

CHARITABLE GAMBLING CONTROL BOARD

FINAL REPORT

**MINNESOTA DEPARTMENT OF ADMINISTRATION
Management Analysis Division**

July 1, 1988

CHARITABLE GAMBLING CONTROL BOARD

Final Report

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INTRODUCTION

The Charitable Gambling Control Board was established in 1984 to regulate charitable gambling in Minnesota. The board's mandate is to ensure the integrity of charitable gambling operations, prevent the commercialization of charitable gambling and ensure that profits are used only for lawful purposes.

Charitable gambling in Minnesota has been legal since the 1940s. Until the establishment of parimutuel betting on horse races in 1983, charitable gambling was the only legal form of gambling in the state. Bingo is the most common form of charitable gambling, but in recent years new forms of gambling have been permitted by statute, including pulltabs, paddlewheels, tipboards and raffles.

Charitable gambling is conducted by nonprofit organizations to raise revenues for "lawful purposes," that is, to benefit people by "enhancing their opportunity for religious or educational advancement, by relieving or protecting them from disease, suffering or distress, by contributing to their physical well-being, by assisting them in establishing themselves in life as worthy and useful citizens, or by increasing their comprehension of and devotion to the principles upon which this nation was founded" (Minnesota Rules, Chapter 7860.0010, subpart 16A).

Organizations pay a fee to become licensed and pay taxes each month on their operations. Estimated revenue from fees was \$276,600 in Fiscal Year 1988. Tax receipts collected by the office were estimated to be \$2,460,000 in the same period.

Charitable gambling has experienced tremendous growth in Minnesota since the board was established in 1984. There were 3,461 licensed sites in 1987. Organizations may operate at more than one site.

Licensed organizations file monthly reports to the board. The number of monthly reports has grown from 447 in Fiscal Year 1985 to an anticipated 1,900 in Fiscal Year 1988.

In Fiscal Year 1986, organizations reported \$294,814,000 in total gross receipts. In Fiscal Year 1987, gross receipts rose to \$476,966,000, a 62 percent increase. The board's 1986 and 1987 annual reports indicated \$35,573,000 in net profits available for charitable use in Fiscal Year 1986, and \$54,054,000 in Fiscal Year 1987, a 66 percent increase. Approximately 12 percent of gross receipts is used for charitable purposes.

The board's staff has grown as well, from one in 1984 (the executive secretary) to 15 at present, including two auditor supervisors, six auditors and six support staff. The 1988 Legislature increased the staff complement by six for Fiscal Year 1989 to help process the increasing workload.

Study purpose

The executive secretary and the board of directors of the Charitable Gambling Control Board requested a review by the Management Analysis Division of the Department of Administration to measure the efficiency and effectiveness of the agency. The goals of this study were to examine internal operations, lay out the office's next steps and assess the strengths and weaknesses of the organization.

Methodology

The Management Analysis Division study team members were Gail Dekker, Deb Lindlief and Judy Plante. The team employed various methodologies to gather and analyze data and to formulate the findings, conclusions and recommendations found in this report. Included were:

- o Interviews with all 15 staff members.
- o Three focus group sessions with non-management staff to examine specific processes and employee issues.
- o A review of forms, policies and procedures, position descriptions, statutes, rules, newsletters and annual reports.

The scope of this study was limited to an examination of the office's internal functions. It did not include interviews with customer groups or board members, nor did it include an analysis of Charitable Gambling's legislative mandate, rules or board of director functions.

PART I: ORGANIZATIONAL PURPOSE AND STRUCTURE

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The Charitable Gambling Control Board was established to regulate legal charitable gambling activities in the State of Minnesota. Its purpose and major activities are stipulated in legislation and in rules established by the board. In the interview and focus group processes, the study team tried to assess staff and management understanding of the office's mission, goals and objectives, whether there are shared values regarding the work of the organization -- particularly how it interacts with its clientele, and the adequacy of the organization's structure and staffing allocation.

A. STRATEGY: MISSION, GOALS AND OBJECTIVES

All organizations have a purpose. If this purpose, or mission, is clear to all members, the organization can direct its energies toward accomplishing the mission. If it is not clear, the organization can be easily side-tracked and diverted. Furthermore, if the mission is not expressed and embodied in goals and objectives which guide day-to-day operations, an organization can lose sight of its mission.

Findings

1. In response to a question regarding the mission of the Charitable Gambling Control Board, the study team was told that the mission was contained in the legislation. When interviewees were asked for their specific interpretations, responses included:
 - o To make sure funds are used for lawful purposes and organizations pay taxes.
 - o To regulate charitable gambling.
 - o To move paperwork.
 - o To keep people honest.

- o To help organizations straighten out their records.
 - o To help people get started and work with them.
 - o Don't know.
 - o There is no mission.
 - o A service agency.
 - o Pleasing the legislature.
2. Staff said they didn't know the executive secretary's vision for the office. Examples were given which indicate a reactive operation, as opposed to one that plans ahead.
 3. In focus groups, staff requested clear goals and objectives for the office, including both long-term and short-term goals.
 4. No one mentioned long-term goals and plans. The future was described in months, not years.
 5. Staff repeatedly said that the impending arrival of the six new staff was regarded as the solution to many problems.
 6. The study team heard many different descriptions of how these six positions might be used.

Conclusions

1. The range of responses to the mission question indicates that there is no clearly articulated, universally understood mission. This leads to a lack of unity and staff working at cross purposes.
2. Goals and objectives have not been defined.
3. Long-term planning has not occurred.
4. Decisions may already be in process on allocation of the anticipated new staff.

Recommendations

1. Management should conduct a strategic planning process, facilitated by a trained professional, which would result in:
 - o A clear mission.
 - o Understandable goals and objectives, both short-term and long-term.
 - o A schedule and format for ongoing strategic planning activities.

These should be written and given to each member of the office and printed in the newsletter. Board members and management should attend this planning process.

2. Management should conduct an internal operational planning process, facilitated by a trained professional, which would result in:
 - o An understanding of the mission set in the strategic plan.
 - o Operational goals and objectives for the office as a whole and for the functional units within the office.
 - o Workplans for the office as a whole and for the functional units.

These should be written and given to each member of the office. The entire office staff should attend this planning process.
3. Management should conduct quarterly operational planning sessions, where specific operations issues can be addressed. The goal of this operational planning should be to head off problems, or deal with them as they emerge, rather than after they have grown into major issues.
4. See recommendations in the Structure section, Page 12.

B. SHARED VALUES: OFFICE APPROACH TO CUSTOMER RELATIONS

Serving customers and regulating their activities seem like contradictory roles. Yet many government agencies are challenged to do these tasks at the same time. Organizations with such a charge must find the proper balance of being approachable, courteous and cooperative, while at the same time making clear their regulatory responsibilities.

A customer service approach (for example, providing introductory information and training to customers) can result in a higher degree of accuracy and compliance by the customers, thereby reducing processing and correction by the organization and freeing resources for other regulatory activities. The Charitable Gambling office has an advantage because a number of charitable gaming associations exist at this time and interact with the board and staff.

Findings

1. Customer service and the regulatory role

- a. Staff expressed widely divergent opinions regarding whether the board has customers and how staff should relate to customers.
- b. Regulatory and customer service roles are seen by some staff and management as polar opposites and totally incompatible. Comments by staff indicated that they have received no clear definition of this role.
- c. Members of management did not express consistent views on dealing with customers. The approach to clientele ranged between a "get-tough" approach and "aiming to please." Negative views of customers by some management members have been conveyed to and adopted by staff.
- d. In interviews, some staff said that certain clients have received preferential treatment.
- e. There was no mention of any customer service training for the office.

2. Customer information

- a. Focus groups indicated that clients are not provided with adequate information. Specifically:
 - o Instructions to forms are not current, clear or existent, in some cases.
 - o Some forms are complex.
 - o There is no general information brochure or packet.
 - o There is no list of allowable lawful-purpose expenditures or, conversely, those which are prohibited. (Currently, rules state criteria but not a list; new rules will require new reporting with codes for lawful purpose.)

- b. In focus groups, some staff agreed that the absence of adequate information for customers results in high error rates in license application and tax returns, unnecessary correspondence, aggravation and confusion of staff and customers. This is particularly evident in the disposition of lawful-purpose expenditures, where no list exists for customers -- or staff -- clearly defining lawful-purpose expenditures.
- c. There is no information packet or booklet which conveys all the information an organization should consider before undertaking charitable gambling, whom to contact with questions, or a list of records to be kept or procedures to follow once it becomes licensed.
- d. Several varying descriptions were given by staff when the study team asked what is sent to organizations requesting information prior to starting a gambling operation.

3. Providing consistent and reliable service

- a. Staff complained that the executive secretary was involved in matters which should be routinely handled by auditors or other staff members, and that his involvement resulted in inconsistencies.
- b. In addition, staff stated that:
 - o They don't have enough time to help people. Staff are expected to deal with phone requests and walk-ins with no regard for the impact on their regular assignments.
 - o They don't have support from supervisors in dealing with these requests; they cannot get answers.
 - o They don't have set policies and guidebooks to assist them and to ensure consistency.
 - o They have no input on forms and instructions even though they are the ones hearing the customer complaints on a daily basis.
 - o They have no input on rules.
- c. Comments by staff indicated that customer service may be equated by some with bending or ignoring requirements for customers. Others indicated that their suggestions for improving customer service were ignored, even though they have the closest contact with the customers' problems.
- d. Problems were identified with the internal tracking system. Filing backs up; organizations may have multiple files; new license numbers are given to reactivated sites, resulting in no connection with the original license records; no computer tracking of tax returns or applications kicks in until weeks into the process; files can be shuffled between any number of desks, holding tables, bins and filing cabinets. When customers request information, there is no organized way to find it.

4. Newsletter communications

- a. A monthly newsletter is the main communication tool for conveying information regarding changes in forms, laws and procedures. The study team reviewed several newsletters and found that they were not clear in conveying law changes and the impact those changes would have on customers.
- b. Organizations must copy revised forms from the newsletter, which is printed on gold paper, making copies difficult to read.
- c. The newsletter is the only source of some information needed by organizations when they submit an initial license application, but they would not normally have seen or known about the newsletter at that point.

5. Customer education

- a. The estimated monthly tax return error rate is 37 percent. The initial application error rate can be as high as 80 percent. The number of phone calls received each day is 150, and staff estimated that most calls are for clarification of information.
- b. Staff told the study team that some organizations have requested training and technical assistance and have not received it.
- c. Staff said that some organizations have requested audits to help them put their books in order and that they have not been done.
- d. The study team repeatedly heard a comment attributed to a member of management that organizations which couldn't figure out the rules shouldn't be in the gambling business.
- e. External training is limited because the executive secretary and auditor principal supervisor are the only office members who conduct training sessions. Audit staff members have not been trained to conduct seminars and were not sure what information is conveyed in the sessions.
- f. In focus groups, staff listed recommendations that included:
 - o Monthly gambling manager classes which would include a review of the rules, laws and forms.
 - o Sample forms, with clear, complete, current instructions, in information packets sent to organizations. This packet would also include directions on how to communicate questions and complaints.
 - o Record retention information to provide an audit trail.
- g. Individuals said that they had suggested changes in forms, instructions and training, but that management had not responded to the suggestions.

Conclusions

1. Customer service and the regulatory role

- a. There is no clearly-stated, universally-accepted approach to customer service. Customer service and regulation are seen as opposite and conflicting roles for the office.
- b. Training in customer service is not provided, customer service is not a priority for all of the office, and management is not providing leadership for staff in this area.

2. Customer Information

- a. There is no adequate information for organizations considering or starting a charitable gambling activity.
- b. Customers who pursue charitable gambling activities do not receive adequate information and training. As a result, this creates heavy workloads for staff doing after-the-fact "fix-its" for customers. The number of tax return and application errors and phone calls regarding basic information would be greatly reduced if adequate information was given initially.

3. Providing consistent and reliable service

- a. There is inconsistent treatment of clients resulting from:
 - o A lack of set policies, guidelines and interpretations for staff to use.
 - o The involvement of the executive secretary in some matters.
 - o Time pressures.
 - o Staff's inability to get answers from management.
- b. Internal system problems create delays as staff search for documents throughout the office.

4. Newsletter communications

- a. The newsletter is an effective outreach mechanism, but should not be regarded as the primary vehicle for conveying instructions and background information needed by organizations new to charitable gambling.
- b. While the newsletter may be the appropriate vehicle for conveying such things as law and rule changes, there is no interpretation of these changes and what they mean to the customer. Newsletter articles are sometimes unclear and could be misleading. Using gold paper for the newsletter makes it difficult for customers to copy needed forms.

5. Customer education

- a. Management lacks a customer-service orientation, exemplified by inadequate instructions and general non-responsiveness to customer requests or staff suggestions for improvement.
- b. Error rates indicate that customers are not adequately informed or trained and that information given to the customers is either unclear or insufficient. This results in increased work after an organization applies for a license or begins operations.
- c. New approaches to providing information are needed.
- d. Customer requests indicate a need and a receptivity for further training.

Recommendations

1. Customer service and the regulatory role

- a. The office should review its approach to customers in light of its mission. This review should result in a written statement which:
 - o Reaffirms customer service as a goal and priority of the office.
 - o Outlines how that customer service will be provided.
 - o Addresses the differing but intersecting roles of regulation and service.

This written statement should be given to each member of the office and each board member, and published in the newsletter.

- b. Professional training in customer service provision, dealing with difficult people and the regulatory role should be conducted for the entire office.

2. Customer information

- a. A task force should be established to:
 - o Develop a general information packet.
 - o Meet regularly to evaluate information conveyed to customers and whether it meets customer needs.
 - o Determine the appropriate method of communicating information (for example, whether an item should be placed in the newsletter or the basic information packets).
 - o Evaluate whether the newsletter should be issued monthly or quarterly.

- o Have regular, formalized contact with client organizations to solicit feedback (for example, discussing new forms before they are issued to get customer reactions before a form is adopted).

To assure representation from customers and each functional group which interacts with them, this task force should consist of one representative from management, two members of the audit staff, two support staff, one board member and two customers. The task force might consider hiring a professional consultant to guide, direct and assist this process. The consultant should have expertise in public relations and communications.

3. Providing consistent and reliable service

- a. A guidebook containing policies and interpretations should be compiled by a joint management/staff team and given to all staff.
- b. Once this is in place, staff should handle the routing of requests. Only those requests which are truly exceptional should be forwarded to the executive secretary. Conversely, the executive secretary should delegate to the appropriate staff the routine requests that he receives. Finally, all parties who deal with customer requests should consistently follow set policies to ensure fairness.
- c. A system for soliciting staff input and comments on forms and instruction, revisions, rule changes and procedure changes should be established and maintained.
- d. Supervisors and managers should make themselves available to the staff to answer questions.
- e. More specific recommendations addressing internal systems are included in other sections of this report.

4. Newsletter communications

- a. Newsletter articles should be written to address the information needs of customers, recognizing the varying degrees of familiarity with charitable gambling, bookkeeping, rules, laws and other pertinent areas.

5. Customer education

- a. Management should re-examine the office's approach to customer service, as suggested earlier in this report.
- b. Clear, concise and up-to-date instructions, forms and information packets should be developed and maintained. These packets should be sent to each of the current licensees and to all organizations requesting information.
- c. The office should provide training seminars for gambling managers. These should be held monthly at different locations throughout the state and should follow a set format and include standard information.

- d. Every auditor should attend one or more of these training sessions so that all auditors know the content being conveyed to the customers.
- e. A description of the training and its schedule should be placed in the guidebook to frequently asked questions. A support staff member should be assigned to coordinate the training schedule with staff and localities and to keep the training schedule up-to-date.

C. ORGANIZATION STRUCTURE AND STAFFING ISSUES

The formal structure of an organization can enhance or inhibit its operation. An organization's structure is dynamic: a structure that may have worked in the past may not be meeting today's needs. This review of the office's structure was conducted with the intention of assisting the organization in maximizing the use of its resources.

Findings

1. Current organization structure

- a. The auditor principal supervisor has 10 subordinates. Staff reported that, with the addition of the six new positions recently authorized by the legislature, this supervisor is expected to have 16 subordinates.
- b. All processes related to fund collection are under the same supervisor, including internal auditing of these functions.
- c. According to the current organization chart, the office services supervisor III has two subordinates. In reality, she supervises one subordinate and has no authority over the majority of the office's support staff. The auditor principal supervisor has seven directly reporting staff:
 - o One data entry operator.
 - o Two clerk-typists.
 - o Two intermediate auditors.
 - o One senior auditor doing computer programming.
 - o One auditor senior supervisor.

The auditor senior supervisor has three directly reporting staff, all intermediate auditors currently functioning in support staff roles.

2. Backup cross-training

- a. There is no backup for the receptionist.
- b. There is no cross-training for support staff involved in return and application processing.
- c. There is no backup for processing staff or for other support staff.
- d. Assignments handled by the executive I are numerous, complex and driven by deadlines. There is no assistance available to this position, nor is there backup for the activities performed.

3. Delegation and assignments

- a. Interviews with staff indicated that audit staff are currently doing support staff work exclusively and are not conducting audits. One auditor is working as a computer programmer, and five others as account clerks, data entry operators or clerks. None of the intermediate or senior auditors are conducting audits.
- b. There is no accounting staff member. Accounting duties are performed by an auditor.

4. Staffing

- a. Six new staff positions have been approved by the legislature and will be available to the office in July.
- b. Interviews and focus group discussions indicated that roles of existing staff are inconsistent with their position descriptions.
- c. The office has no professional computer programmer on staff. Programming is done by an auditor trained on the job, with contracted programming assistance from an independent consultant.
- d. The study team was given examples where staff and management read newspapers, don't have enough to do or don't attend to their duties while work in process stacked up for others.

Conclusions

1. The current organization of the office and assignments underutilizes some staff and overutilizes others.
2. Some staff are inappropriately working on assignments not related to their classifications.
3. The range and degree of work required of supervisory staff vary greatly.
4. The executive I has neither proper support nor sufficient authority to best meet the needs of the executive secretary and the board.

Recommendations

1. Current work assignments should be evaluated and redistributed to staff, based on functions and work duties. This redistribution should provide for internal checks on the process between units (for example, auditors should not be involved in processing tax returns, but should be involved in auditing the internal process and the organizations). Work should be assigned in a manner which ensures that the volume and complexity can be reasonably addressed by the individual employee.
2. Members of the same unit should be cross-trained so that overloads and emergencies can be handled.

3. Employees should be reassigned to jobs within the parameters of their classifications or job audits should be conducted by the Department of Employee Relations to determine the appropriate classifications.
4. Supervisors should be reassigned to deal with separate functional areas.
5. The executive I should supervise the receptionist and one additional staff (one of the six new positions). As a group, these positions would support the executive secretary and the board, provide word processing services and cover the reception duties. Adding these responsibilities may require changing the classification of the executive I position.

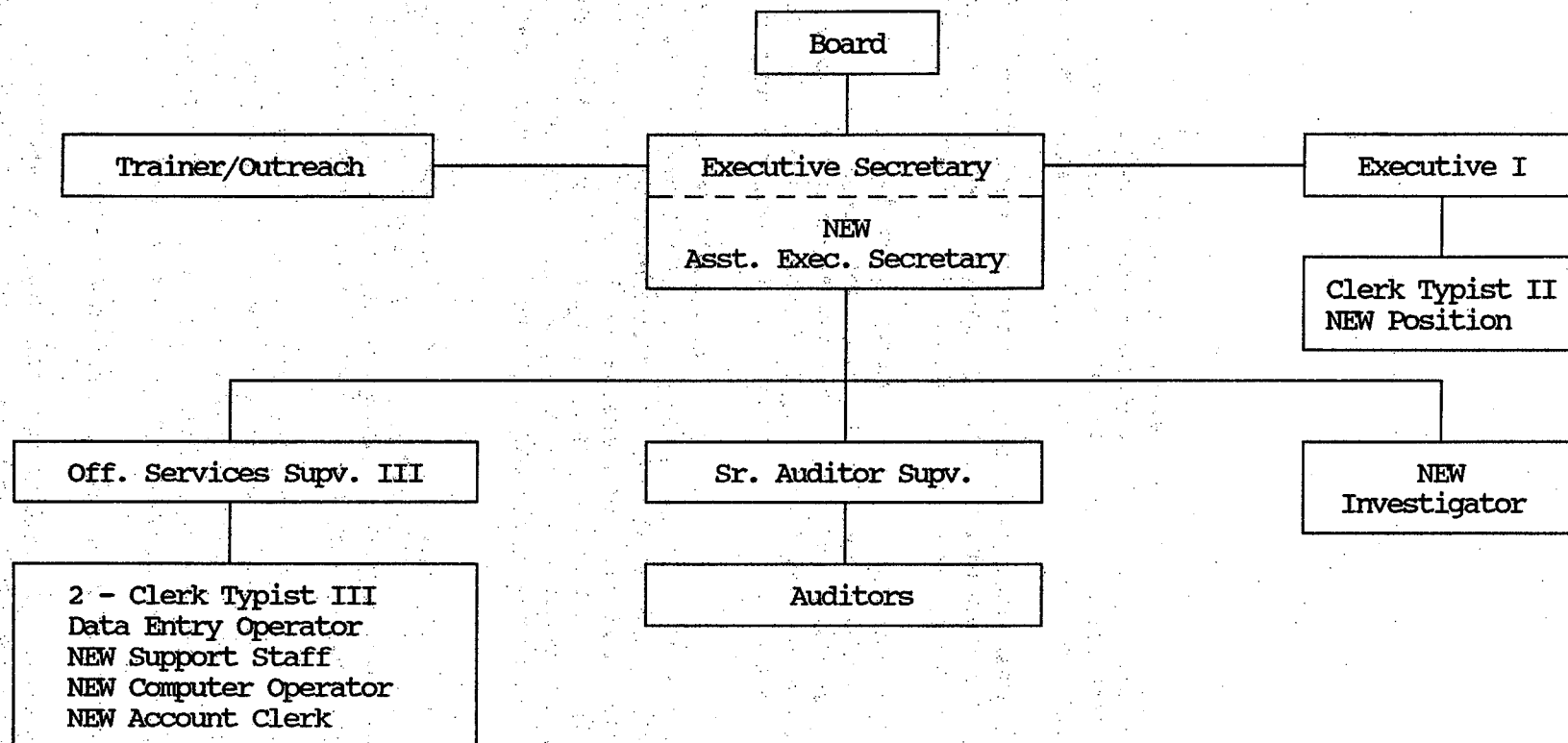
The responsibilities of the executive I should include screening of the executive secretary's correspondence to remove routine requests more appropriately handled by audit or support staff. She should also have the authority to distribute work to supervisors on the executive secretary's behalf.

6. A position of assistant executive secretary should be created from a current intermediate auditor vacancy. This position should provide internal management, coordination and direction. Only an experienced, effective and qualified manager familiar with the state system should be considered. The most appropriate candidates would have experience in both operations and audit, but clearly the focus should be on effective internal operations management.
7. Auditors should primarily be conducting audits. However, at any one time two auditors should be assigned to the office (on a rotation basis) to review internal controls, schedule C expenditures and other process-related activities which legitimately require the attention of an auditor, and to respond to phone and in-person requests.
8. A professional computer programmer should be hired, after the systems analysis recommended in Part III.F. is completed, and the auditor currently doing computer programming should be reassigned to auditing.
9. While the suggested organization chart on the next page includes two positions for investigators, filling one of these positions should be delayed until other changes recommended in this report are implemented, to ascertain the most pressing need for utilization of that position.

PROPOSED ORGANIZATION CHART

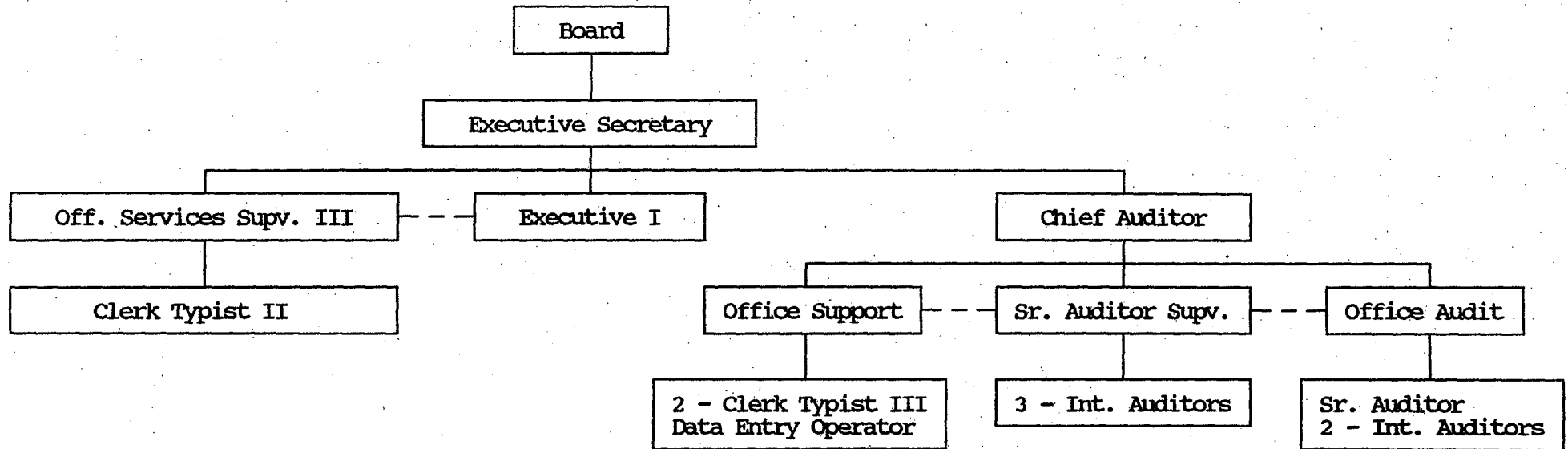
June, 1988

CHARITABLE GAMBLING CONTROL BOARD



CHARITABLE GAMBLING CONTROL BOARD

Effective 3/30/88



PART II: HUMAN RESOURCE MANAGEMENT

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In examining the area of human resource management, the study team looked at three areas: the style of the management team members -- how management communicates as a team and with the office as a whole; utilization of staff, and the issues involved in managing staff resources; and skills both present and needed for the functioning of the office and for meeting the charge of the board. The sections which follow address management team issues. Where comments were of a purely personal nature, that feedback will be presented in person to the member of the management team to whom it applies.

A. MANAGEMENT STYLE AND EFFECTIVENESS — TEAM ISSUES

A review of management style and effectiveness addresses how well management of the organization initiates action and directs the activities of individuals and groups toward the accomplishment of the organization's goals. It includes assessing how well managers handle assigning responsibility to others as well as ensuring that employees have the necessary resources and authority to conduct their work.

Findings

1. Members of management and staff indicated that managers are not communicating effectively with each other, and that as a result:
 - o Staff are getting directions from more than one source.
 - o Staff are receiving differing messages on priorities, based on the different values of management team members.
 - o The management team does not address issues in a timely fashion, so problems are allowed to grow.
 - o Management is not planning ahead, but reacting to and addressing short-term issues rather than long-term goals.

2. Management team members have differing approaches regarding:
 - o Use and authorization of overtime, compensatory time, annual leave, sick leave, starting times and lunch breaks.
 - o The need for training, if staff should be allowed to attend and if training should be encouraged.
 - o Their visions of the office's purpose.
 - o Delegation.
 - o Availability as resources to staff and responsiveness to requests for information.
3. The stated values of management team members are not always reflected in their actions.
4. Staff stated that they feel they are not trusted by management to handle anything but the most basic issues. Specifically:
 - o Auditors have been told that they cannot conduct customer training and seminars.
 - o Support staff are directed not to answer basic phone and letter questions, but to refer all questions to auditors.
 - o Support staff are not allowed to review basic completed forms.
 - o Staff are told not to help each other.
5. Focus group discussions indicated that staff do not trust management because:
 - o The management team does not understand staff jobs and work demands.
 - o Job descriptions and performance reviews are meaningless.
 - o Staff feel that management team members don't care.
 - o Individuals who try to contribute are cut off in staff meetings.
 - o Individuals who point out problems or make suggestions are either ignored or dismissed -- told not to worry about it, or told, "We'll take care of it later."
6. In focus groups, staff expressed a desire for managers who:
 - o Are real supervisors, that is, who know the work and demands employees face, who understand and manage processes, and who have and state a clear vision of what the office is about.
 - o ^{SO}at Set clear, consistent priorities and take responsibility for changing those priorities when the workload demands it.

- o Are available and receptive to employee requests.
- o Will give staff prompt, relevant answers to their questions and are concerned with the problems their employees face.

Conclusions

1. Communication between managers is not effective, resulting in a negative impact on the office.
2. The management team does not state or demonstrate any shared values. There appears to be no common vision of purpose, direction or future. There is no shared management style.
3. Trust between management and staff is low or nonexistent.
4. Planning does not appear to be a priority. Attention is given to short-term issues and fixing immediate problems rather than to long-term planning and benefits.
5. Delegation of work is on a spur-of-the-moment, who's-handy basis, rather than through appropriate channels. Work which should be delegated frequently is not. Routine matters like sorting the executive secretary's mail are not delegated to appropriate staff.
6. Staff requests in Finding 6 are reasonable.

Recommendations

1. Management should initiate an ongoing strategic planning process with a trained facilitator, the outcomes of which should include:
 - o A statement of common vision for the office.
 - o Purpose, direction and a sense of future goals.
 - o Shared values.
 - o An understanding of one another's management styles.
 - o Agreement on common approaches and management team policies on attendance, behavior, work quality, work rules, training and delegation.
 - o Short- and long-term goals and objectives.
 - o A specific calendar with benchmarks for performance reviews.
 - o Specific, concrete action steps to accomplish all of the above.

Outcomes of this strategic planning process should be recorded in writing and shared with the staff.

2. Weekly meetings of the managers should be held on a regularly scheduled basis, with mandatory attendance. These meetings should be used to address:
 - o Abnormal work demands.
 - o Legislative briefings.
 - o Rule interpretations.
 - o Customer service issues.
 - o Computer system needs.
 - o Budget and personnel issues.
 - o Split assignments.
 - o Priority setting.
 - o Agendas for regular full-staff meetings.
 - o Sharing of outcomes of function group meetings.
3. Because management and supervisory positions require specific skills and demand accountability, individual and group training in management and supervisory skills and issues should be obtained.

B. INTERNAL COMMUNICATIONS

The clarity and quality of internal communications can enhance or deter an organization's ability to deal effectively with both routine matters and exceptional issues. How messages are sent and received in the organization is often the basis for problems whose symptoms are visible in the work products of the organization.

Findings

1. Staff reported that policies are made or changed in passing, and changes are not communicated in writing to the staff. Staff complained that information gets lost, there is no time for communication and they feel they are prevented from helping each other. In addition, they do not hear about matters handled by management which affect their work.
2. Staff meetings are scheduled to be held every two weeks. Staff reported that these meetings are one-sided forums, that they have been cut off when they made comments or tried to discuss issues. Some said they have felt as if they had been publicly criticized.
3. Auditors have requested auditors' meetings. It was reported that these have been held infrequently and that none had been held for two to three months prior to the staff interviews. Decisions made at the auditor's meetings are not communicated to the other staff. Support staff do not have meetings.
4. Comments in focus groups indicated that individual members of management are not seen as a resource because some:
 - o Are absent.
 - o Will not or cannot give a direct answer.
 - o Are short-tempered or verbally abusive.
 - o Are unwilling to work.
5. Staff reported that formal lines of communication are not adhered to. The executive secretary gives "priority" assignments directly to audit or support staff, bypassing their supervisors. In addition, some staff receive assignments from more than one supervisor and receive no help in establishing priorities. "Everything is a priority," is the staff's feeling.
6. Staff in focus groups expressed a desire for:
 - o A clear chain of command.
 - o Effective supervision.
 - o Written policies and procedures which are followed by everybody.
 - o Staff meetings which are an honest communication forum.

- o Management which is supportive and encourages teamwork.
 - o Recognition and positive feedback.
 - o Negative feedback relayed on a one-to-one basis in private and at the time of the incident.
 - o Meaningful performance reviews.
 - o Supervisors who understand problems, the nature of the work and the workload.
7. Some management team members stated that "the grapevine" was their preferred method of communication.

Conclusions

1. Open and honest communication is not the norm throughout the office. Because internal communication is so haphazard, it is clear this is not a priority. Absence of communication and delayed communication seem to indicate lack of respect for colleagues and subordinates.
2. Staff meetings are ineffective. New or revised policies and the disposition of issues are not communicated to staff. Support staff and audit staff do not have meetings where they can discuss common problems.
3. Supervisors are not meeting the information needs of their employees, or assisting them in setting priorities or handling workloads. Formal lines of communication are not being followed by supervisors and management.
4. Staff have expressed reasonable requests for information from management.
5. "The grapevine" is not an adequate communication system.

Recommendations

1. The management team should review (and establish if there are none) formal lines of communication. These should be used to relay to staff such information as:
 - o Changes in policy.
 - o Changes in the automated system.
 - o Disposition of questions and issues.
2. All work should be assigned by each individual's direct supervisor. Split assignments, if any, should be negotiated and handled by the supervisors involved, so no employee is caught in the middle.
3. Managers and supervisors should receive professional training on meeting management.

4. Functional groups such as auditors, support staff and computer users should have regular meetings to discuss common problems.
5. Supervisors should recognize that meeting the information needs of their employees in a timely manner and setting priorities are two of their main responsibilities and that they must be held accountable for both.
6. In addition to the recommendations above, management should respond to the specific requests of staff in Finding 6 by:
 - o Establishing a clear chain of command and communicating it to each employee.
 - o Holding supervisors accountable for doing their jobs.
 - o Writing policies and procedures and by having everyone follow them consistently.
 - o Allowing staff to work as ad hoc teams to get the job done.
 - o Recognizing real and specific achievements.
 - o Giving negative feedback privately, on a one-to-one basis and when the incident occurs, not holding it until a performance review. A reprimand is not enough; supervisors must communicate what behavior is expected and establish a timetable for correction, if appropriate.
 - o Conducting meaningful performance reviews.
 - o Requiring that each supervisor spend several hours working alongside his or her subordinates to familiarize themselves with the work assigned to those employees and the problems the employees encounter.

C. STAFF

Teamwork and morale

The morale of an organization is evidence of its underlying health. Morale is not a problem which can be fixed with direct injections, but rather a symptom of other organization problems which have an impact on how the members feel about their work and the organization as a whole.

In an organization where individuals must work closely together in order to complete their work, a sense of teamwork and "esprit de corps" is essential. Teamwork requires some level of mutual trust, an understanding of the common goal and support from the team's leadership.

Findings

1. Many of those interviewed expressed frustration and said they are looking for other jobs. Even the more positive members of the office had serious problems to discuss.
2. Staff said that more than one supervisor has told staff not to help one another. Staff expressed a desire for teamwork, and indicated they felt that teamwork is not encouraged or supported.
3. Staff expressed expectations about what their jobs should entail as well as about their personal pay and promotional opportunities. Few staff are satisfied with their current assignments. Staff said, in many cases, that their assignments bore no resemblance to the jobs for which they were hired.

Conclusions

1. Morale is low. While some dissatisfied individuals are to be expected in any organization, the pervasive low morale in the office cannot and must not be minimized or ignored.
2. Teamwork is seen as a positive approach by staff, but not by management.
3. For the most part, staff expressed reasonable expectations about what their jobs should entail, but expectations about pay and promotional opportunities were sometimes unrealistic.
4. Staff members who expressed dissatisfaction with current assignments had legitimate reason to be concerned, since they appear to be performing work unrelated to their classifications.

Recommendations

1. Office issues should be addressed, which should improve morale.
2. The entire office should take part in teambuilding training offered by professional consulting or training organizations.
3. Teamwork should become one of the stated values of the office.

4. Employees should be given assignments in their job classifications.
5. A session should be held with a representative from the Department of Employee Relations to discuss promotions and transfer opportunities within the state, and to give employees a realistic outlook on opportunities within the office and the state system.

Management attitudes (values)

The attitudes and values of individual management members may be reflected in the actions and expressions they use in the office. A comment or action that may seem innocuous to a manager may be interpreted, correctly or incorrectly, as biased, unfair, rude or worse by individuals at other levels. This can have a negative affect on the office morale, productivity and efficiency.

In interviews and focus groups, staff raised issues about the way members of management view staff.

Findings

1. Various staff reported instances when managers had publicly made derogatory comments to or about subordinates. Another supervisor was reported to have engaged in repeated profanity and abusive language directed at subordinates and co-workers.
2. Some staff reported that assumptions about the appropriate tasks for staff members have been based on gender. For example, one female auditor prepares the daily deposit, but is not allowed to take it to the bank, for safety reasons.
3. Staff have complained that, if management is displeased with them, they are isolated, lose responsibility or are given an unfair share of tedious or mundane work. Isolation, loss of responsibility or unpleasant assignments were described by several staff members as discriminatory or as a sign of displeasure over other matters. These staff members said they felt they were being given a message to resign.
4. The study team heard comments that some staff felt promotions may have been handled in discriminatory fashion. When employees receive promotions, they are not announced in the office, so that staff find out about them in passing. Staff members have said they do not understand why promotions are secret.

Conclusions

1. Management has shown little sympathy for staff feelings and little understanding of how derogatory and abusive language affects morale and productivity.
2. Management does not seem to recognize how some actions can be construed as harassment or discrimination. While the specific examples cited were borderline or inconclusive, management must recognize the potential legal liability. The specific example of depositing funds raises a legitimate safety issue for any individual employee, but the safety concern is not grounded in gender.

3. Managers do not seem to communicate fairly, openly and effectively with staff when performance does not meet expectations. Managers seem instead to have "punished" staff indirectly by isolating them or giving them unpleasant tasks. Not openly announcing promotions lends a stigma of illegitimacy to the promotion and creates suspicion.

Recommendations

1. Before the end of the calendar year, all managers and supervisors should obtain professional training on interpersonal relations, race and sex discrimination, sexual harassment, effective supervision and documenting and dealing with ineffective employees.
2. After management has taken this training, they should meet with all staff to share what they have learned and lay out expectations for the office.
3. Management should outline the state's grievance procedures for staff to follow if they feel they are victims of discrimination or sexual harassment. Training for staff should be arranged with their unions or with the Department of Employee Relations.
4. Every employee should know what goals he or she must meet to be considered promotable. All employees should hear in regularly scheduled performance reviews whether they are meeting those goals. (See recommendations on performance reviews and feedback, Page 30.)
5. Managers and supervisors should communicate fairly and openly with staff to avoid the suspicion of discrimination.
6. Supervisors and managers should ensure that tedious and unpleasant tasks are shared fairly among the staff, within the appropriate class. These tasks should not be used to punish staff members or isolate them.

Performance reviews

Employees who know what is expected of them and receive feedback on and reinforcement of their work performance are more likely to have a sense of achievement and to be efficient and productive. The absence of clearly stated expectations and timely feedback can leave an employee confused or frustrated. Performance reviews and position descriptions are the basic tools for establishing clear expectations and giving timely feedback.

Findings

1. Position descriptions are inaccurate or disregarded. In some cases, they contain no performance indicators and are vague. Some staff have never seen the position descriptions for their positions. Others report that their work assignments bear no relationship to the position descriptions, and include assignments totally removed from their classifications, despite repeated promises and assurances that they will soon be doing appropriate work.
2. Some employees reported that their performance reviews were overdue. Others reported that their reviews had not been held as promised.

3. Performance reviews are perfunctory.

- o Staff said at least one manager consistently rated all employees the same -- "right down the middle."
- o Some staff said their performance reviews had been signed by the executive secretary before they had seen them. The executive secretary said he asks the supervisor responsible for the review if the review has been completed before he signs it.
- o Staff are given the review form and told to sign it, with no time given for feedback or discussion.
- o Staff have been told by their direct supervisor that the supervisor doesn't know what they do, but rates them anyway.
- o Position descriptions and performance reviews are not linked.
- o There is no opportunity for employee discussion with supervisors or managers, or for feedback to supervisors.

4. Some staff said that any discussion about performance (in passing or for the first time at performance reviews) is negative, not positive.

5. Staff indicated that there is no known work measurement occurring, resulting in:

- o Reviews based on isolated incidents.
- o Reviews based on whether the employee is liked or not.

Staff felt they weren't recognized for their abilities and work performance.

6. In focus groups, staff said they want:

- o Regular feedback.
- o To be rated based on accurate position descriptions.
- o To do the work for which they were hired.
- o Supervisors who understand their employees' jobs, who have realistic expectations and who respect staff.
- o Constructive criticism.
- o Positive feedback on specific achievements, as well as negative feedback.
- o Problems to be dealt with when they happen, not held until performance reviews.
- o Reviews to occur when required by bargaining unit agreements.

- o Time to review the supervisor's evaluation and discuss it in a private meeting.
 - o Personal short-term and long-term goals as a part of this review and discussion.
7. Staff complained to the study team about performance reviews, but didn't know how to deal with their concerns.

Conclusions

1. Position descriptions are not reflective of actual job assignments. Employees are working full time on assignments unrelated to their classifications.
2. Management does not follow bargaining unit agreements on timing and delivery of performance reviews.
3. Performance reviews are not used as constructive tools for examining employee performance and setting goals for improvement or advancement.
4. Because work measurement standards do not exist and because supervisors are unfamiliar with the work assigned to employees, reviews appear to be based on isolated incidents or personalities. There is no dialogue process, no goal-setting and little positive feedback.
5. Staff requests in Finding 6 are reasonable.
6. Staff are unaware of their options to respond to an unsatisfactory performance review.

Recommendations

1. Working jointly with the appropriate supervisors, the office services supervisor III should update, review and evaluate position descriptions for relevance to actual assignments. Either assignments should be changed by the employees' supervisors to match the position descriptions or the descriptions themselves should be adjusted by the office services supervisor III. The office should reassign work which does not reflect an individual's classification.
2. Management should review and follow bargaining unit agreements.
3. Supervisors should meet with their subordinates to indicate what performance indicators will be used to evaluate the employees.
4. Management should provide staff with the items requested in Finding 6.
5. Management should receive training on managing employee performance.
6. A staff session on employee rights under bargaining agreements and state personnel rules should be provided by the Department of Employee Relations and the appropriate bargaining units.

Rewards and recognition

Feedback and reinforcement for positive actions are acknowledged as a primary factor in employee productivity. If, instead of positive reward for positive action, employees see no rewards, productivity decreases. Conversely, rewards and recognition can be used to build a sense of team, to reinforce positive contributions by employees, and to maintain focus on the organization's mission by recognizing steps toward addressing the mission. While monetary rewards are one aspect of positive feedback, there are many other options available for giving employees positive reinforcement.

Findings

1. Staff told us that achievement awards are secret, criteria for the awards are not known and staff are not told when an award is given. Promotions are not announced or discussed.
2. When asked what recognition or rewards occur, management and staff indicated there were none, other than achievement awards and occasional comments or compliments.
3. Staff complained that:
 - o The only positive feedback given is a general "good job" unrelated to actual performance.
 - o There is favoritism.
 - o Staff are publicly reprimanded.
 - o Management puts a damper on celebrations.
4. In focus groups, staff indicated they would like:
 - o Letters of commendation in their personnel files.
 - o To be thanked sincerely.
 - o Money.
 - o To be paid for overtime.
 - o Celebrations.
 - o Fair treatment.

Conclusions

1. The office does not have established positive norms for rewards and recognition. Specific, positive feedback is minimal. Management fails to recognize the importance of rewards and recognition to staff morale and productivity.

2. The secrecy surrounding promotions and achievement awards and the absence of known criteria for promotion and awards leave staff wondering about their fairness.
3. Staff desires are reasonable, although not always possible. For example, monetary rewards are proscribed by some bargaining unit agreements.

Recommendations

1. Management should inform staff regarding eligibility for achievement awards. A public set of criteria for achievement awards should be established and recipients of awards should be announced.
2. Promotions should be announced to all staff.
3. Management needs to recognize the importance of positive feedback, rewards and recognition. All supervisors should be required to prepare a written plan stating how they will provide rewards, recognition and feedback to their subordinates. This plan should include specific, workable, realistic tasks and activities. An update on these activities should be a part of each supervisor's performance review. This plan should address staff requests outlined in the preceding findings.

D. SKILLS AND TRAINING NEEDS

When asked in interviews whether staff had the skills to perform their job duties, most management and staff said they felt they had the skills needed to perform their current assignments, as well as the jobs for which they were hired, which are sometimes not the same.

When asked in focus groups and interviews what training was needed, a full range of orientation and job-specific issues was identified. The study team examined the information relayed by staff and management and divided the identified needs into orientation and ongoing job-specific training.

Orientation

The orientation employees receive can have a significant impact on their performance and job satisfaction. A successful orientation program provides the new employee with a solid sense of his or her place in the organization, the day-to-day routine, and the specific duties of his or her job.

Findings

1. The office has a basic orientation package which introduces new employees to the state system.
2. Staff indicate that the office does not have job-specific orientation, nor are new employees told of office functions, board and legislative mandates, other employees' responsibilities and how tasks interrelate within the office. Staff indicated that they aren't given exposure to or description of gambling operations. In addition, there has been no training in the office's computer systems and there are no user-friendly training manuals.
3. Orientation consists of reading rules, laws and newsletters. Handling phones is regarded by management as the "best training" for new auditors. There is no guidebook with answers to frequently asked questions. Staff stated that being assigned to phone duty without adequate training resulted in:
 - o Lack of confidence.
 - o Conflicting answers to clients.
 - o Duplications.
 - o Incorrect answers.
 - o No sense of the adequacy of the answer.
 - o Concerns that they sound "like idiots."
 - o Confusion among staff.
 - o Inefficiencies, wasted time, rework.

4. New auditors have been told to "wing it" in the absence of an audit plan, an audit guide and audit training.
5. There is no training for support staff on the use of word processing and other systems.
6. Many staff indicated that they don't know who is responsible for training or who can answer questions.
7. No mention was made of training on dealing with the public.
8. In a focus group, staff requested that new-employee orientation include:
 - o Information about gambling activities.
 - o Descriptions of who does what in the office.
 - o Computer training.
 - o Visits to sites for all auditors to familiarize them with gambling operations.
 - o A review of all current office forms.
 - o Attendance at a board meeting.
 - o A guidebook to frequently asked questions.
 - o Time for training.
 - o Lists of staff who have answers to particular questions.
 - o A cubicle map with names.
 - o An overview of the office tasks and time frames.

Conclusions

1. Staff do not receive adequate initial orientation in general functions, systems, responsibilities or job-specific requirements and expectations.
2. This lack of orientation results in inefficiencies, wasted time, inaccuracies and low staff morale and confidence.

Recommendations

1. Management should make training a priority in the organization, devoting time and resources toward training efforts.
2. A task force, consisting of the office services supervisor III, two support staff and two non-supervisory audit staff, should be established to develop an orientation program, which should include:
 - o A copy of the position description for each new employee.

- o Job-specific training and a specified training period.
 - o An explanation of the gambling activities which are subject to oversight and an opportunity for auditors to see gambling operations in action.
 - o A description of assignments within the office, who does them and how the tasks relate to one another.
 - o Training in the use of all computer systems in the office, with a list of who uses them and for what, as well as user-friendly manuals.
 - o Customer-service training.
 - o Copies of the audit plan and audit guide, with on-site training for auditors on how to initiate, conduct and complete an audit.
 - o A copy of each form, with its instructions and the form letters used by the office, and an explanation of who initiates the form and its purpose.
 - o A copy of the general information packet sent to organizations requesting information.
 - o Attendance at a board meeting within 60 days of starting and introduction to board members at that meeting.
 - o A guidebook containing answers to frequently asked questions.
 - o A list of information resources within the office.
3. Handling phones should not be regarded as training, but should be assigned only after an employee is thoroughly familiar with the office, its operations and current policy interpretations.

Ongoing training

Findings

1. Staff said that they are not informed when laws, forms and procedures change, and that the users are not informed when the computer systems are altered. Policy decisions and interpretations are made but not communicated. The staff complained that they frequently have said to each other, "Oh, didn't you know that?"
2. Staff complained about the lack of cross-training and have said they are prevented by supervisors from training each other.
3. Management and staff indicated that there has been little or no supervisory training.
4. Some members of management stated that training is needed, but they are unsure what kinds should be provided.

5. Training funds are budgeted for each staff member. Not all staff members, however, know of this or the exact amount.
6. Staff are told to pursue training opportunities on their own, but some complain that they are not supported when they request time to attend training, since there is no backup provided for their positions.
7. Not all support staff know word-processing and other computer software.
8. Employees are given little, if any, information regarding the state personnel system, receive no career counseling and are unaware of promotional opportunities.
9. Staff requested training in:
 - o Effective writing.
 - o Interpersonal skills.
 - o Customer relations.
10. Staff said they feel they are not free to ask questions, nor do they get concise, relevant answers when they do ask.
11. There is no ongoing training for audit activities.

Conclusions

1. The management team recognizes the need for training but has not followed through on this recognized need.
2. There is no coordinated, recognizable training effort within the office.
3. Skills training needed to effectively carry out the office's work is not being provided. In addition, the perception is that management does not always support employees who seek it themselves.

Recommendations

1. Management should adopt and support a training program for the whole office. Management's visible, consistent and ongoing support of training and internal information-sharing is essential.
2. An individual training plan should be included in each employee's yearly performance review.
3. Each employee should be informed at the start of the fiscal year of the amount of money allocated for his/her training and the process for having training requests approved.
4. Training in the use of the computer system and its capacities/limitations should be given to all staff members. Any time a change is made to these systems, the entire staff should be notified in writing, preferably in advance, but no later than the effective date of the change.

5. The task force created to develop the orientation training should also:

- o Develop and implement a cross-training schedule.
- o Organize a session on the state personnel system and promotional opportunities, with assistance from the Department of Employee Relations.
- o Review and compile training opportunities from the state, area educational institutions and other sources, and establish a resource file, which should be kept up-to-date by the training coordinator, who should regularly inform staff of training opportunities by memo or in staff meetings.
- o Examine alternative ways to meet staff requests for training in specific areas where this applies to a number of staff.

6. Ongoing training for audit activities should be a regular part of audit meetings.

PART III: MAJOR SYSTEMS AND PROCESSES

PART III: MAJOR SYSTEMS AND PROCESSES

In the course of this project, the study team examined many of the office's documents, discussed major processes with staff, and reviewed work done by a private consultant on office work flow. The following sections address the major systems and processes, but are not inclusive of all office processes. While work flow documents were reviewed, the study team relied upon staff descriptions to map various processes for this report. Error rates, figures, processing times and amount of work (for example, the number of tax returns) were based upon staff estimates.

Overall, several conclusions can be made in these areas:

- o Internal controls, checks and balances are not adequate.
- o There is a need to balance customer service and efficiency against internal control needs.
- o There is a need to look at the entire system and rebuild it from the customer up.

A. POLICIES AND PROCEDURES

Findings

1. Focus groups and interviews indicate that policies and procedures are minimal or nonexistent in many areas, including:
 - o Auditing.
 - o General office operations.
 - o Computer use.
 - o Processing and reviewing tax returns.
 - o Processing and reviewing new and renewal license applications.

- o Issuing licenses.
 - o Administrative and fiscal services.
 - o Records management.
2. The office's policies and procedures for all areas are outdated and incomplete.
 3. Many staff said policy decisions are made without opportunity for staff input and decisions are not communicated or are unclear.
 4. Staff stated that existing policies and procedures are not consistently applied.

Conclusions

1. Most of the policies and procedures in the office are informal and unwritten. Those that are written are, for the most part, out of date.
2. Application of policies and procedures is inconsistent.
3. Policy decisions are made without staff input and are consistently not communicated to staff.

Recommendations

1. Formal policies and procedures should be written or updated for all areas. A task force of management and staff should be established to write, review and update these policies and procedures.
2. All staff should receive copies of draft policies and procedures for comment before implementation. The task force should consider the ideas and input of staff during this review process.
3. When the policies and procedures are final, all staff should receive copies. Any policies and procedures affecting clients should be published in the newsletter.
4. Policies and procedures should be applicable to all staff and should not be arbitrarily altered or circumvented by staff or management. For the rare instances where exceptions are required, there should be a process for approving the exceptions.
5. If it is necessary to change the policies and procedures, all staff should be notified in advance of the change, with time allowed for their review and comment. The effect of any change should be clearly communicated to both staff and clients.

B. APPLICATION AND RENEWAL PROCESSING

One of the focus group sessions was used to map the license application and renewal process. All non-management staff who handle applications and renewals participated in the focus group. The study team found a complex, convoluted process where staff members did not understand how their work fit in with the whole.

The problems included:

- o An estimated error rate as high as 80 percent for initial applications.
- o Inappropriate staff assignments: auditors are doing work that support staff are capable of and should more appropriately be handling.
- o Lack of adherence to Department of Finance rules regarding prompt deposit or return of checks.
- o Use of three databases which do not interact, so information is entered three times.
- o No comprehensive tracking system. It is a time-consuming process to locate an application in the office.

In accordance with the scope of this project, the study team did not perform a full systems analysis of this process. Based upon the number and severity of problems identified, it is recommended that the office engage a professional consultant to do so. In the meantime, the recommendations in this section of the report should be considered interim approaches to address specific problems discovered during the mapping process.

The initial application process

Findings

The office receives applications for licenses every day, and the board grants licenses monthly. More than 500 applications come in and 300 to 400 licenses are approved by the board each month.

The receptionist inputs application information on dBase, generates a list of names and check amounts and forwards the applications, with the checks attached, to an auditor for review.

An auditor reviews the applications for completeness, including:

- o Signatures.
- o A one-year lease for the premises or proof that the organization owns the premises.
- o Proof of nonprofit status for the last three years.

- o Indication that the organization has 15 or more members.
- o Proof that the gambling manager has a fidelity bond for \$10,000.
- o Indication that the gambling manager has been a member of the organization for at least two years and is not the same person as the chief executive officer.
- o Permission from the local governing authority to operate as a charitable gambling organization and the correct application fee.

The auditor also checks the application for the adequacy of the organization's internal controls. It is unclear whether there are any standards for these. If standards exist, they are not in written form.

A few applications are forwarded to the executive secretary for review, because of his past interest in certain organizations. It is unclear what applications he sees or what his criteria are for pulling them out of the loop.

The staff reported that the vast majority, as many as 80 percent of first-time applications, are filled out incorrectly. Some incorrect or incomplete applications are returned to the organization, some are not. Of all applications received, as many as 50 percent are returned with a checklist citing common mistakes. These are forwarded to the receptionist for mailing. Another 25 percent have other errors, and these applicants are sent a form letter. Generally, these applications are kept. Up to 5 percent of all applicants receive a personal letter citing unusual or complex errors, and the application is returned. This letter is written by an auditor and typed by a support staff member. The auditor signs the letter, copies it and forwards the original to the receptionist for mailing. He keeps the copy in a pending file for personal letters, but does not keep a copy of the application. He refers to this file only if the applicant responds to his letter. No copy of the application is kept if it is returned with the checklist, form letter or personal letter.

For some time, the office did not send a clear, complete, up-to-date set of instructions with the application forms. A change in law resulted in an update of tax forms, but not in instructions. Instructions are conveyed primarily via the board's monthly newsletter. The current instructions have been in use only a few weeks.

Staff reported that there are no written procedures on the handling of applications and that there are lengthy delays in processing applications. The minimum time between receipt and filing of a complete application is 12 days, but it might stretch to more than 40 days. The biggest holdup is that the filing can sometimes be backlogged as much as 30 days, according to staff members. Incorrect or incomplete applications will take longer, sometimes much longer, to process.

The only turnaround expectation for the staff is to get things ready by the next board meeting. The cut-off date before the board meeting is not early enough to process a correct application, however, so sometimes the disposition of an application depends on its arrival date, not on its completeness.

Sometimes the application check is returned with the application, but these are not returned on the day of receipt. Keeping receipts totaling more than \$250 in the office overnight is a violation of Department of Finance rules.

Checks and applications that are returned are not entered into Foxbase, the main data base.

Conclusions

1. Most of the application review work done by an auditor could be done by support staff.
2. The review of licensees' internal controls is insufficient. Adequate review standards may not even exist; if they do, they do not exist in writing.
3. The executive secretary causes problems when he pulls applications out of the processing loop. His on-the-spot policy-making can result in inconsistencies. He reportedly has a list of "problem organizations," but the staff are not sure who is on it or what the criteria are for organizations to be considered "problematic."
4. Incomplete or incorrect applications are not handled uniformly: they may be handled with a checklist, a form letter or a personal letter. Applications may be returned or they may not. Checks may be kept and deposited or they may not.
5. Because application information is not entered into one data base, there is no one reliable place to look up an application's status. The application may be in many different areas in the office for several weeks into the process.
6. There is no file established for returned applications and no place to locate them except the receptionist's dBase log entry.
7. The office is in violation of state rules when it does not deposit checks or return checks to clients the same day it receives them, if the day's checks total more than \$250.

Recommendations

1. The dBase entry log should be linked to Foxbase (the main data base) or the main data base should be used for the whole process.
2. General review of applications should be made by support staff.
3. An auditor should review the applicants' internal controls. Criteria to determine the adequacy of internal controls should be developed and put in writing. Auditors should use these criteria to measure the adequacy of applicants' internal controls and should refer any questions to their immediate supervisor.
4. The executive secretary should intervene in the application process only by exception. If applications are to be identified for special handling for certain reasons, these criteria for identification should be part of the standard review process. The criteria should be included in

the rules, so that applicants, the board and staff understand what circumstances or activities will flag an application and what remedial steps can be taken to get the application approved.

5. The staff should make the checklist more usable in order to eliminate the need for form letters and minimize the need for personal letters.
6. All applications should be entered on the main data base.
7. In order to track the status of an application, all applications should be input into the data base on the date of receipt. Application information should be established on Foxbase (or the main data base) and a pending file should be set up for incomplete applications.
8. All applications should be kept and filed promptly. A checklist should be used to communicate to the organization errors or items lacking on incomplete applications. The application should be re-sent to the organization only if it needs a signature, and a copy should be kept in the files.
9. All checks and cash must be deposited on the day received. If checks continue to be returned to applicants, they must be returned on the day received.

The application review process

Findings

In focus group discussions, it was learned that the auditor takes three to seven days to review applications, depending on his other responsibilities. After he has reviewed the applications, he returns all of them to the receptionist. He has prepared a checklist sheet for the ones that are to be returned (with their application fee) and has crossed them off the dBase list she prepared for him.

The receptionist corrects her own list to match his and updates her application logbook. Then she mails the incorrect applications back to the organizations along with their checklist sheets and application fees.

The checks from the retained applications and the revised dBase list go to another auditor who makes the daily deposit. Checks may not be deposited for up to seven days if the auditor who reviews applications gets that far behind. He is usually three to four days behind.

The receptionist forwards the kept applications to a data entry operator. She does this the same day she receives the applications from the auditor who reviews them or, at most, the following day.

The data entry operator enters these applications onto Foxbase, the main data base. She usually does this every three days. She has two types of applications: those that are correct and those that are incorrect and will receive a form letter.

She generates a form letter for incorrect and incomplete applications if the problems with the applications are simple, but not covered by the checklist,

and if there is time before the next board meeting to correct the problem. If not, the entire application will be returned with the letter. The form letter is similar to the checklist the auditor prepares for applications that are returned. Generally, the applicants who receive form letters do not get their applications back (unless they are missing signatures), even though they are incomplete.

The computer assigns a license number to the application and the data entry operator sets up a file.

If the application is incomplete and a form letter is sent to the organization, the file is coded "99" on the computer. These applications will go to the board for approval only after the application is complete and the code is removed.

The process outlined by the staff indicated that processing of correct, complete applications from receipt to entry into the main data base takes six working days. Yet the cutoff for application submission is 4:30 p.m. the Tuesday before the Monday board meeting, leaving only one working day to complete the process before the preliminary board list is generated on Thursday morning.

A review of form letters indicates that the office has developed a form letter to address applications lost in the process. Staff indicated that applications are lost frequently.

Conclusions

1. The application process thus far uses two data bases, dBase and Foxbase, which do not interact. Correct, complete applications are in process for a minimum of six work days before entry into the main system; incomplete applications may take longer than six days, and applications that are returned are never entered into the main data base. There is no single, comprehensive tracking mechanism for applications. Thus far in the process, applications may be in four different places in the office.
2. Disposition of an application sometimes depends on how close it arrives to the next board meeting or on the staff's backlog, not on the state of the application itself.
3. The auditor's checklist and the computer-generated form letter contain unnecessary duplication.
4. The cutoff date for processing applications before the board meeting is unrealistic.
5. The existence of a form letter which addresses lost applications indicates a problem with internal systems and poor customer orientation.

Recommendations

1. Applications should be entered into the main data base or into a data base that is interactive with the main data base on the date of receipt. An appropriate pending system should be developed to track applications in the office.

2. The cutoff deadline should be set a reasonable amount of time in advance of the board meeting, for example, the 25th of the month preceding the board meeting, which would allow approximately three weeks for review and correspondence.
3. The checklist should include the common problems so that the form letters can be eliminated. The checklist should be used for all but the most complex cases.
4. Management should put systems in place to prevent the loss of applications.

Setting up application files

Findings

Although files are set up daily by one support staff person, file labels are run twice a week, Wednesdays and Fridays, by an auditor/computer programmer.

Files are returned to the receptionist to wait for labels. She sets them on a table near her work station. This is the fifth place in the office to look for an application.

Two people, the receptionist and the computer programmer/auditor, label the files, whenever they have time.

Labeled files are then put in a bin for filing by one of three support staff members who have been assigned to file. There is often a filing backlog, up to 30 days. The bin is the sixth place to look for an application. The file cabinets are the seventh.

Conclusions

1. The wait for labels is too long. Up to three working days are added to the six-workday process for a perfect application while waiting for labels to be generated.
2. Too many staff are involved in what should be consecutive processing by one person. Files are created by one person, labels are generated by an auditor, then the files are labelled by the receptionist or auditor, who are otherwise minimally involved in the process. This is the receptionist's third round of involvement in the application process.
3. Because of gaps in the processing continuity, applications at times are no one's responsibility. For example, no one has responsibility for the files while they wait to be labeled.

Recommendations

1. File labels should be generated the day the application is received, overnight or the next day at the latest. If the earlier recommendation to input the application on the day it is received is followed, there should be no problem generating file labels at the same time.
2. The same support staff person who sets up the files should be trained to

generate the labels. The receptionist does not need to be involved here, and the auditor/computer programmer should not be involved here, either.

3. Labels should be affixed by the same person who sets up the files. Labels should be affixed and files set up the same day the labels are generated.

Round 2 of the application process

Findings

Applications being resubmitted by organizations and correspondence pertaining to applications are sorted by the receptionist and forwarded to the auditor who reviews applications.

The auditor has to find the file (which may be in any of seven places) and review it.

If it is now complete, he puts a routing slip on it and forwards it to the data entry operator who removes the "99" code. She then puts the file in the bin for filing. This application will now be considered for approval at the next board meeting.

If it is not complete, the auditor writes a personal letter to the organization. This is typed by a support staff person. The auditor signs the letter, copies it, and forwards it to the receptionist for mailing. The letter is recorded in the file, and the file retains the "99" code.

Once a month the auditor will print out from Foxbase a list of all the 99 files. He reviews them and if, after a few months, the application is still not complete, he sends the organization a final letter stating they have 15 days to complete the application or the process will be terminated and they will lose their application fee.

It is unclear what triggers this letter. The staff indicated there was no written policy regarding the termination of applications.

Conclusions

1. Generally, this process is acceptable.
2. The lack of written procedure for the termination of an application could lead to inconsistent and unfair treatment of applicants.
3. Except for determining the adequacy of the applicant's internal controls and the decision to terminate an application process, this work could be done by support staff.

Recommendations

1. Appropriate written policies and procedures which specify steps to be taken before an application can be terminated should be established.
2. Support staff should perform routine review of applications for completeness, with the exception of determining adequacy of internal

controls, which should be performed by an auditor, and with the exception of deciding to terminate an application, which should be done by the auditor senior supervisor on a monthly basis.

The preliminary and final board lists of applications

Findings

The data entry operator generates three copies of the preliminary board list three business days prior to the monthly board meeting. Copies of the list go to an auditor, the auditor/programmer and the auditor principal supervisor.

The auditor checks to make sure the office has received a letter from the local governing authority at least 30 days before the license is issued or that the local government has waived the 30-day requirement. Nothing exists in the tracking system to indicate if this letter has been received or the requirement waived, which necessitates this last-minute check before the board meeting. (See the next section on "Denials by Local Government.")

The data entry operator checks for delinquent taxes on already-licensed organizations which plan to operate at new (additional) sites. She codes them on the computer and then refers her findings to the auditor principal supervisor.

The auditor principal supervisor reviews the data entry operator's work.

The auditor/programmer checks his copy of the preliminary board list against the receptionist's logbook. He prepares a memo for the auditor principal supervisor stating that everything is all right, or noting any discrepancies. Discrepancies are coded for the final board list.

The auditor principal supervisor approves the list and indicates that the data entry operator can run the final board list.

The final list is given to the auditor/programmer. He labels the exhibits "A," "B," "C," etc., but does not otherwise describe the various lists.

The auditor/programmer then makes 17 copies of the list for the board.

The executive I takes the copies to the board meeting.

If an application is approved, the data entry operator enters the data and the auditor/programmer makes an adjustment to update the data base. He is the only person who knows how to make this adjustment. The study team was told that this is for security reasons.

If an application is not approved, the auditor gives that information to the data entry operator for coding.

The auditor informs another support staff member which organizations have been turned down. She writes individual denial letters, which the executive secretary signs. Then she makes copies for the file and the local governing authority. The organization receives the original.

Organizations are permitted to bring application business to the board meetings. Applications can be approved, denied, conditionally approved or tabled until the next board meeting. Walk-ins come mainly to appeal denial of their application because they lack proof of three years of existence as a nonprofit organization.

The staff reported that it takes about a week after the board meeting to dispose of the walk-ins' business.

The auditor/programmer enters the disposition of all walk-in data into the computer.

The auditor gets all the applications to feed back into the processing loop. Where they go depends on the board's action: approval, disapproval, conditional approval or tabled.

Conclusions

1. The time between creation of the preliminary board list and the board meeting may be too short to conduct a thorough review.
2. The current computer system does not allow for a search of the letter from the local governing body or the waiver of the 30-day requirement, for a search of delinquent taxes, or for comparison with the initial entry in the receptionist's logbook, so these reviews must be done manually.
3. The auditor/programmer is doing support staff work: making copies, labeling exhibits on the board list and entering walk-in information after the board meeting.
4. There appears to be a programming issue regarding the entry of approved applications. If the security need is bona fide, it should be explained to staff. If it is not, then the work should be done by the data entry operator.
5. Time is taken to generate individual disapproval letters, rather than to produce a computer-generated letter.
6. Allowing walk-ins at the board meeting causes the staff to play "catch up." This is confusing and makes more work for the staff.

Recommendations

1. The preliminary board list should be generated one week in advance of the board meeting.
2. The computer system should be programmed to:
 - o Allow for a search of the date the approval letter was signed by the local governing body or the date of receipt of a letter waiving that requirement.
 - o Allow for a search for delinquent taxes.
 - o Allow for comparison with the receptionist's logbook/dBase list.

3. The computer should be programmed to generate form letters to organizations explaining the denial of their application.
4. The computer should be programmed to allow the data entry operator to input approval of applications unless there is a bona fide security reason why she should not.
5. Clerical work should be assigned to the support staff.
6. The executive secretary should propose to the board that walk-ins who appeal exemption from the three-year nonprofit status requirement should be considered at the next board meeting. The board choices then would be only denial or approval of waiving the three-year requirement. This would give the staff time to prepare for the next board meeting and eliminate the week of catch-up work for the staff.

Denials by local governments and waivers of the 30-day requirement

Findings

Local units of government (cities and townships) must grant approval before organizations can engage in charitable gambling. The statute requires that local governing units have 30 days from their initial approval to adopt a resolution retracting their approval of the license or renewal of a license of any organization in their jurisdiction. The office therefore requires organizations to submit a letter from the local governing authority permitting the organization to conduct charitable gambling events. The office must receive the letter of approval at least 30 days before the license is issued. The local governing body can also send a letter waiving the 30-day requirement. (There is no waiver of local governing body approval, however, only waiver of the 30-day wait before the license can be issued.) Sometimes, local units of government will deny an application and notify the board of that denial.

When waiver or denial letters arrive separately from the applications, the receptionist refers them to the auditor principal supervisor. He does not see the letters that accompany applications; these go to the auditor who reviews applications.

The auditor principal supervisor routes them to a clerk typist 2. The letters are taken from her desk by the data entry operator, who inputs the information into Foxbase.

The letters are then given to an auditor, who generates a list by city and county on a word-processing program. This auditor gives the list to the auditor who reviews applications and puts the letters in the bin for filing.

The auditor who reviews applications compares the preliminary board list generated by the data entry operator against the other auditor's list by city and county.

Local units of government can send a letter signed by the city clerk or minutes of their meeting on official letterhead waiving the 30-day wait before a gambling license is issued. If the letter comes in with the application, the auditor who reviews applications writes "waiver" on it.

A data entry operator enters the waiver information on Foxbase.

If a waiver comes in separately from the application, it is referred by the receptionist to the auditor principal supervisor. He then refers it to a data entry operator, who enters the information on computer.

No one double checks the application file for denial letters.

Conclusions

1. Two people are involved in entering the letters into Foxbase, and it is unclear who is actually responsible for doing it.
2. An auditor is generating an alphabetical list of letters on word processing, a duty more appropriate for support staff.
3. Another auditor uses this list to check against the Foxbase-generated preliminary board list. The two lists -- the alphabetical list and the preliminary board list -- are from the same sources, the letters sent by local governing authorities.

Recommendations

1. Letters should be routed to support staff for data entry upon receipt. There is no need for review by the auditor principal supervisor.
2. The support staff supervisor should make a specific assignment for entry of information from denial letters. Denial letters should be entered upon receipt and filed in the application file immediately.
3. The Foxbase-generated preliminary board list should be programmed to include a separate listing of applications which have been denied by local units of government.
4. The alphabetical list generated by an auditor is redundant. It should be eliminated.
5. The preliminary board list should be compared to the source documents -- the letters in the application files. This check should be done by support staff.

Issuing licenses

Findings

After a board meeting, the data entry operator who runs off the licenses is never sure when all the data has been input. She checks with the auditor/programmer and the auditor principal supervisor to see if it's all right to run licenses. There is no turnaround expectation for all data to be input after a board meeting.

Licenses are dated the date they are run. They are run on the Mondays and Wednesdays closest to the maturity date.

The data entry operator prints the licenses, a list of licenses run and

mailing labels. She separates the licenses and gives the auditor who reviews applications the list, the licenses and the labels.

The auditor performs a final review before the licenses are mailed. He checks the application file for a current application and signature; then he checks that name off the list. He puts the license stub in the application folder and refiles it. Then he puts labels on the envelopes, stuffs the licenses in them and forwards the envelopes to the secretary to mail.

No one has clear responsibility for proofreading the license itself for accuracy.

Organizations that conduct four or fewer gambling events per year can request exemption from being licensed. Exemptions (which are a type of license) are printed at the same time as the licenses.

The data entry operator mails these without review and is responsible for filing the stub in the application file.

Conclusions

1. The initiation of licenses is unclear; there is no set date or completed task that indicates to the data entry operator that she can run licenses.
2. Licenses are not consistently dated for a set day each month.
3. Review prior to mailing licenses consists of clerical functions inappropriately performed by an auditor.
4. It seems this review does not actually include proofing the license itself.
5. There is no apparent review of exemptions or proof of the exemption license.

Recommendations

1. The initiation of licenses should be clarified. The data entry operator should be told what tasks must be completed before licenses can be run. A turnaround expectation should be stated, for example, five working days after the board meeting, tasks must be completed so licenses can be run.
2. A standard starting date for licenses should be set for the first of the month following the board's approval.
3. The review process should be reassigned to support staff.
4. The review should include proofreading the license itself.
5. Review and proofreading of exemptions should be done by the same support staff person who reviews and proofreads licenses.

License renewals

Organizations are required by law to renew their gambling licenses annually.

Findings

About 145 days before a license is due to expire, the auditor/programmer runs off a pre-printed renewal form and instructions. A data entry operator mails the form, most of it already filled in, so the licensee need only make corrections and sign and return the form to the office.

The receptionist forwards the renewal forms to support staff. The forms are then checked for completeness.

If the organization submitted proof that the gambling manager carries a fidelity bond, she checks it over. If they did not, she has received oral instructions from management not to worry about it; if they don't have one, it's the organization's risk. M.S. 349.20 requires the fidelity bond and M.S. 349.14 requires organizations to comply with this chapter (Chapter 349) to be licensed to conduct gambling in Minnesota.

If the renewal application is complete, she does not need to pull the file, but that happens only about 25 percent of the time.

She enters the data into Foxbase and also manually on a printout kept at her desk. This printout, created at the start of a new year, lists organizations by license number and has other information. When the support staff has input some renewal forms, she posts the date of entry on this list as a manual tracking system, because the computer shows only that a renewal has been "granted" or is "in process." It does not show the date the renewal form was received and input into the computer. Since computer queries take a long time, up to 15 minutes for one, the support staff and the auditors refer to the manual list when customers call to learn the status of their renewals.

Conclusions

1. The process is generally sound.
2. The instructions for completing a renewal application are inadequate, if 75 percent of the applications are incomplete.
3. Separate entry onto a printout is redundant if the database is flexible enough, and if there is enough computer capacity, to get a prompt response to queries.

Recommendations

1. Since compliance with the statutes is a condition of licensure, the office should ensure that organizations continue to fulfill all the requirements of the statutes. This includes making sure that the gambling manager carries a \$10,000 fidelity bond. It is inappropriate for managers to tell staff to disregard a statutory requirement.
2. See the recommendations on rewriting instructions under "Records Management" on Page 63, as well as the recommendations on review of the computer system under "Automated Systems" on Page 65.

C. TAX RETURN PROCESSING

Findings

Information in this section is from a focus group held to describe the tax return process. Staff mapped out the process for incoming tax returns.

Tax returns are due by the 30th of each month. Staff estimated that 2,700 returns are expected each month. (This includes both correct and incorrect initial reports plus corrected or amended reports.) Of that amount, staff estimate that 1,700 are correct.

Of the 1,000 incorrect returns (a 37 percent error rate), 500 are sent back to the organizations. (No copy of the return is kept unless a check has been received.) The organizations must then file amended returns. The other 500 incorrect returns are corrected in-house (250) or receive an error report letter (250) which requires the organization to file an amended return.

Although the office provides instructions for filing returns, staff indicated that the instructions are outdated and do not match the forms in use.

The process

The receptionist opens the mail and separates the tax returns into piles of those with checks and those without. The returns with checks are given to auditors who record checks received and follow the deposit procedure.

All returns are reviewed by the auditor for accuracy. The auditor records the returns he is keeping on a database (Lotus) other than the main database system (Foxbase). The auditor uses this database to produce a report summarizing tax returns and tax dollars per month. Staff estimated that the review process can take up to 15 days.

If returns are not kept, they are given to support staff who generate form letters citing errors on the returns which have been identified by the auditor. If a check was submitted with the return, support staff make a copy of the return for the tickler file. If no check was submitted, no copy of the return is made. Original returns are sent back with the error letter.

Rejected returns are sent to the organizations with a form letter produced on the main database system (Foxbase). The auditor principal supervisor's name is stamped on the form letters. A copy of the letter is placed in the file, but no other tracking system is used. Generating these letters takes an estimated five to 20 days. Staff reported that delinquent tax notices are sometimes sent to organizations before staff have completed the review process and sent an error letter. This can result in denial of an organization's license renewal if the return is not identified on the computer system or filed before the license is to be renewed.

Approved returns are input into the main database system by the data entry operator with assistance from the auditors. This can take from three days to two weeks; there is no specific turnaround expectation. The returns are then deposited in a filing bin. During this time period, delinquent tax reports are processed and sent to organizations. Organizations whose returns have not been entered into the main database system because of office delays are sent delinquent notices.

If the computer identifies math problems on tax returns as they are entered, the returns are given to a third auditor. This auditor corrects the return if the correction does not affect the fund balance or is less than \$2. If this is the case, two copies of the amended return are sent to the organization. Another copy is kept, stapled to the return and put in the bin for filing. The organization signs one of the copies sent to them and returns it to the office. An error report is produced on the main database system once a month to monitor these returns.

If this same auditor determines that the returns flagged by the computer have major or numerous errors, they are sent back to the organizations. These are manually recorded on a control sheet; however, they do not loop back to the main database system or to the files for tracking purposes.

Approximately 25 to 30 returns per month are routed to the auditor principal supervisor. He may write a letter, return them to the auditors or give them to the executive secretary. This review by management of special problems takes anywhere from two days to three months. These returns are not tracked in the main database system. Response letters to special problems reportedly can take up to three weeks to produce and mail.

When organizations receive letters from the office, they are instructed to file amended returns. When these amended returns are sent to the office, they enter the process for a second time. If the returns are now correct, the copies kept in the tickler file are removed and entered into the main database system. If the amended returns are still incorrect, another form letter is produced and sent to the organizations. It is unusual for returns to be sent back more than twice.

Organizations which do not agree with the amended returns typically send letters to the executive secretary. According to staff, there is no specific turnaround time for this process.

Each tax return includes information on the organization's fund balance. An amendment required on one return necessitates adjusting the fund balance on each subsequent return. Any delay in correcting an error results in the need to file more amended returns.

Filing of tax returns into the tax return folders can be backlogged up to 30 days. No specific turnaround is expected. Sometimes an incorrect license number is noticed during the filing process and the return is given to the data entry operator for correction.

Total processing -- from receipt to filing -- of correct tax returns which require no correspondence can take up to two months.

Conclusions

1. Tax returns are not tracked on the main computer system and physical copies are not always kept.
2. The 37 percent error rate in tax returns appears to be directly linked to the inadequate instructions sent to the organizations.
3. Throughout this process, auditors are performing primarily clerical and bookkeeping functions more appropriate for support staff.

4. Letter production to inform customers of tax return errors or to address special problems is clearly not a priority.
5. The review of computer-generated error reports and subsequent correction of tax returns through correspondence with organizations seems reasonable.

Recommendations

1. Tax returns and checks should be entered into the main computer system upon receipt, and all information on the tax returns should be entered. The computer should be used to identify math errors or discrepancies.
2. Clerical and bookkeeping functions currently performed by auditors should be assigned to support staff. Auditors should review Schedule "C" expenditure claims and review the math errors identified by the error report, but this process should otherwise be performed by support staff.
3. No original returns should be sent back. A checklist similar to the one used in the application process should be developed and used to convey information to the organizations. The organization's record on the main computer system should be coded to indicate that the checklist has been sent, so that follow-up and tracking are possible. A copy of the checklist should be attached to the original tax return and filed.
4. Notifications and checklists for routine errors should not be signed or contain specific reference to an individual auditor, but should contain the WATS line number and business hours during which the organizations can get answers to their questions.
5. Turnaround expectations should be established, communicated and monitored. Management should allocate the agency's resources to the degree possible to meet these expectations and should set and communicate clear, consistent work priorities in advance.
6. Delinquent tax reports should not be generated until all necessary information is entered into the database system. The error report which is currently run once a month should be run daily. This report should be used to flag those returns with errors within the first few days after they have been received.
7. Special problems which are referred to the management should:
 - o Be coded as such on the database system.
 - o Be handled within one week's time by management.
 - o Be assigned to one manager and be reviewed by the executive secretary only by exception.
8. The entire review process for correct returns, from receipt to filing, should be completed by the 15th of the month following the deadline for tax returns.

D. AUDITS

Findings

1. According to Minnesota Laws, Chapter 349, Section 151, Subdivision 4(3), the office's legislative mandate is "to receive reports required by this chapter and inspect the records, books, and other documents of organizations and suppliers to insure compliance with all applicable laws and rules."
2. Staff indicated there is no audit program. No standard format has been developed or used. The study team requested an audit plan and was told it would be sent by May 1, 1988. Shortly after that date, a recently developed checklist for auditors was sent. No audit plan, format or schedule was included. Interviews revealed that there are no auditors assigned to conduct audits at this time. There is no clear "mission" for auditing.
3. Staff interviews indicated that there have been no field audits since December. Some staff said this was because of conflicting demands from personal tax service businesses run by employees on their own time; therefore, they did not want to travel during tax season. The study team requested a list of audits conducted in the past year, the auditors and dates. The team received a list of 10 site "reconciliations" with no dates. A note was attached indicating that this list reflected "some of more recent activity." Because there is no audit plan or format, it is unclear whether these reconciliations constituted audits. An internal review of the fund balances for license numbers 0 through 100 was also conducted, but no date or time period was listed.
4. The study team could not find criteria for internal or external audits and reviews. There are no definitions of an inventory audit, financial audit or site review. The current definition of audits as relayed by staff does not include an audit of the inventory of gambling equipment and supplies at sites.
5. Staff have requested an audit format. Interviews indicated that the auditor principal supervisor and the auditor senior supervisor have said that the office cannot use a "canned" approach. Staff have received no training in conducting audits. Some auditors have accompanied the auditor senior supervisor on site visits, but have no clear picture of how an audit should be conducted. Staff have been told to "wing it."
6. Auditors said that licensees do not keep adequate records. However, Minnesota Rules 1987, Section 7860.0150, authorizes the board to review organizations' internal controls. Organizations are required to submit this information with their license application. This requirement to submit internal controls is the tool which should enable staff to establish minimum internal controls and records to permit them to conduct financial audits.
7. The study team was told that the office has not responded to some customers' requests for audits.

8. Staff did not describe any follow-up approach to audits. The legal authority to issue citations is available, but auditors are not allowed to issue them.
9. Some staff said that nothing triggers an audit (for example, a \$90,000 discrepancy in the fund balance on a tax return was reportedly shown to the auditor principal supervisor, who directed the employee not to do anything with it. Other examples include requests by organizations who want assistance in sorting out their books for large or repeated losses by questionable means).

Conclusions

1. The legislative mandate to inspect records on locations is not being met because no system is in place and staff are untrained.
2. The policies, procedures and plans for auditing have not been defined.

Recommendations

1. A. An audit plan should be developed, and it should include:
 - o A statement of the purpose of audits.
 - o An auditor's guide including process, checklists, procedures (samples) and what to audit (books, inventory).
 - o Determination of what triggers an audit and how audits are scheduled.
 - o An annual schedule.
 - o Determination of who performs audits, what advance training is provided, what authority audit staff have, and who has final sign-off on audits.
 - o Description of penalties and follow-up procedures.
 - o Definitions of:
 - a) Internal file audit
 - b) External financial and inventory audits
 - c) Site visit
 - d) Site review
 - e) Audit findings
 - f) Follow-up procedures
 - g) Authority to issue citations
- B. Development of the audit plan should include staff input and input from other agencies (for example, the Departments of Revenue and Commerce, the Attorney General's Office and the National Association of Gambling Regulatory Agencies).

(One way to do this may be to utilize a standard package such as that developed by the American Institute of Certified Public Accountants. Information on this package will be provided to the executive secretary under separate cover.)

C. A deadline should be set for development of the audit plan.

- 2. The initial plan should be reviewed by a task force consisting of members from the Charitable Gambling Control Board, staff, the Attorney General's Office, the Departments of Revenue and Commerce and customer representatives.**
- 3. Audit training should include:**
 - o Effective customer interactions.**
 - o General audit principles.**
 - o The specific office approach.**
 - o On-the-job training with experienced auditors.**
- 4. The task force should review the audit plan annually to evaluate its effectiveness. The board should review and update internal procedures.**
- 5. The auditor senior supervisor should conduct regular, mandatory audit staff meetings to discuss audits and problems.**
- 6. Review of internal controls at the application phase should be regarded as the primary opportunity to ensure that organizations maintain adequate records for audit purposes and have adequate safeguards to prevent fund losses by questionable means.**
- 7. Organizations who report fund losses by questionable means should be added to the audit schedule, especially when the losses occur repeatedly or involve large amounts of money.**

E. RECORDS MANAGEMENT

Findings

1. The office processes 500 applications and 2,700 tax returns each month. The office has 330 linear feet of file space -- 22 lateral file cabinets -- just for application, tax return and distributor files.
2. Staff interviews indicate that no formal records management system has been developed. The first year, this responsibility belonged to the office services supervisor III, who prepared drafts of a system. It was then reassigned to the auditor principal supervisor, who reportedly has not done further work on the system.
3. The study team reviewed the records management system draft documents. These documents have not been approved by the Information Policy Office of the Department of Administration.
4. The office has no plans for storing records of past transactions other than to continually expand the current filing system.
5. The study team reviewed many of the forms, instructions and form letters being used by the office. The review showed that:
 - o The forms are not written with the client's experience and the form's ease of use in mind.
 - o The instructions are not clear and concise. In recent months, clients have been sent outdated instructions which did not match the tax forms because the form had been revised to reflect law changes but the instructions had not. No customers had input into the form or instruction revision to assure clarity.
 - o Several form letters are almost identical in content; only the signatures required and minor words are different.
 - o Some form letters do not clearly express their intent.
 - o A checklist of common application problems does exist.
 - o One type of application form letter does allow inclusion of several different items.
 - o There is no standard system for naming form letters.
 - o The checklist and some form letters are not printed on self-carbon paper.
6. Staff said current, accurate instructions for tax returns and applications did not exist at the time of the interviews. The study team was informed at the time of writing this report that updated application instructions have been in use for a few weeks.
7. The filing systems used for keeping records of tax returns and license information for organizations contain duplicate files. For example, locating information on an organization operating multiple gambling sites

involves finding a file for each site, the main organization file, as well as tax return files for each site. While staff were reasonably agreed on what should be placed in each file, numerous examples were cited which indicated that information may be in many locations and not always where it should be. This situation is further complicated by extra files for organizations or sites which have had a licensing lapse. When these organizations or sites are re-licensed, they are given a new license number, rather than reactivating the previous number. Therefore, a completely new set of files is established with no link to the previous set.

Conclusions

1. This office has paper-intensive processes.
2. Formal systems for records management have not been instituted. The office may be maintaining duplicate filing systems and an overabundance of past records. Conversely, the office may not be able to track information because of multiple files and the issuance of new license numbers for reactivated organizations or sites.
3. Many forms, instructions and form letters used by the office are inadequate. No system exists for managing these or for reviewing and updating the information they contain.

Recommendations

1. The office should establish a formal records management system. The Information Policy Office and InterTechnologies Group of the Department of Administration should assist in reviewing and establishing this system. The system should include all aspects of records management including records retention schedules, filing, off-site storage of inactive records and micrographics.
2. A task force of management and staff should be created to review current forms and instructions and form letters. The Information Policy Office of the Department of Administration should be consulted regarding the degree to which current and new forms can be read and understood. The task force should update instructions to match current forms and review both forms and instructions on a regular basis.
3. The application checklist should be reviewed and updated so it can be used in place of the current form letters. For those cases where the checklist is not applicable, a computer-generated form letter with several options should be created. Other form letters regarding applications should be eliminated.
4. A similar checklist and the same type of computer-generated letter should be created for tax returns. Other form letters regarding tax returns should be eliminated.

F. AUTOMATED SYSTEMS

Findings

1. Some staff said that the computer system is at capacity and not meeting their needs.
2. Staff indicated that there are computer response time slowdowns and too many occupied terminals while reports are being run.
3. The lag time for queries is reportedly 15 minutes or longer.
4. The automated systems are not integrated: several databases are used in the same process, and data is re-entered manually because the systems do not interact.
5. Staff said the main computer system is not user-friendly.
6. Staff input to the system is limited. Staff are not trained in systems, and attribute this lack of training to system security concerns on the part of the auditor principal supervisor. Staff stated that lack of training hindered their efforts to work effectively.
7. An auditor functions as the in-house programmer. The auditor has received training while on this job, but was not hired as or previously trained as a programmer. Some staff indicated that he may not have the skills necessary to provide the office with the programming needed, and may not recognize long-term data needs for the office.
8. A consultant is retained to provide programming on the Foxbase system.
9. The cost of the auditor position (\$25,140 + fringe estimated at minimum range of the auditor senior class) plus the consulting contract (\$31,000 in Fiscal Year 1988) is assumed to total more than \$60,000.
10. Tax returns and applications are not entered upon receipt. The system is not used to track information in process.
11. Staff said the computer system does not provide sufficient support to the main internal processes.
12. Capacity issues are addressed through purchase of additional disk drives or other temporary solutions, rather than through a comprehensive system review.
13. Computer system needs are considered over staff needs.
14. There does not appear to be a routine process for verifying data entry. Some staff said that data entry errors go unchecked and that the auditor principal supervisor's attitude is that they shouldn't worry about such mistakes.
15. The overall system was selected in 1985 with input from the InterTech Group (formerly the Information Management Bureau) of the Department of Administration. There has been no mention of a comprehensive review since that time.

16. The Charitable Gambling Control Board has submitted a request to the Intergovernmental Information Systems Advisory Council (IISAC) for funds to examine the computer system.

Conclusions

While the study team did not do a complete analysis of the automated systems, the following conclusions have been reached based on the information gained during this study:

1. The system appears to be inadequate for current needs and near or at capacity.
2. It is time for a thorough review of the office's system needs and development of a "systems plan" for the office. No one in-house appears qualified to conduct this review or make this determination.
3. Staffing/support of the computer system (the combination of the auditor/programmer and the outside consultant) may not be adequate.
4. Training for computer users is inadequate.
5. Staff/users are not involved in system design or application decisions.
6. Information contained on the system is not verified and may be inaccurate.

Recommendations

1. Management should proceed as soon as possible with a thorough review of the system. Such a review should be conducted by a professional computer consultant other than the current programming consultant and should include at a minimum:
 - o A review of existing hardware and software.
 - o An evaluation of data elements and processing needs.
 - o Recommendations on appropriate hardware and software.
 - o A review of bona fide security needs, including system backup and disaster plans.
 - o A review of personnel needed to support the recommended system.
 - o A review of written materials in existence or needed in any proposed new system.
 - o A review of staff training needs.

This is a priority activity and should be done whether or not the IISAC funding is granted.

2. Management should hire a computer programmer with expertise and training in the systems selected through the review listed above.

3. If a new system is installed following the review in Recommendation 1, management should:

- o Implement recommendations and convert data, verifying that all data has been accurately converted.
- o Train staff.
- o Establish and maintain a computer-users' group, which should meet on a regular basis.
- o Obtain or develop user-friendly manuals.

If the current system remains following the review, management should:

- o Review the bona fide security needs.
- o "Open up" the system and cross-train staff in all available areas and functions.
- o Establish and maintain a computer-users group, which should meet on a regular basis.
- o Obtain or develop user-friendly manuals.

4. The new computer programmer should establish a verification process for data entry.

G. SECURITY

In interviews and focus groups, the staff raised a number of security issues.

Findings

1. Stamps, sold to distributors to mark legal gambling equipment and supplies, are kept in the receptionist's unlocked desk drawer along with cash from sales. The cash is not always included with the day's daily deposit, and both stamps and cash have been left in her unlocked desk overnight. The receptionist gets the stamps from an unlocked storage room in the office. All staff have access to her desk and the storage room, as well as keys to the office. After hours, cleaning and security people also have access to the office, desk and storage room.
2. Stamps which have been returned for various reasons and which cannot be resold are recorded as voided in the receptionist's logbook, but are not disposed of. These are kept in a cardboard box underneath the desk of one of the support staff. There is nothing visibly wrong with some of these stamps, and they could be illegally sold or given to distributors or gambling operators. All Charitable Gambling staff, as well as building staff, have access to this box.
3. There are no policies for issuing refunds or credits for returned stamps. Aside from posting sold stamps and voiding returned stamps in the receptionist's logbook, there are no checks or internal controls for any part of this process. Apparently, several staff members could issue refunds for returned stamps on their own authority, and no one in management monitors this.
4. Staff have said that they have raised the issue of security for stamps and cash with management and have been told not to worry about it. Various staff members said that office staff have been explicitly told to leave their desks unlocked so that others may locate files in their desks when they are not around.
5. Staff members have said that some walk-in clients have occasionally been drunk and abusive. The door that separates the waiting room from the office is not always locked, although management has told staff to keep it locked. There is no policy requiring someone with authority to be present in the office to give staff assistance in handling drunk or abusive clients.

Conclusions

1. There is a lack of security for stamps and cash.
2. Security matters are not a management priority. Staff are prevented from taking even minimal steps to ensure the security of stamps and cash.

Recommendations

1. Management should develop, with staff input, a security system for stamps and cash. It should include:
 - o Designation of a safe, locked place to store stamps and cash.

- o Provision for the daily deposit of all checks and cash received.
 - o Prompt disposal of voided or unusable stamps.
 - o Designation of staff who should have access to stamps and cash.
 - o Policies on the issuance of refund credits and designation of a staff member with the authority to issue refunds. This process should be monitored by a member of the management team.
2. Management should develop security policies and procedures. These should be written and communicated to all staff. Management should consider staff input into these procedures.
 3. Staff should keep the waiting room door locked at all times. Management should enforce this.
 4. A person with authority should be in the office at all times to help staff deal with problems that may arise, including unruly customers.
 5. Staff should be permitted to lock their desk drawers at any time to protect their valuables. If any desks do not have a lockable drawer, management should provide each employee with something that does lock, such as a file cabinet or a locker, for their valuables. Conversely, no files or documents should be locked inside any desk, unless there are bona fide reasons to do so, for example, with personnel files or confidential data files.

H. DEPOSITS

Findings

1. Checks are prepared for deposit using two separate procedures for tax returns and applications. Two different databases (neither of which is the main database system) are used to record check information. An auditor receives most of the checks from both of these procedures; however, some are returned to the organizations.
2. If the auditor receives the checks, he/she verifies the information on the tax return or application and records the license number on the check. Two tapes are run on the checks. One tape is kept and logged in a book; the other tape and checks are referred to another auditor.
3. A second auditor prepares a daily deposit; however, this deposit does not always include all of the day's receipts. Checks that are waiting in process could be deposited after the date of receipt.
4. Both auditors cross-check and verify each other's calculations and keep copies of the transmittal forms and tapes sent to the Department of Finance.

Conclusions

1. The deposit process outlined seems solid, except that the two different database systems which are used are duplicative and do not allow tracking of checks within the main database system.
2. Not all checks are deposited on the day they are received.
3. Auditors are completing a bookkeeping function more appropriate for support staff.

Recommendations

1. All checks should be entered into the main database system upon receipt.
2. All checks and cash should be deposited on the day received.
3. Bookkeeping functions should be assigned to support staff.

I. OTHER

Phone calls

Findings

1. Staff estimated that the office receives 150 calls per day. Of these, half the calls are questions regarding tax returns and application forms, 30 percent are status questions, 10 percent are for ordering forms and 10 percent are for general information. The board also has a WATS line available until noon each day.
2. Some staff and two supervisors who could accept calls do not.
3. Support staff who could answer routine calls have been told to refer all calls to auditors.
4. There is no set procedure outlining who should receive calls.
5. There is no guidebook with standard answers and interpretations for frequently asked questions. Audit staff say they cannot get a straight, concise answer from the auditor principal supervisor, so they do not use him as a resource.
6. Staff stated that the majority of calls are questions which relate to:
 - o Completing forms.
 - o Interpretation of basic requirements.
 - o How to get started.
 - o The status of applications or tax returns.
7. Line auditors, as a group, estimated that they spend 15 to 17 hours on the phone and in follow-up of these calls each day. This works out to 3,900 hours per year, or two full-time-equivalent positions.
8. Staff said that customers complain about inconsistent responses.

Conclusions

1. Many phone calls are routine and could be handled by support staff.
2. Many phone calls could be eliminated if forms had adequate instructions, rules had standard interpretations, the start-up packet was complete and targeted to the correct audience, the board processed applications and tax returns in a timely fashion and applications and tax returns could be tracked on the computer system.
3. Being able to track applications and tax returns on the computer from the date of receipt by the office would eliminate the expenditure of a lot of unnecessary follow-up time used to track them down in the office.

4. The board is to be commended for initiating a customer-oriented service such as the WATS line.
5. The lack of procedures and guidebook results in more work, uneven distribution of calls, auditors overloaded with other time-specific tasks to handle and inconsistent responses.

Recommendations

1. Routine phone calls should be handled by the receptionist.
2. A guidebook should be developed, containing standard responses to frequently asked questions and standard interpretations of the rules and law. Someone should be assigned the responsibility for updating the guidebook on an as-needed basis.
3. A procedure should be established for distribution of calls.
4. The WATS line should be continued.
5. See other recommendations on developing complete, user-friendly forms and instructions.
6. See other recommendations on developing a fast, accessible computer tracking and query system.

Walk-ins

Findings

1. There is no officer-of-the-day. Walk-ins are referred to any available auditor, the executive I or the executive secretary. They are shown to the conference room and the receptionist finds an available person.
2. The two auditor supervisors refuse to see walk-ins unless they have scheduled an appointment, even though the executive secretary will see walk-ins at any time.
3. The receptionist handles very basic questions. On occasion walk-ins are difficult and she will inform one of the auditors.

Conclusions

1. It is commendable that walk-ins are shown to the conference room for privacy.
2. The board lacks a policy or consistent approach to deal with difficult clients.

Recommendations

1. An officer-of-the-day should be designated, and it should be an auditor. This position should be rotated among all auditors, for no more than one day at a time.

2. Supervisors should be on hand to assist with auditors' questions.
3. Management should be aware of staff security needs, for example, keeping the office door locked and having a back-up always on hand in case of problems with walk-ins.

Requests for interpretation

Findings

1. Staff indicated that requests for interpretation can encounter possibly lengthy time lags before resolution. Some delays are understandable, such as waiting for an attorney general's opinion. However, there are no turnaround expectations. Some requests can take up to three months before a draft response is given to support staff for letter production.
2. Staff stated that dictation or draft response letters are not a priority for the assigned support staff person who is also handling multiple, time-specific tasks such as tax return letters and the newsletter.
3. The bulk of the letters go to the auditor principal supervisor and the executive secretary, instead of to the auditors.
4. There are no policies and procedures for handling these requests, such as when a letter should be referred to management or when an auditor should handle it.

Conclusions

1. The lack of policies and procedures for handling requests for interpretation results in:
 - o Delays.
 - o Letters unnecessarily directed to management.
 - o Confusion, because auditors don't know what they are permitted to handle.
2. The current assignment for production of these letters conflicts with the time-specific demands of this person's other assignments.

Recommendations

1. Policies and procedures should be established and should include checks to make sure requests don't get lost in the system. A possible system would include the receptionist logging in the requester's name, date and auditor assigned to answer the request. The person who produces the letter would indicate on the log when the response letter has been mailed.
2. Turnaround expectations should be established, put in writing and followed.
3. All letter production should be assigned to a person who has primary responsibility for word processing.

Appeals and hearings

Findings

1. Appeals are objections to citations. The statutory maximum fine per citation is \$500. A cited licensee has a right to appeal, which may be made by phone or letter.
2. The appealing licensee can discuss the fine and citation with the executive secretary, and if the matter is not resolved, the licensee can bring the issue before the Compliance Review Group, a subset of the board, for disposition.
3. The licensee is invited by letter to appear before the Compliance Review Group. Attending this meeting are Compliance Review Group members, the executive secretary, the attorney general's representative and the executive I.
4. The Compliance Review Group may uphold the citation or the appealing party, or it may negotiate an agreement. This is presented for approval to the full board at its next meeting. The results are printed in newsletters.
5. The Compliance Review Group also conducts hearings for licensees who have allegedly violated gambling rules. The licensees are invited by letter to a meeting of the Compliance Review Group to discuss the alleged violations. The goal of the meeting with the Compliance Review Group is to resolve the issue.
6. In either case, if there is no agreement at the first Compliance Review Group meeting, the issue is tabled until a second meeting. If there is no agreement after the second meeting, the organization may litigate.
7. There is no follow-up on organizations that don't pay their fines. Staff reported that organizations are not denied new licenses at the time of renewal. Appeals are not in the computer system, so there is no way to track them.
8. Staff were uncertain about the fate of organizations that agree to pay fines, but don't. There is no way to track this, either.

Conclusion

1. The processes for appeals and hearings is generally straightforward and fair, except for the lack of follow-up and tracking in the system.

Recommendations

1. Appealing organizations should be required to initiate their appeal in writing.
2. Non-payment of fines should trigger a recommendation for denial of the organization's license renewal application.
3. Tracking of appeals, issued fines and paid fines should be incorporated into the automated system.

Complaints/allegations

Findings

1. Complaints against licensees may come in by phone, letter or in person (usually by appointment). The auditors take complaints and record them on a complaint form.
2. The executive I reviews the complaint forms for completeness. If the form is incomplete it is referred to the auditors. If a rule has been broken, the complaint form is referred to the executive secretary. Occasionally, the executive I will draft a letter for the executive secretary, to expedite the process.
3. The executive secretary may take up to six months to act on an allegation. Sometimes he will visit a site or he will refer it to the Compliance Review Group.
4. Besides the executive secretary, only the auditor principal supervisor and the auditor senior supervisor do the "investigations" which may include site visits.
5. The executive I does the follow-up on complaints. This is apparently manual, with no computer tracking.

Conclusions

1. The complaint form standardizes the information collected.
2. There is no time frame for addressing the complaints and allegations.
3. There is no tracking system. Nothing is on the computer, nor is it done manually.
4. There are no rules or checklists for investigations. It is unclear what site visits accomplish.

Recommendations

1. Policies and procedures should be developed to deal with complaints and allegations. These should include:
 - o Persons responsible for handling them.
 - o Rules or checklists to follow.
 - o A set time frame for disposition.
2. A tracking system, either manual or computer, whatever is more effective, should be established.
3. The purpose/goals of site visits should be determined and their effectiveness evaluated.