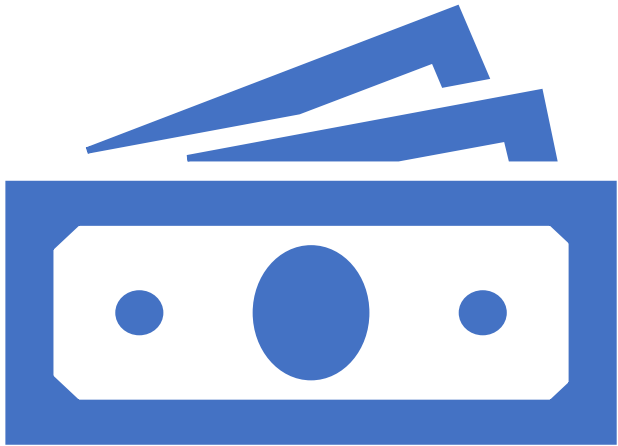


# North Dakota Office of Attorney General

**Gaming Division**

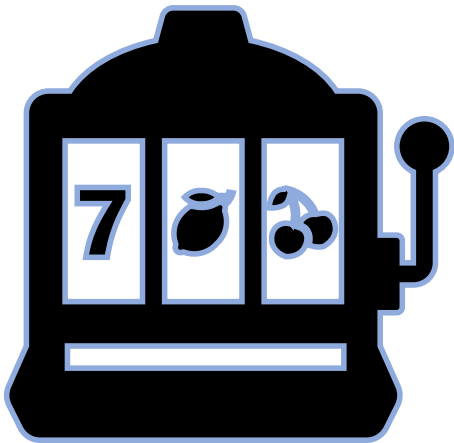
**Judiciary Committee Presentation 3/7/24**

# Money Laundering



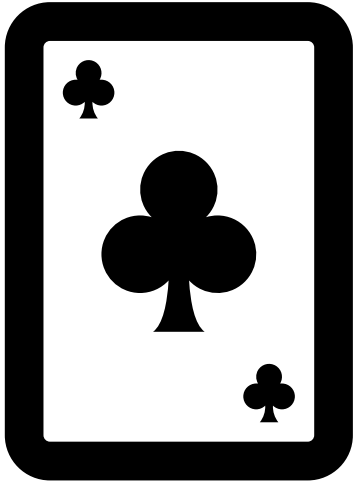
- Definition: the concealment of the origins of illegally obtained money, typically by means of transfers involving foreign banks or legitimate businesses.
- Involves disguising financial assets so they can be used without detection of the illegal activity that produced them. Through money laundering, the criminal transforms the monetary proceeds derived from the criminal activity into funds with an apparently legal source.
- Key to money laundering is that the money comes from illegal means, “dirty” money.

# Tribal Casinos



- Money is laundered in casinos by the criminal bringing “dirty” money to the casino and integrating the money into the system, i.e., betting chips or slot play.
- The criminal will play for a short time and then will cash out to get a receipt showing the money came from a casino. If questioned, the criminal can show the receipt indicating that the money was won by gambling. This money is now “cleaned”.
- Casinos will document on a currency transaction report any amounts \$10,000 or larger that were won in a single gaming day. Typically, the criminals will try to stay under the \$10,000 threshold to try not be detected.

# Charitable Gaming



- Money laundering is nearly impossible to detect or regulate. We know it is happening but cannot quantify how frequently it occurs or in what amounts.
- There are 273 organizations conducting gaming in 830 sites throughout the state at 4,900 individual devices. In comparison, the largest Tribal Casino has 1 site with 800 slot machines and employs 200 class III gaming employees, 29 who are security personnel and 5 who are revenue auditors.
- At this time, the Gaming Division does not know whether charitable organizations or sites are paying attention to this practice.
- Currently there is no way for the Gaming Division to conclusively track whether criminals are cleaning money in the E-tab machines.

# Crime in ND Charitable Gaming

- **Counterfeit Bills**

- Several charities have unknowingly received counterfeit bills as part of play, resulting in a monetary loss to the charity. Denominations vary, but it is typical to see counterfeit \$20 bills.

- **Fraud Vouchers or Fraud Pull Tabs**

- Criminals defraud E-tab vouchers to change the winning amount. Example: 25 cent winning ticket manipulated on a computer program to a \$500 winner. This has been a large loss to some of the charities.
- Paper pull tabs are fraudulently changed to a larger denomination.
- Unopened deals of pull tabs have been stolen and then redeemed at other charities sites. These stolen pull tabs are potentially used as a currency, i.e., drug purchases or debt repayments.

# Violations of Gaming Laws

- Organizations move money out of their trust accounts by false means to avoid the restrictions on the use of money in the trust account. Example: non-profit donates \$5,000 to the related Charitable Gaming organization and then the Charitable Gaming organization donates \$10,000 to the non-profit. The Charitable Gaming organization now has \$5,000 to use in the general account (which has fewer restrictions) as it was moved out of the trust account.
- Organizations use “eligible use” money to benefit their site owners. Expenses that typically were paid by the bar are now paid by the charitable organizations to keep the bars happy. Examples: adult sports teams, sponsorship, advertising.
- There are many instances of bribes to bars to get those sites for the charity. Examples: pay for TVs, internet, snow removal, carpet, remodeling costs.

# More Examples of Violations

- Gaming entities in ND have been involved in different forms of scams.
  - Bars strongarming the charities
  - Enticements to bars to acquire sites
  - Third parties entering the market to manipulate the charities
  - Entities creating non-profits to get the gaming money
  - Employees stealing from the charities



# Headlines in Other States

- Racketeering charges are filed in Mankato charitable gambling probe.
  - Mankato man was charged with racketeering, theft, unlawful expenditures
  - Illegal use of charitable gambling money
- Plea deal brings windfall to state agency.
  - Man convicted of defrauding a MN charity
  - **Minnesota** Alcohol and Gambling enforcement seized \$650,000 in investigation
- Corruption in charitable gaming is running rampant due to inadequate oversight, lawmakers say. 2022 **Virginia** legislative session
- **Nebraska** – Steep increase and spread of slot machine-like “skill games” prompt concern
- **Florida** –Arcade shut down in St. Lucie County; 3 arrested, over \$18,000 seized
- **Ohio** Attorney General shuts down eight “knock-off” sham charities
  - Five people ordered to pay \$190,000 in civil penalties and banned from associating with any charitable organization



# Issues Concerning E-Tab & Dispensing Device Location



# Signage of E-Tab Areas

This picture shows how a law passed in the 2023 session is being interpreted.

N.D.C.C. 53-06.1-03(3)(c) states in part:

- Electronic pull tabs must be conducted in a designated area where patrons must be twenty-one years of age or older to enter.





# Site In Restaurant Children at Table, Parents at Device





# More E-tab Violations

- E-tabs near games for kids
- Conditioning charitable gaming on minimum purchases of food/drink



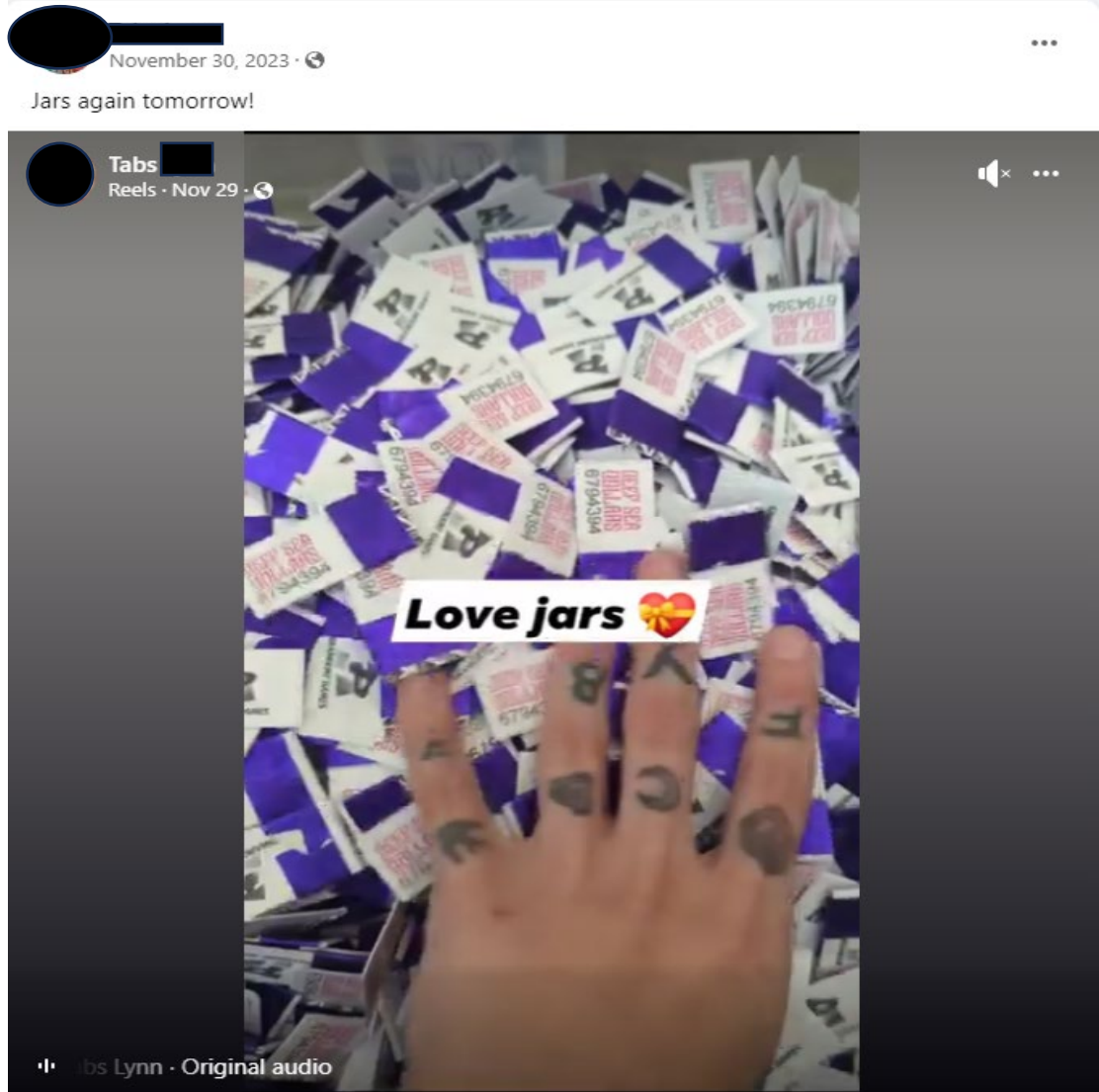


# Children Playing E-tabs





# Illegal Facebook Gaming





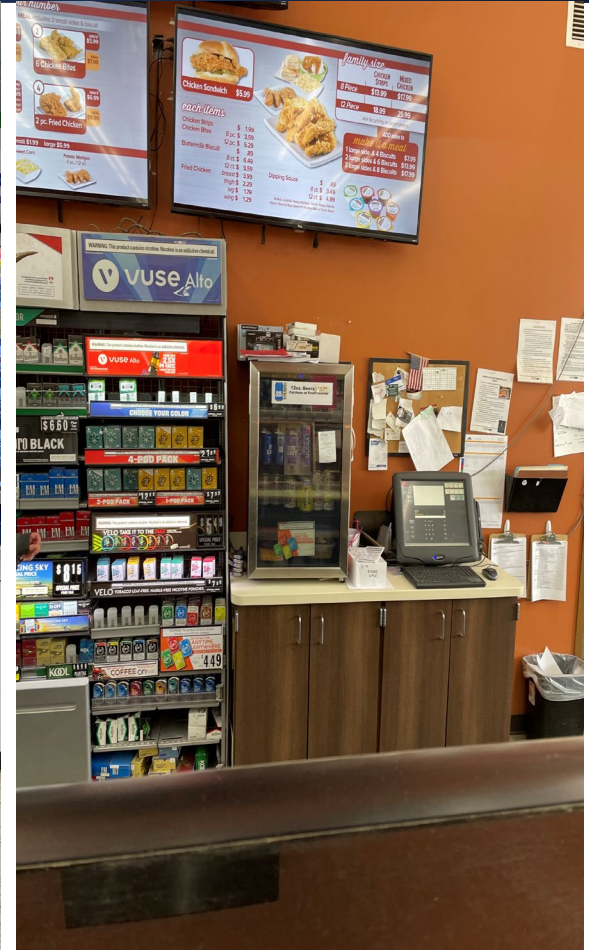
# Gas Stations



Small fridge of alcohol



E-tab room

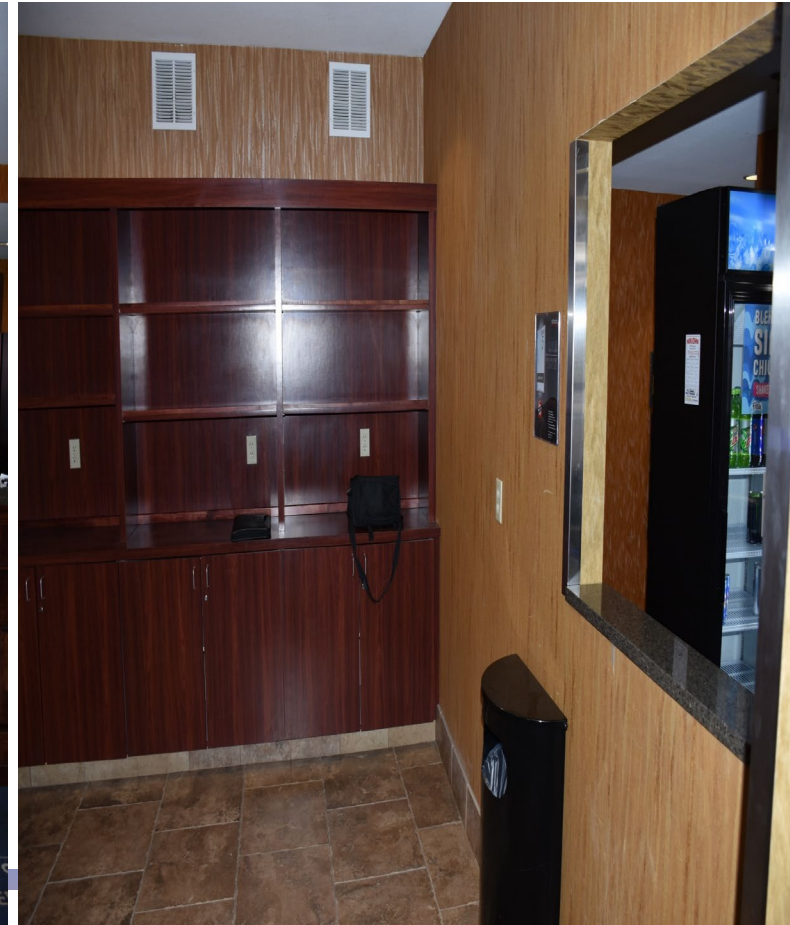


Small fridge of alcohol



# Recent Proposal

- This was a proposed site in a hotel lobby. There was a cooler with alcoholic beverages that could be purchased behind the front desk and passed through a window into the proposed area where E-tabs were to be placed.
- This site was not approved.



# Casinos?

- Southgate Casino Bar & Grill
- Sin Bin Bar & Casino
- Diamond Casino
- Longhaul Casino
- Nickels Lounge & Casino
- Off Broadway Lounge & Casino
- Blue Wolf Casino
- King Pin Casino





# Signs Advertising Casinos in ND



# Requests for E-tab Designs



# Which Entities Can Conduct Gaming

- Only an eligible organization may manage, control, and conduct gaming. An eligible organization must be licensed by the Attorney General's Office and must have specific approval to conduct gaming at a particular site from the local governing body.
- "Eligible organization" means a **veterans, charitable, educational, religious, fraternal, civic and service, public safety, or public-spirited organization** domiciled in North Dakota ...incorporated as a nonprofit organization, and which has been regularly and actively fulfilling its primary purpose within this state during the two immediately preceding years. However, an educational organization does not need to be incorporated or be in existence for two years. An organization's primary purpose may not involve the conduct of games..."

# Public-Spirited Organization

- A public-spirited organization is one type of “eligible organization”, and the definition of a public-spirited organization is broad and subject to interpretation.

“Public-spirited organization” means an organization whose primary purpose is for scientific research, amateur sports competition, safety, literary, arts, preservation of cultural heritage, educational activities, educational public service, youth, economic development, tourism, community medical care, community recreation, **or similar organization, which does not meet the definition of any other type of eligible organization.** However, a nonprofit organization or a group of people recognized as a public-spirited organization by a governing body of a city or county for obtaining a permit does not need to meet this definition.”



# Sites Where Gaming Can Be Conducted

Game types Charitable Organization can **conduct anywhere** as long as charitable gaming employee is on-site conducting:

- Bingo
- **Electronic Bingo**
- Raffles
- **Paper Pull Tabs Jar**
- **Paper Pull Tab/Prize Board Dispensing Device**
- **Electronic Pull Tabs**
- **Sports Pool Boards**
- **Twenty-One**
- Calcuttas
- **Paddlewheels tickets**
- **Paddlewheels table**
- **Poker**

Highlighted game types can be conducted by licensed gaming organization anywhere as long as during the hours when alcoholic beverages may be dispensed.

Alcoholic beverage establishment may **assist** charitable organization with:

- Redemption of winning paper pull tabs through a dispensing device
- Selling raffle tickets
- Selling sports pool squares
- Redemption of electronic pull tab vouchers

**An Alcoholic beverage establishment may not manage, control, or conduct any game.**



# Area Where Gaming Can Be Conducted

- Other than electronic pull tabs (E-tabs), gaming may be conducted in any area within a site that is authorized by the local governing body.
- E-tabs may be conducted only in a designated area where patrons must be 21 years of age or older to enter.

# Alcoholic Beverage Establishments

- Eligible organizations conduct gaming in alcoholic beverage establishments because employees of alcoholic beverage establishments are allowed to provide **limited assistance** with certain gaming conduct and, for several game types, a person must be at least 21 years of age to play. However, alcoholic beverage establishment employees may not manage, control, or otherwise conduct gaming.
- If gaming is conducted somewhere other than an alcoholic beverage establishment, the licensed eligible organization's employees, members or volunteers must be on-site to manage, control, and conduct the games.

“Alcoholic beverage establishment” means an establishment licensed under chapter 5-02 where alcoholic beverages are sold, dispensed, and consumed by guests on the premises. The term does not include a liquor store, gas station, grocery store, or convenience store.

# When Can Gaming Be Conducted

- Many game types may be conducted only during the hours when alcoholic beverages may be dispensed. The games do not have to be conducted in alcoholic beverage establishments, though.

“Games of electronic quick shot bingo, electronic pull tabs, pull tabs, punchboards, twenty-one, paddlewheels, poker, and sports pools may be conducted only during the hours when alcoholic beverages may be dispensed according to applicable regulations of the state, county, or city...”

## Statutory Definitions Related to Charitable Gaming Regulation

### **Which entities can conduct gaming?**

- Only an **eligible organization** may manage, control, and conduct gaming. An eligible organization must be licensed by the Attorney General's Office and must have specific approval to conduct gaming at a particular site from the local governing body.<sup>1</sup>

*"**Eligible organization** means a **veterans, charitable, educational, religious, fraternal, civic and service, public safety, or public-spirited organization** domiciled in North Dakota or authorized by the secretary of state as a foreign corporation under chapter 10-33, incorporated as a nonprofit organization, and which has been regularly and actively fulfilling its primary purpose within this state during the two immediately preceding years. However, an educational organization does not need to be incorporated or be in existence for two years. An organization's primary purpose may not involve the conduct of games..."<sup>2</sup>*

- A **public-spirited organization** is one type of "eligible organization," and the definition of a public-spirited organization is broad and subject to interpretation.

*"**Public-spirited organization** means an organization whose primary purpose is for scientific research, amateur sports competition, safety, literary, arts, preservation of cultural heritage, educational activities, educational public service, youth, economic development, tourism, community medical care, community recreation, **or similar organization, which does not meet the definition of any other type of eligible organization**. However, a nonprofit organization or a group of people recognized as a public-spirited organization by a governing body of a city or county for obtaining a permit does not need to meet this definition."<sup>3</sup>*

- The other types of eligible organizations (*i.e.*, **veterans organization, charitable organization, educational organization, religious organization, fraternal organization, civic and service organization, and public safety organization**) also are defined by statute.<sup>4</sup>

### **Where in a site can gaming be conducted?**

- Other than electronic pull tabs (E-tabs), gaming may be conducted in any location that is authorized by the local governing body.
- E-tabs may be conducted only in a designated area where patrons must be 21 years of age or older to enter.<sup>5</sup>

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<sup>1</sup> See N.D.C.C. § 53-06.1-03.

<sup>2</sup> N.D.C.C. § 53-06.1-01(9) (emphasis added).

<sup>3</sup> N.D.C.C. § 53-06.1-01(21) (emphasis added).

<sup>4</sup> See N.D.C.C. § 53-06.1-01.

<sup>5</sup> See N.D.C.C. § 53-06.1-03(3).

- Eligible organizations may conduct in any site approved by the local jurisdiction and many of those sites are **alcoholic beverage establishments**. Employees of alcoholic beverage establishments are allowed to provide **limited assistance** with certain gaming functions<sup>6</sup> and, for several types of games, players must be at least 21 years of age.<sup>7</sup> Alcoholic beverage establishment employees may not manage, control, or otherwise conduct gaming. Only employees, members, and volunteers of licensed eligible organizations may conduct gaming. If gaming is conducted somewhere other than an alcoholic beverage establishment, the licensed eligible organization’s employees, members, or volunteers must be on-site.

***"Alcoholic beverage establishment** means an establishment licensed under chapter 5-02 where alcoholic beverages are sold, dispensed, and consumed by guests on the premises. The term does not include a liquor store, gas station, grocery store, or convenience store."*<sup>8</sup>

#### **When can gaming be conducted?**

- Many games may be conducted only during the hours when alcoholic beverages may be dispensed. The games do not have to be conducted in alcoholic beverage establishments, though.
  - “Games of electronic quick shot bingo, electronic pull tabs, pull tabs, punchboards, twenty-one, paddlewheels, poker, and sports pools may be conducted only during the hours when alcoholic beverages may be dispensed according to applicable regulations of the state, county, or city....”<sup>9</sup>

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<sup>6</sup> An alcoholic beverage establishment employee may only: redeem winning paper pull tabs through a dispensing device, sell raffle tickets, sell sports pool squares, and redeem Etab vouchers.

<sup>7</sup> See N.D.C.C. § 53-06.1-03(3)(d).

<sup>8</sup> N.D.C.C. § 53-06.1-01(2) (emphasis added).

<sup>9</sup> N.D.C.C. § 53-06.1-03(3)(c).