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BEFORE THE
CALIFORNIA GAMBLING CONTROL COMMISSION
STATE OF CALIFORNIA

In the Matter of the Application for Initial State
Gambling License for:

University Heights Associates, LLC
Naseem Salem, Member
Adel Salem, Member
1011 Camino Del Rio, Suite 210
San Diego, CA 92104

Applicants

BGC Case No. BGC-SD2010-00017
CGCC Case No. CGCC-2012-0314-4

DECISION AND ORDER

Hearing Date: August 28, 29 & September 3-
6, 2013
Time: 10:00 am, (9:00 am for August
28, 2013)

This matter was heard by the California Gambling Control Commission (Commission) pursuant to Business and Professions Code sections 19870 and 19871 and Title 4, California Code of Regulations (CCR) section 12050, subdivision (b), in Sacramento, California, on August 28, 2013.

Ronald L. Diedrich and Jennifer Henderson, Deputy Attorneys General, State of California, represented complainant Wayne J. Quint, Jr., Chief of the Bureau of Gambling Control (Bureau), Department of Justice, State of California (collectively, Complainant).

Attorney Dorn G. Bishop represented the University Heights Associates, LLC (University Heights), Managing Member Naseem Salem, and Member Adel Salem, (Applicants).

Attorney Keith Sharp was also present on behalf of the Applicants.

The matter was submitted to the Commission on August 28, 2013.

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1 **SUMMARY OF DECISION**

2 Applicants University Heights, Naseem Salem and Adel Salem have applied for initial
3 State Gambling Licenses as a result of a condition placed on the State Gambling License of
4 Palomar Card Club General Partnership d.b.a. Palomar Card Club (Palomar) and a lease
5 agreement they have with Palomar. Initially it is important to note that there are no allegations
6 raised against University Heights or Adel Salem that warrant discussion. In contrast, Naseem
7 Salem in his role as the key employee of Palomar raises potential issues under Business and
8 Professions Code section 19857; therefore, by implication for University Heights and Adel
9 Salem's suitability for license. However, despite serious breaches in the past, the operations of
10 Palomar, including Naseem Salem's management, now appear to be on the right track for a
11 cardroom of its size and in good hands as it operates in the future. The numerous allegations of
12 serious ongoing wrongdoing alleged by the Bureau in its October 14, 2011, initial background
13 investigation report which recommended denial never materialized during a hearing on the merits.
14 Indeed, the main witness testimony offered by the Bureau, was from Assistant Bureau Chief
15 Stacey Luna-Baxter who assumed her position as Assistant Bureau Chief after the Bureau had
16 submitted their report with the recommendation of denial, and testified to having limited
17 knowledge of the circumstances underlying the Bureau report. At the close of the proceedings,
18 all that remained for the Commission to consider were the serious, but encapsulated and
19 correctable violations of internal controls as addressed below.

20 Due to the nature of how this matter evolved, it is apparent that the Commission in
21 executing its lawful mission is heavily dependent upon the Bureau. It must have complete faith
22 that the Bureau will provide investigative reports, documentation, and testimony that are highly
23 credible and at all times accurate. It is unfortunate that in this matter, the inter-agency process
24 was not as effective as it needs to be, leaving the Applicants to suffer and fight against phantom
25 allegations. However, it is the belief of this Commission that this process has provided the
26 Commission and Bureau the opportunity to learn and grow, and be better prepared to execute the
27 laws of the state of California to serve the public, and indeed stakeholders such as the Applicants.
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1 The Commission does not believe the specific facts provided at the hearing warrant
2 finding University Heights, Naseem Salem, or Adel Salem unsuitable for licensure. Rather the
3 imposition of a single license condition resolves any dangers to public safety and the weakening
4 of controlled gambling in the State of California.

6 FACTUAL FINDINGS

7 1. Applicants University Heights, Naseem Salem and Adel Salem have applied for State
8 Gambling Licenses because of a condition placed on Palomar's State Gambling License which
9 stated, "Mr. Naseem Salem, Mr. Adel Salem and University Heights Associates, LLC shall
10 submit a state gambling license application to the California Gambling Control Commission
11 within 90 days."

12 2. On or about March 30, 2010, the Commission received applications from University
13 Heights and its members Naseem Salem and Adel Salem for an initial State Gambling License.
14 These applications were subsequently forwarded to the Bureau for investigation.

15 3. On October 14, 2011, the Bureau issued a report which recommended the Commission
16 deny University Heights, Naseem Salem, and Adel Salem licenses and listed eight reasons
17 generally described as follows:

- 18 a. Mr. Salem, as the General Manager for Palomar, engaged in improper business
19 practices including: (Business and Professions Code sections 19905 and
20 19920; CCR sections 12386, 12388, 12401(b)).
 - 21 i. Undocumented Cash Transactions; and,
 - 22 ii. No set marker (credit) limit.
- 23 b. Mr. Salem, as the General Manager of Palomar, failed to ensure compliance
24 with regulations and Title 31 reporting requirements. (CCR sections 12404; 31
25 United States Code sections 5311-5330; 31 Code of Federal Regulations
26 Chapter X).
- 27 c. Under Mr. Salem's managerial oversight, Palomar created a funding source
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1 relationship with ATS by extending credit to ATS. (Business and Professions
2 Code sections 19901, 19920, 19922, and 19984(a); CCR sections 12201(d) and
3 12204(g)) .

4 d. While Mr. Salem managed the cardroom's operation, Palomar failed to register
5 as an owner of ATS. (Business and Professions Code sections 19901 and
6 19920; CCR sections 12200.3(a), 12201(a) & (d), and 12200.7(b)(8), (b)(9),
7 (b)(11)).

8 e. While Mr. Salem managed the Palomar's operations, Palomar engaged in
9 house banking. (Penal Code 330.11; Business and Professions Code sections
10 19920, 19922, and 19984(a); CCR sections 12200.7(b)(8), (b)(9), (b)(11), and
11 (e)).

12 f. Under Mr. Salem's purview, registrants of ATS provided services to Palomar
13 while holding cardroom employee work permits for Palomar. (Business and
14 Professions Code sections 19920 and 19922; CCR sections 12200.7(b)(8),
15 (b)(9), and (b)(11)).

16 g. Under Mr. Salem's management of the cardroom operations, ATS registrants
17 performed duties of Palomar employees including: (Business and Professions
18 Code sections 19920, 19922, and 19984(a)).

19 i. Supervising cardroom operations;

20 ii. Conducting financial transactions;

21 iii. Counting table collections; and,

22 iv. Maintaining concurrent employment of persons by ATS and Palomar.

23 h. Mr. Salem's business practices pose a threat to the effective regulation and
24 control of controlled gambling. (Business and Professions Code sections
25 19801(d), 19856(e), 19857(b), 19920, and 19922).

26 4. On February 23, 2012, at a regularly scheduled Commission meeting, the Commission
27 referred University Heights, Naseem Salem and Adel Salem's applications to an evidentiary
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1 hearing based in part on the Bureau's recommendation for denial and on the statements made by
2 the Bureau at the meeting.

3 5. On March 14, 2012, the Executive Director set the matter for a hearing to be
4 conducted pursuant to Business and Professions Code sections 19870 and 19871 based on
5 Commission regulation section 12050, subdivision (b).

6 6. On April 19, 2012, due to the very interrelated nature of the applications, the
7 Executive Director ordered University Heights, Naseem Salem, and Adel Salem's application
8 hearing consolidated with the hearings for applications on the renewal of Key Employee Personal
9 License for Naseem Salem, as well as the applications for renewal of State Gambling Licenses for
10 Palomar and Donald and Susan Staats, (the Staats).

11 7. On August 10, 2012, all the parties were served the Bureau's Statement of Reasons for
12 Denial of License. This document omitted many of the reasons for denial provided in the
13 Bureau's Report. The Statement of Reasons only listed two bases for denial under Business and
14 Professions Code section 19857(b) based on violations of sections 19920 and 19924, which are
15 substantially similar to findings 11 and 12 below.

16 8. The parties were served with Notices of Hearing and Prehearing Conferences, on April
17 19, 2012, May 22, 2012, April 26, 2013, and ultimately on May 24, 2013.

18 9. On July 17, 2013, a prehearing conference was held before Presiding Officer Jason
19 Pope, Staff Counsel of the Commission.

20 10. The Commission heard Case No. CGCC-2012-0314-4, and consolidated Case Nos.
21 CGCC-2012-0314-3 and CGCC-2012-0314-2 on August 28, 2013, and the matters were
22 submitted for Commission consideration.

23 *Applicants' Conduct*

24 11. Prior to November 2011, Naseem Salem, the manager and key employee of Palomar
25 and managing member of University Heights, conducted business transactions for his non-gaming
26 business in the gambling establishment; used his position as manager and key employee to
27 require Palomar employees to aide in conducting these transactions; and/or used his position as
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1 manager and key employee to use Palomar's financial resources to conduct these transactions:

2 a. On or about January 11, 2010, Naseem Salem directed Palomar's cage
3 cashier Amen Abraham, to pay \$10,000 in cash at the gambling establishment's
4 cage to Cynthia Morello the owner of Morello Concrete Construction, Inc.
5 (Morrello Concrete). The payment was for construction work performed for
6 Naseem Salem's benefit and in no way related to the operation of Palomar. The
7 source of the \$10,000 cash payment was Naseem Salem's "marker" at Palomar.

8 b. Between on or about December 16, 2009, and on or about February 8,
9 2010, Naseem Salem directed Palomar's assistant manager Sabrina Konja to make
10 three separate \$10,000 cash payments again to Cynthia Morello in the gambling
11 establishment for construction work performed by Morello Concrete also again for
12 Naseem Salem's benefit. The work performed by Morello Concrete was in no
13 way related to the operation of Palomar. On or about December 16, 2009, on
14 behalf of, and at the direction of, Naseem Salem, Sabrina Konja made one of those
15 \$10,000 cash payments to Cynthia Morrello from cash withdrawn from Naseem
16 Salem's Palomar player's bank.

17 c. Between on or about January 29, 2010, and on or about March 19, 2010, on
18 three separate occasions, Naseem Salem paid Joseph Morrello of Morello Concrete
19 in cash payments in the gambling establishment for construction work performed
20 for Naseem Salem's benefit. Once again the work performed by Morrello
21 Concrete was not in any way related to the operation of Palomar.

22 12. Naseem Salem as the key employee and manager of Palomar, between on or about
23 March 1, 2006, and on or about November 21, 2011, allowed the function, operation, and control
24 of Palomar to intertwine with the then third party provider for Palomar ATS owned by Ablahad
25 Salim, Naseem Salem's uncle, in the following ways:

26 a. The contract between ATS and Palomar submitted by Naseem Salem to the
27 Bureau on behalf of Palomar did not reveal that ATS shared office space with
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1 Palomar within the gambling establishment.

2 b. On at least three occasions when only one Palomar key employee was on duty
3 and was required by law to remain on the premises, Naseem Salem authorized
4 ATS employees to make large cash withdrawals from Palomar's bank account
5 on behalf of the gambling establishment for use by the gambling
6 establishment.

7 c. On at least one occasion, an ATS employee participated with a Palomar
8 employee in counting the table fee collections on behalf of Palomar

9 d. Naseem Salem allowed ATS, a third-party proposition player provider, to
10 improperly locate a safe in Palomar's cage, from which ATS stored and
11 accessed ATS funds.

12 13. The Bureau and University Heights, Naseem Salem and Adel Salem agreed that
13 findings 11 and 12 was conduct which violated Business and Professions Code sections 19920
14 and 19924 in that Naseem Salem failed to operate the gambling establishment using suitable
15 methods of operation and failed to maintain adequate security controls.

16 14. Assistant Bureau Chief Stacey Luna-Baxter testified briefly about the applications.
17 The Bureau had no evidence of any additional non-compliance by Naseem Salem or Palomar
18 after November 21, 2011, beyond a May 1, 2012 incident involving an ATM machine which
19 mistakenly allowed the use of an Electronic Benefit Transfer card (EBT). This matter was
20 subsequently corrected.

21 15. Naseem Salem testified convincingly that he understood the errors of his past conduct
22 and that the nature of the transactions that he undertook at Palomar violated California Law. He
23 further testified that he has since stopped these practices; and, he was certain that beyond the
24 specific conduct agreed to in the stipulations between the Bureau and Applicants, the allegations
25 raised in the Bureau's report were not true.

26 16. Elijah Zuniga testified as a gambling expert about a number of matters related to the
27 Bureau investigation and circumstances related to the Palomar, including a provocative raid that
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1 occurred in the early morning hours at Palomar with more than 10 law enforcement agents
2 including those from the Bureau and the San Diego Police Department. Elijah Zuniga was hired
3 as a consultant for Palomar and routinely provides oversight and review for the Staats. This role
4 has appreciated over the years as the Staats have stepped back from the cardroom operations and
5 have moved out of state. Elijah Zuniga has provided assistance to the Cardroom in correcting the
6 prior deleterious behavior by Naseem Salem and in correcting the internal controls issues at
7 Palomar. Elijah Zuniga also assisted the Staats in hiring the new Third Party Provider at Palomar.
8 Elijah Zuniga stated that though he does not have a formal contract, he continues to work for
9 Palomar and the Staats in keeping the cardroom compliant.

10 17. Susan Staats briefly provided testimony, stating that her husband may have admitted
11 to a reporter on or around March 14, 2012 that he didn't know much about the cardroom's
12 problems with the State and that the Staats had delegated many of the day to day operations of
13 Palomar to Naseem Salem.

14 15 **LEGAL CONCLUSIONS**

16 *Applicable Statutes and Regulations*

17 1. CCR section 12050, subdivision (b), states in part that, if the Commission elects to
18 have an evidentiary hearing, the Executive Director shall set the matter for hearing pursuant to
19 Business and Professions Code sections 19870 and 19871.

20 2. Business and Professions Code section 19856 states:

21 (a) Any person who the commission determines is qualified to receive a
22 state license, having due consideration for the proper protection of the
23 health, safety, and general welfare of the residents of the State of
California and the declared policy of this state, may be issued a license.
The burden of proving his or her qualifications to receive any license is on
the applicant.

24 (b) An application to receive a license constitutes a request for a
25 determination of the applicant's general character, integrity, and ability to
participate in, engage in, or be associated with, controlled gambling.

26 (c) In reviewing an application for any license, the commission shall
27 consider whether issuance of the license is inimical to public health,
28 safety, or welfare, and whether issuance of the license will undermine
public trust that the gambling operations with respect to which the license

would be issued are free from criminal and dishonest elements and would be conducted honestly.

3. Business and Professions Code section 19857 states, in relevant part:
No gambling license shall be issued unless, based on all of the information and documents submitted, the commission is satisfied that the applicant is all of the following:

(a) A person of good character, honesty, and integrity.

(b) A person whose prior activities, criminal record, if any, reputation, habits, and associations do not pose a threat to the public interest of this state, or to the effective regulation and control of controlled gambling, or create or enhance the dangers of unsuitable, unfair, or illegal practices, methods, and activities in the conduct of controlled gambling or in the carrying on of the business and financial arrangements incidental thereto.

4. Business and Professions Code section 19823 states:

(a) The responsibilities of the commission include, without limitation, all of the following:

(1) Assuring that licenses, approvals, and permits are not issued to, or held by, unqualified or disqualified persons, or by persons whose operations are conducted in a manner that is inimical to the public health, safety, or welfare.

(2) Assuring that there is no material involvement, directly or indirectly, with a licensed gambling operation, or the ownership or management thereof, by unqualified or disqualified persons, or by persons whose operations are conducted in a manner that is inimical to the public health, safety, or welfare.

(b) For the purposes of this section, "unqualified person" means a person who is found to be unqualified pursuant to the criteria set forth in Section 19857, and "disqualified person" means a person who is found to be disqualified pursuant to the criteria set forth in Section 19859.

5. Business and Professions Code section 19824 provides in pertinent part:

The commission shall have all powers necessary and proper to enable it fully and effectually to carry out the policies and purposes of this chapter, including, without limitation, the power to do all of the following:

(a) Require any person to apply for a license, permit, registration, or approval as specified in this chapter, or regulations adopted pursuant to this chapter.

(b) For any cause deemed reasonable by the commission, deny any application for a license, permit, or approval provided for in this chapter or regulations adopted pursuant to this chapter, limit, condition, or restrict any license, permit, or approval, or impose any fine upon any person licensed or approved. The commission may condition, restrict, discipline, or take action against the license of an

1 individual owner endorsed on the license certificate of the gambling
2 enterprise whether or not the commission takes action against the
3 license of the gambling enterprise.

4 6. Business and Professions Code section 19920 provides in pertinent part:

5 It is the policy of the State of California to require that all establishments
6 wherein controlled gambling is conducted in this state be operated in a
7 manner suitable to protect the public health, safety, and general welfare of
8 the residents of the state. The responsibility for the employment and
9 maintenance of suitable methods of operation rests with the owner
10 licensee, and willful or persistent use or toleration of methods of operation
11 deemed unsuitable by the commission or by local government shall
12 constitute grounds for license revocation or other disciplinary action.

13 7. Business and Professions Code section 19924 provides in pertinent part:

14 Each owner licensee shall maintain security controls over the gambling
15 premises and all operations therein related to gambling, and those security
16 controls are subject to the approval of the commission.

17 *Discussion*

18 8. There was uncontroverted evidence offered at the hearing, as listed above, that
19 Naseem Salem engaged in conduct which was not proper under the Gambling Control Act and the
20 Commission's regulations. This conduct violated Business and Professions Code sections 19920
21 and 19924. This conduct also reflected poorly on the Palomar and the Staats under Business and
22 Professions Code section 19857. Specifically, the failure to operate the gambling establishment
23 using suitable methods of operation and the failure to maintain adequate security controls both
24 tend to pose a threat to the public interest of this state and to the effective regulation and control
25 of controlled gambling.

26 9. However, this deleterious conduct bears little on the Palomar's condition mandating
27 University Heights, Naseem Salem and Adel Salem's licensure. The imposition of a condition on
28 the Applicants' licenses alleviates any threat to the public interest of this state and the effective
regulation and control of controlled gambling.

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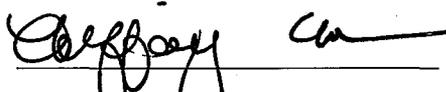
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1 **ORDER**

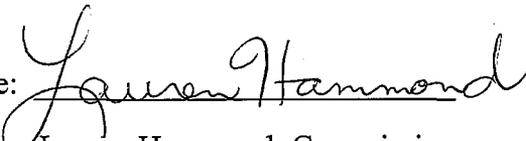
2 1. The applications for Initial State Gambling License for University Heights LLC,
3 managing member Naseem Salem, and member Adel Salem are **APPROVED** with the following
4 condition:

- 5 a. Any new lease, modification of an old lease, or amendments or addendums to
6 the current lease between University Heights and the Palomar are to be
7 approved by the Commission in advance of the effective date of the lease. To
8 the extent that Naseem Salem and Adel Salem are unable to work with the
9 Staats on the lease due to the lack of capacity of the Staats or the Salems'
10 inability to communicate with the Staats, University Heights must immediately
11 notify the Bureau of its inability to comply with this condition.
- 12 2. No costs are to be awarded to the Bureau.
- 13 3. Each side to pay its own attorneys' fees.
- 14 4. This decision is effective 30 days from the signed date of the Decision and Order.

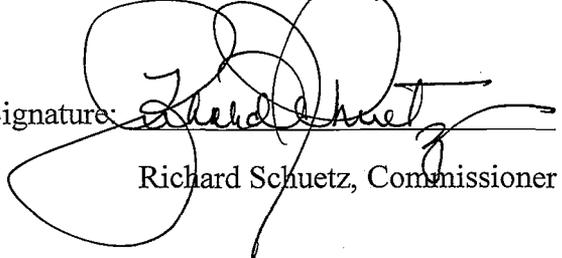
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16 Dated: Sept. 5, 2013

16 Signature: 
17 Tiffany E. Conklin, Acting Chairperson

18
19 Dated: 9-5-13

19 Signature: 
20 Lauren Hammond, Commissioner

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22 Dated: Sept. 5, 2013

22 Signature: 
23 Richard Schuetz, Commissioner

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25
26 Chairman Richard J. Lopes recused himself from the hearing and consideration of these
27 Applications.