

LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
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Deputy Legislative Auditors:
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MEMORANDUM

TO: Angus Maciver, Legislative Auditor
FROM: Amber Robbins, Management & Program Analyst Supervisor
DATE: June 2021
RE: No performance audit of the Gambling Control Division.

The Legislative Audit Committee prioritized the topic of Gambling Revenue Oversight and Collection for a performance audit for fiscal year 2021. The entity associated with this topic is the Gambling Control Division (GCD) within the Department of Justice. After conducting audit assessment work, we determined a performance audit of this division is not warranted at this time. Our audit assessment work examined various risk areas, such as organizational controls, resource allocation and use, and risk for fraud. While we identified some risk areas related to establishment inspections and machine testing during assessment work, we determined these risks were not significant enough to merit a performance audit. Below are some of the key reasons for this decision:

- The gambling industry in Montana is highly visible, but the industry is heavily regulated. The gambling industry and tax revenue in Montana have also been relatively stable over recent biennia.
- Gambling tax collection, particularly video gambling machine (VGM) tax collection, is now a much more automated process than in the past. It is much more difficult to defraud the state of VGM tax revenue. Proposed legislation for 2021 is also likely to increase the number of VGMs that automatically report play to the department daily, which would further improve VGM tax collection controls.
- The department uses information technology extensively and effectively to manage operations in most areas. The department uses the Department of Revenue's GenTax system for its tax calculation and collection activities. This automated accounting system provides a stable environment for VGM play reporting and tax collection.
- While the laws and rules associated with gambling are many and complex, changes to these and within the industry are vetted through the Gaming Advisory Council.
- There are several special interest groups that have significant interest in GCD operations. However, the division appears to be working closely with these stakeholders to rectify issues when they arise while maintaining an appropriate role as regulators of the industry.

Regarding the risk areas we identified, GCD now conducts regular liquor compliance inspections on behalf of the Department of Revenue, which has resulted in increased detection of alcohol-related violations. Some stakeholders also perceive a benefit to privatizing the testing of VGMs as is common in other states, rather than requiring testing by the state. The division was aware of the risk areas or potential improvement areas we identified during assessment. Division management appeared to have sufficient controls in place in most areas of its regulatory activities. For these reasons, we determined a full performance audit of the Gambling Control Division is not warranted at this time.