100	94	1906	2000	\$	\$	\$	
	Totals			2000	100	94	1906	2000	\$	\$	\$	

Audit Workbook - Paper Analysis Expected Receipts

Expected Receipts	\$	146,439.00
Adjustments:		
Shrinkage	\$	(1,464.39)
Rounding	\$	25.39
To accept as reported		
Expected Receipts	\$	145,000.00
Receipts per annual	\$	142,500.00
Difference	\$	2,500.00

Instant/Pull-Tab Analysis

An initial analysis is conducted based on beginning inventory, purchases from the supplier, and ending inventory:

$$\text{Expected Receipts} = \text{Beginning Inventory} + \text{Supplier Purchases} - \text{Ending Inventory}$$



Audit Workbook- Instant Analysis

Supplier	INVOICE NUMBER	INVOICE DATE	# of DEALS	DEAL NAME	ITEM NUMBER	COST	TICKETS	Free Tickets	GROSS DEAL	PAYOUT DEAL	NET DEAL	GROSS RECEIPTS	GROSS PAYOUT	NET PROFIT	PO Ratio
BEGINNING INVENTORY: as of 12/31/2015															
	1	End Year Pitches	180			\$ 101	180	0	\$ 201.00	\$ 200.00	\$ 60.00	\$ 201.00	\$ 200.00	\$ 40.00	79.44
	1	Cash To Place	180			\$ 101	180	0	\$ 201.00	\$ 200.00	\$ 60.00	\$ 201.00	\$ 200.00	\$ 40.00	79.44
	TOTAL		2	BEGINNING INVENTORY: Total							\$ 470.00	\$ 380.00	\$ 130.00		
PURCHASES: 2016															
Deal Supplier	121219	15-May-16	3	American Leaders	895529	\$ 11.11	349		\$ 2,698.10	\$ 2,020.00	\$ 440.00	\$ 2,998.00	\$ 2,000.00	\$ 898.00	79.74
Deal Supplier	121219	15-May-16	3	American Leaders	895529	\$ 11.11	349		\$ 2,698.10	\$ 2,020.00	\$ 440.00	\$ 2,998.00	\$ 2,000.00	\$ 898.00	79.74
Deal Supplier	121219	15-May-16	3	American Leaders	895529	\$ 11.11	349		\$ 2,698.10	\$ 2,020.00	\$ 440.00	\$ 2,998.00	\$ 2,000.00	\$ 898.00	79.74
Deal Supplier	121203	15-Apr-16	3	American Leaders	895529	\$ 11.11	349		\$ 2,698.10	\$ 2,020.00	\$ 440.00	\$ 2,998.00	\$ 2,000.00	\$ 898.00	79.74
Deal Supplier	121205	16-May-16	3	American Leaders	895529	\$ 11.11	349		\$ 2,698.10	\$ 2,020.00	\$ 440.00	\$ 2,998.00	\$ 2,000.00	\$ 898.00	79.74
Deal Supplier	121203	21-May-16	3	American Leaders	895529	\$ 11.11	349		\$ 2,698.10	\$ 2,020.00	\$ 440.00	\$ 2,998.00	\$ 2,000.00	\$ 898.00	79.74
Deal Supplier	1197	19-Jan-16	1	Stubby Billy	122146	\$ 11.10	360		\$ 3,996.00	\$ 2,750.00	\$ 1,250.00	\$ 3,996.00	\$ 2,750.00	\$ 1,250.00	78.44
	TOTAL			PURCHASES: Total					\$ 13,494.40	\$ 9,760.00	\$ 4,477.00				
BEGINNING INVENTORY: AS OF 12/31/2014															
		Hier Neck County	8002			\$ 11.10	1000	0	\$ 1,110.00	\$ 750.00	\$ 250.00	\$ 1,000.00	\$ 750.00	\$ 250.00	75.00
		Cash on Cash	121200			\$ 11.10	2600	0	\$ 2,886.00	\$ 1,950.00	\$ 936.00	\$ 3,000.00	\$ 1,950.00	\$ 1,050.00	88.44
		Progressive Gaming 2008 Balance							\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	ND
		BEGINNING INVENTORY: Total							\$ 3,996.00	\$ 2,700.00	\$ 1,436.00				
				Expanded Sales:		\$ 11,852.00			\$ 7,920.00		\$ 2,977.00				79.50
		Expanded Sales & Payouts from Annual Reports:				\$ 3,752.40			\$ 2,800.00		\$ 1,200.00			\$ 1,250.00	85.71
		Interest from Report:				\$ 1,000.00			\$ 250.00		\$ 1,250.00			\$ 1,250.00	71.52

Instant Analysis Worksheet

- ☐ Data is entered into the worksheet to determine expected receipts and compare to reported receipts.
- ☐ The auditor reviews Inventory reported for accuracy:
 - Profit % for deals, in alignment with expected.
 - All deals in Ending inventory were either reported in beginning inventory or purchased during year.
 - Purchases were placed into inventory and reported during the correct calendar year.

Electronic Bingo Comparison

- ☐ A review of the supplier's transaction report is reviewed to ensure:
 - The reported sales by the supplier matches the sales reported by the organization.
 - Voids are in an acceptable range.
 - The pricing on the supplier's report matches the organization's bingo program.
 - Reasonableness of reported receipts based on the organization's player count.

Supplier Transaction Report Sample - Electronic Bingo

DGC #: 888 Organization: Bingo Example Organization Address: Account Type: Bingo DGC: 7777 Supplier: Bingo Supplier, Inc Address: Bingo Land, USA Account Type: Use of Electronic Devices (Bingo)																	
												Total:	666	10	\$ 1,211.00	\$ 59,195.00	\$ 135,621.75
Item	Price of Each	# Sales	\$ Sales	# Voids	\$ Voids	Total	Total Rentals	Total Voids	Total Sales	Total Invoiced	Total Electronic Sales						
Session Start: 1/12/2014 4:30:27 PM																	
Session end: 1/12/2014 10:30:27 PM																	
34 Card Best Buy	\$8.51	88	748.08	2	17.02	765.06			765.06								
34 Card Small Comp	\$10.00	20	200.00	0	0.00	200.00			200.00								
34 Card Small Comp	\$10.00	3	30.00	0	0.00	30.00			30.00								
34 Card Small Comp	\$6.50	33	214.50	0	0.00	214.50			214.50								
Unpaid \$	\$6.50	107	700.50	2	13.00	713.50			713.50								
Lucky 7	\$1.00	617	617.00	12	12.00	605.00			605.00								
Unpaid Upgrade	\$5.01	48	240.48	0	0.00	240.48			240.48								
T-Client Upgrade	\$2.00	125	250.00	1	2.00	248.00			248.00								
Progressive Upgrade	\$2.00	141	282.00	1	2.00	280.00			280.00								
TOTAL			3,447.06		27.00	3,420.06			3,420.06			3,420.06	3,420.06				

Paper and Instant Expansion

Based on the Instant and Paper Analysis the auditor may expand the audit to either:

- Review a sampling of gaming session paperwork for accuracy and completeness.
- Review all gaming record paperwork and enter on a session reconciliation worksheet.

Sample of Session Records Reviewed to Ensure:

- ☐ Required forms are completed and maintained.
- ☐ Deposits are made within two business days.
- ☐ Actual bank deposit matches the amount to be deposited on the session summary form.
- ☐ The amounts reported on the session summary form match the amounts reported on the sub-forms.

Session Reconciliation Worksheet

Data from all session records reviewed and entered to determine:

- Difference between expected and actual deposits.
- Trends in receipts and payouts for each session.
- Missing session records.
- Trends in overages or shortages.
- Trends in reported player count.
- Discrepancies between session record totals and amounts reported on financial reports.
- Adherence to statutes and regulations.

Ensure All Gaming Funds are Disbursed for Allowable Purposes

- Organizations may use gaming funds for:
 - Use of Proceeds
 - Facility maintenance
 - Charitable donations
 - Restricted account transfers
 - Gaming expenses
 - Some business expenses



Gaming Expenditures

- All gaming deposits and disbursements must be made directly into or from the organization's charitable gaming bank account.
- Comingling of gaming and non-gaming funds is not permitted.
- Prize payouts and food for bingo workers are the only expenses allowed to be paid by cash.
- Organizations must classify and report expenditures on financial reports.
- Documentation must be maintained with gaming records to support all disbursements.

Disbursement Analysis

The auditor will conduct an initial review of the organization's Use of Proceeds (UOP) listing and year ending bank statement to verify:

- The UOP listing matches to the amounts reported on the annual financial report.
- The disbursements qualify for UOP expenditures.
- Documentation from a sampling of disbursements support the expenditures.
- The ending bank statement balance matches the amount reported on the annual financial report.

Disbursement Review Expansion

Based on the initial disbursement review, the auditor may expand to either:

- Increase the sample size.
- Review all disbursement categorization.
- Review all disbursement documentation and categorization.



Audit Workbook - Disbursement Reconciliation and Categorization

Date	Check Number	Amount	Payee	Purpose	Al	Unknown Checks	Utilities	UOP-Facility	UOP-Charitable	UOP-Restricted	Payments to Registered Suppliers
12/2/14	1002	\$1,000.00	Organization Operating Account	Lantern Money		\$ 1,000.00					
12/2/14	1002	\$ 2,000.00	American Cancer Society	Donation					\$ 2,000.00		
12/2/14	1003	\$ 500.00	Payroll Cash	Food Report			\$ 500.00				
12/2/14	1004	\$ 1,000.00	Restricted Gaming Account	Restricted						\$ 1,000.00	
12/4/14	1005	\$ 650.00	Beer Bingo Supplies	Bingo Supplies							\$ 650.00
12/7/14	1006	\$ 200.00	John Jones (No receipt Provided)	Children's Jesus Party Reimbursement		\$ 200.00					
Total		\$ 5,350.00				\$ 1,200.00	\$ -	\$ 500.00	\$ 2,000.00	\$ 1,000.00	\$ 650.00
Bank stmt		\$ 5,350.00		Adjustments:							
Variance		\$ -									
				Total Expenses		\$ 1,200.00	\$ -	\$ 500.00	\$ 2,000.00	\$ 1,000.00	\$ 650.00
Column F:				Reported Expense				\$ 1,500.00	\$ 2,000.00	\$ 1,000.00	\$ 650.00
A				Revised Invoice							
B				Checked Bank Statement	Variance	\$ 1,200.00	\$ 1,000.00	\$ 200.00	\$ -	\$ -	\$ -

Ensure Internal Controls are In Place

When an audit finding involves disallowed disbursements or under-reported receipts, the auditor :

- Will discuss with the organization where the potential breakdown in controls occurred.
- May require the organization to undergo training to strengthen controls.
- May require the organization to submit a plan to strengthen internal controls.

Ensure the 10% Use of Proceeds Requirement is Met.

Organizations are required to manage and structure gaming activities so that a minimum of 10% of gross receipts are used for charitable, religious, educational or community purposes (UOP).

- When organizations are not meeting this requirement an analysis is conducted of gaming profitability.
- The analysis then becomes part of the audit findings and recommendations.
- Continued non-compliance may result in administrative action.

Audit Selection

Goal is to audit every permitted organization once every three years.

Audits are selected based on:

- Risk Factors
- Use of Proceeds requirement met
- Last audit issued



Risk Factors

Risk Factors Include:

- Complaints, Inspector Reports, or other outside information
- Prior audit findings
- High reported shortages/overages
- No reported shortages/overages
- Inconsistent banking or cash on hand information reported
- Out of balance financial reports
- Sudden unexpected change in officers
- No change in officers over several years
- High gaming or business expenses as a percentage of receipts
- Gaming multiple sessions per week with UOP considerably below the 10% minimum threshold

Biggest Challenge

Timely submission of requested documents

Keep smiling - maybe the auditor will forget about those reports she asked for yesterday



Other Types of Audits

- Supplier Reviews;
 - Suppliers are required to submit an annual report to include all transactions in Virginia during the calendar year. Annual reports are reviewed to ensure accuracy, completeness and acceptable format.
- Raffles;
 - Permitted raffles are also audited to ensure compliance with statutes, regulations, reported receipts, and allowable disbursements.

Questions?

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