

Report Highlights



Sports Betting

Department of Revenue, Division of Gaming
Performance Audit • April 2022 • 2166P

OFFICE OF THE STATE AUDITOR

C O L O R A D O

Key Concern

During the first year of regulating sports betting, the Division of Gaming (Division), within the Department of Revenue (Department), did not have an effective process to investigate sports betting operations for temporary licensure, or to collect sufficient documentation to determine if sports betting operations' monthly tax filings were accurate.

Key Findings

- As of March 2022, 35 out of the 39 (90 percent) licensed retail and internet sports betting operators held temporary licenses, which the Colorado Limited Gaming Control Commission (Commission) issued on the basis of limited background investigations the Division conducted. While a temporary license allows operators the same privileges as a permanent license, the Division's background investigations may not have provided assurance that the operators were suitable for licensure.
- The Division did not complete minimum background investigative procedures for the 5 licensed operators we sampled, and the procedures that were completed may not have provided relevant information needed to fully inform the Division's licensing recommendations to the Commission.
- We sampled 22 sports betting tax filings from May 2020 through April 2021 and found wide variation between the amount of wagering activity (i.e., bets, free bets, and payments to players) that operations reported after each gaming day compared to the totals they reported in their monthly tax filings. These variances ranged from an operation reporting \$1.4 million more in net sports betting proceeds in its daily wager reports than it reported in its monthly tax filing, to an operation that reported \$1 million less in net sports betting proceeds in its daily wager reports compared to its monthly tax filing. While some variation is expected since wagers may be altered, voided, or canceled after they are placed, operations do not always submit supporting documentation to substantiate changes to their reported net sports betting proceeds. As a result, the Division could not demonstrate if or how it verified that the tax filings were based on accurate data.
- The General Assembly may want to consider the effects of a Commission rule that allows sports betting operations to deduct and carry forward monthly operating losses, thereby reducing their sports betting tax liability, and whether that practice aligns with voters' and legislative intent. Between May 2020 and April 2021, the State collected \$6.6 million in sports betting tax. Our analysis of the 324 tax filings reported during this time period determined that if operations had not been allowed to deduct and carry forward operating losses, the State would have collected \$7.3 million, or an additional \$706,600, in sports betting tax during that first year.

Background

- In 2019, Colorado voters approved the legalization of sports betting in the state.
- The Commission and the Division are responsible for the regulation of sports betting activities in Colorado, including issuing licenses to operators, vendors, and employees involved in sports betting; collecting fees and taxes; and conducting audits to ensure proper reporting of wagers and taxes.
- Adults age 21 and older can place sports betting wagers in person at a licensed Colorado casino or online through a licensed Internet sports betting platform.
- The State imposes a 10 percent tax on the net sports betting proceeds reported by operators. Revenue generated from sports betting taxes is distributed to beneficiaries including entities that can demonstrate revenue loss attributable to sports betting, the Department of Human Services, and the Water Plan Implementation Cash Fund.

Recommendations Made

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Responses

Agree: 10

Partially Agree: 0

Disagree: 0