



STATE OF CALIFORNIA

Edmund G. Brown, Jr., Governor

GAMBLING CONTROL COMMISSION

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Date: December 22, 2017

To: Michael Cohen, Director
Department of Finance

From: Stacey Luna Baxter, Executive Director
California Gambling Control Commission

Subject: 2017 SLAA Report

In accordance with the State Leadership Accountability Act (SLAA), the California Gambling Control Commission submits the enclosed report on the review of our systems of internal control and monitoring processes for the biennial period ending December 31, 2017.

Should you have any questions please contact Anna Carr, Deputy Director of Legislation and Regulatory Affairs Division, at 916-263-0494 or via email at ACarr@cgcc.ca.gov.

Enclosure

December 22, 2017

Michael Cohen, Director
California Department of Finance
915 L Street
Sacramento, CA 95814

Dear Mr. Michael Cohen,

In accordance with the State Leadership Accountability Act (SLAA), the California Gambling Control Commission submits this report on the review of our internal control and monitoring systems for the biennial period ending December 31, 2017.

Should you have any questions please contact Anna Carr, Deputy Director of Legislation and Regulatory Affairs, at (916) 263-0494, acarr@cgcc.ca.gov.

BACKGROUND

In 1998, the Commission was established through the enactment of the Gambling Control Act (Act) (Business & Professions Code 19800 - 19987, Division 8, Chapter 5, Articles 1-17). However, the Commission did not become fully operational until August 29, 2000. The Commission is an independent entity and shares responsibility of the gambling regulatory system with the Department of Justice, Attorney General, Bureau of Gambling Control (Bureau). It is a bifurcated system with each entity having its own specific roles and responsibilities and reports to its own elected official.

The Commission acts as the primary policy and regulatory body over gambling establishments (cardrooms) and over all persons or things having to do with the operation of those gambling establishments, including third party providers of proposition player services. The Commission is responsible for setting policy, establishing regulations and making determinations of suitability for owners, gaming employees and other individuals associated with controlled gambling as well as issuing licenses, permits and registrations. The Commission also serves as the hearing officer during Gambling Control Act administrative hearings for licensing issues and individual findings of suitability.

The Commission maintains certain responsibilities under the Tribal-State Gaming Compacts including issuing findings of suitability and administering the State's two Indian Gaming Funds: the Indian Gaming Revenue Sharing Trust Fund (RSTF) and the Indian Gaming Special Distribution Fund (SDF). The Commission, acting as the Tribal fund administrator, ensures revenues deposited into the SDF and RSTF and to a limited extent the State General Fund, are in accordance with the provisions of the Tribal-State Gaming Compacts.

The Commission is a small well-organized agency with efficient staff. We approach our regulatory responsibilities with professionalism, respecting individuals and the public we serve, while providing the very best possible delivery to our stakeholders to maintain transparency, honesty, and trust in the controlled gambling industry.

Our operations are based on a strategic planning process with goals and objectives that affirm our commitment to those we serve and set standards for continuous improvement.

The Commission amended its Strategic Plan in 2017. The plan provides steady direction and clear guidelines

around which we can align our daily activities including improving our operations, leveraging technology to enhance access to and security of information, providing our staff the knowledge and tools to deliver outstanding customer service, and practicing responsible financial stewardship.

2017 – 2019 STRATEGIC PLAN

Our Mission summarizes at the highest level why we exist. Everything we do contributes to our ability to achieve the mission.

MISSION: *We cultivate relationships with all stakeholders, develop effective regulations, and make fair decisions, which ensure honesty, transparency, and integrity in the controlled gambling industry.*

Our Vision describes what we aspire to be as an organization. This is where we are going. Our vision is our commitment to making bold progress in this direction.

VISION: *Ensuring integrity and public trust in the controlled gambling industry.*

To achieve our Mission and Vision, we work to balance our performance across five Strategic Goals. These are high-level, long-term goals that guide our work. Foremost, we want to deliver exceptional customer service. To deliver quality customer service, we focus on building a talented and skilled workforce by cultivating core competency. Our staff creates and delivers efficient operations through technology modernization, accessibility, and security. We also recognize that we have limits to our resources of time, talent, technology, and money. Therefore, we provide responsible management of fiscal resources.

How we treat each other is just as important as what we achieve. Our Core Values of integrity, teamwork, accountability, quality and transparency set the standards for how we will interact along the way.

OBJECTIVES BY GOAL FOR 2017-2019

PROVIDE EXCEPTIONAL CUSTOMER SERVICE

- Increase understanding of customer needs.
- Provide accurate and timely responses to customers.

CULTIVATE CORE COMPETENCY

- Enhance staff's knowledge base.

ENSURE EFFICIENT OPERATIONS

- Ensure Commission policies are current.
- Develop desk procedures.
- Conduct periodic workflow analysis.
- Provide adequate resources to staff.

PROMOTE TECHNOLOGY MODERNIZATION, ACCESSIBILITY, AND SECURITY

- Improve website accessibility.
- Harness communication trends.

- Reduce paper consumption.

RESPONSIBLE MANAGEMENT OF FISCAL RESOURCES

- Maintain the fiscal integrity of the Commission.
- Conduct annual analysis of compliance with purchasing requirements.

ONGOING MONITORING

As the head of California Gambling Control Commission, Stacey Luna Baxter, Executive Director, is responsible for the overall establishment and maintenance of the internal control and monitoring systems.

EXECUTIVE MONITORING SPONSOR(S)

The executive monitoring sponsor responsibilities include facilitating and verifying that the California Gambling Control Commission internal control monitoring practices are implemented and functioning as intended. The responsibilities as the executive monitoring sponsor(s) have been given to: Anna Carr, Deputy Director of Legislation and Regulatory Affairs, Todd Vlaanderen, Chief Counsel, Alana Carter, Deputy Director of Administration, and Adrianna Alcalá-Beshara, Deputy Director of Licensing.

MONITORING ACTIVITIES

To ensure its Mission, Vision, Goals and Objectives are being achieved; the Commission utilizes the following tools:

- Continuous tracking of key performance indicators (KPI) that set specific target ranges and measure progress of specific objectives set, including the status of associated KPI projects;
- Surveys are utilized to gather feedback from internal and/or external stakeholders and measure the success in meeting various objectives. If additional work is needed to achieve the targeted range of success desired, a review is completed to see what additional steps can be taken to achieve the end goal;
- Monthly leadership meetings at which the progress of the various KPI are discussed and reported to hold ourselves accountable. In addition, a standing agenda item is the discussion and/or action needed on any newly identified risks;
- Quarterly all-staff meetings at which a report of the KPI progress is provided. These quarterly all-staff meetings also include the ability for staff to identify and discuss any potential agency risks;
- Collaborative effort and/or review is provided from all Commission executive staff on significant projects. In some cases, this is done simply to capture viewpoints that may not have otherwise been discovered or an "outside" perspective from those that may not be directly involved with the day-to-day activities of the project; and,
- Dissemination of information to ensure all appropriate staff is kept informed of any areas of concern, updates on projects and/or changes within the Commission.

In addition, recently the Commission's established a new Staff Services Manager I, Specialist (Specialist) position within the Executive Division. One area of responsibility for the Specialist is to develop and maintain an internal audit program ensuring that all policies and procedures are clear, current and maintained, and ensure that internal Division procedures are clear, current and maintained.

ADDRESSING VULNERABILITIES

All staff is encouraged to immediately report to their manager any areas of concern or potential risk to internal operations. Managers hold staff meetings at least monthly, which also allows for a formal setting for staff to provide notification of potential risks and to discuss ideas for improvement of operations. Managers are to keep their Deputy Directors (DDs) informed of areas of concern. The Commission's Executive Staff (Executive Director and DDs) meet monthly, at which time the Commission's State Leadership Accountability Act Report (Report), our progress of the items identified within the Report, as well as the discussion of any newly identified risks and status of mitigation efforts taken or identifying of efforts needed is a standard monthly agenda item. DDs participate in the discussion providing any new areas of concern provided by staff, propose corrective action measure to address concerns and/or provide updates regarding current mitigation efforts on a monthly basis.

COMMUNICATION

Roles and responsibilities for addressing any necessary or beneficial tasks or internal controls are identified and discussed during our monthly meetings with Executive Staff. A listing of all risks identified and associated tasks/projects is maintained by the Executive Division and is updated monthly. When appropriate, DDs share status updates with managers and managers share with staff through written communication and/or during their standing staff meetings. When changes are required as a result of mitigating efforts, an all-staff email is distributed, training is provided as needed, and, if applicable, an official policy and procedure is created and/or updated and posted on the intranet. The policies and procedures are reviewed on an annual basis to ensure accuracy and efficiency.

In addition, all-staff quarterly meetings are held at which discussion of the Report, newly identified risks and a status update of all mitigation efforts is held.

ONGOING MONITORING COMPLIANCE

The California Gambling Control Commission has implemented and documented the ongoing monitoring processes as outlined in the monitoring requirements of California Government Code sections 13400-13407. These processes include reviews, evaluations, and improvements to the California Gambling Control Commission systems of controls and monitoring.

RISK ASSESSMENT PROCESS

The following personnel were involved in the California Gambling Control Commission risk assessment process: Executive Management, Middle Management, Front Line Management, and Staff.

RISK IDENTIFICATION

The Commission has had a risk assessment process in place and has utilized that process to continually check-in with staff regarding any concerns and/or risks. In addition, at the Commission's standing monthly Executive Staff meetings, the Report, our progress and additional concerns/risks are thoroughly discussed.

As mentioned, staff is encouraged to participate in ongoing monitoring and to speak with their Supervisor. A casual monthly all-staff morning meeting is held, which encourages partnership and participation and provides an informal setting for staff to raise any concerns. In addition, each division meets with their staff at least monthly, and an all-manager meeting, as well as a separate all-staff meeting, is held quarterly to discuss the Commission's identified risks and to provide updates on the progress of efforts to mitigate risks identified. When necessary, meetings are held more frequently.

Lastly, the Commission develops its Strategic Plan every two years and highlights our commitment to provide an effective and efficient operation. The Commission's strategic planning sessions require the participation of all staff and provide another opportunity for the discussion of risks and necessary mitigation efforts.

RISK RANKING

All risks were identified by staff and were discussed at a prior Commission's Executive Staff meeting. The executive staff collectively identified the priority of the identified risks.

RISKS AND CONTROLS

RISK: OPERATIONS -INTERNAL-TECHNOLOGY—DATA SECURITY

The Commission's confidential data can be exposed.

Identity theft, fraud, and hacking attacks are ongoing risks.

If Cyber Security is not adequately addressed, then the Commission's confidential data will be exposed. The Commission has implemented measures to mitigate the risks.

CONTROL A

In order to combat and reduce Cyber Security risks the following activities must be performed:

1. Educating staff on cyber security
 - Cyber security staff education aids staff in identifying common information security threats that in turn increases the likelihood of detection and reduces the likelihood for infection.
2. Utilizing next generation firewalls
 - Provides increased multi-layered network and data protection
 - Exponentially increases the likelihood for preventing malicious traffic
3. Utilizing anti-virus software
 - Provides full range protection from ever-changing threats
 - Increases the likelihood for preventing threats on Commission systems
4. Performing routine information security assessments
 - Increases the likelihood for identifying and preventing threats

RISK: OPERATIONS -INTERNAL-STAFF—KEY PERSON DEPENDENCE, WORKFORCE PLANNING

Each Division within the Commission has at least one key employee that is considered a subject matter expert in a specialized area. As these experts retire, progress in their career, or are temporarily absent, the Commission loses a key person and is at risk for being unable to perform critical functions. As the Commission is a small state agency with a very small workforce, there are inherent challenges with maintaining an experienced and competent workforce at all times to meet the needs of the agency and the public we serve.

As subject matter experts of specialized subject areas retire, progress in their career, or are temporarily absent, the Commission loses a key person and is at risk for being unable to perform critical functions as a result of limited knowledge transfer of the specialized subject areas.

The Commission may be at-risk in performing critical functions and activities which would adversely impact the Commission's mission and strategic goals.

CONTROL A

In furtherance of the Commission's current Strategic Plan, the Commission's Workforce and Succession Plan will be completed in 2018. This plan will be used as the foundation to provide guidance for core and advanced training and development programs which includes a focus on at-risk areas, knowledge transfer, and planning for mission critical positions.

CONTROL B

The Commission's Divisions will conduct semi-annual reviews, and present the findings at scheduled executive staff meetings. These reviews will consist of an assessment of all policies and procedures to ensure they are accurate and up to date, and an assessment of each Division's functions to identify areas wherein there are key-person dependencies and knowledge gaps. Each Division will present a plan on how to address these matters through individualized training plans which will include, but are not limited to peer cross-training and management mentorship.

RISK: OPERATIONS -INTERNAL-PHYSICAL RESOURCES—MAINTENANCE, UPGRADES, REPLACEMENTS, SECURITY

As there are no physical or digital back-up for all licensing and some administrative hearing records, some records are at risk of being lost or potentially damaged in a fire or natural disaster. While the Commission has exemplary physical security measures in place, the paper records have the potential to be lost by theft; which could result in the release of confidential and private information.

Some older licensing and most administrative hearing documents and records are still retained by the Commission only in paper form. There are neither duplicate paper documents stored off-site nor any digital backups.

Licenses issued by the Commission expire periodically and must be renewed. Cardroom and business entity owner licenses can outlast the lives of natural persons and historical information is important in licensing decisions. Lost records would make incomplete and less informed recommendations for the Commissioners to act on and may result in less informed licensing decisions. The decisions the Commission makes at administrative hearings may be challenged in court and the Commission is responsible storing the administrative file, including all the documentary evidence and transcripts. The Commission is also responsible for providing the complete record to the Superior Court when decisions are challenged. Lost administrative hearing records could result in significant work in recovering some of the documentary evidence from third parties, if available, or adverse decisions against the Commission in civil litigation.

CONTROL A

Licensing paper records that have not already been scanned into electronic form will be scanned and saved on servers provide by the Attorney General's Department of Justice. Records going forward will be scanned as they are received. Storing the remaining records in electronic format with regular backup protection will eliminate the risk of loss by fire or natural disaster and reduce the risk of theft and loss of private information.

CONTROL B

Administrative hearing records going forward will be obtained in or scanned into electronic form and will be stored on Commission servers with regular backup protection. Storing the remaining records in electronic format with regular backup protection will eliminate the risk of loss by fire or natural disaster and reduce the risk of theft and loss of private information.

RISK: OPERATIONS -EXTERNAL-BUSINESS INTERRUPTION, SAFETY CONCERNS

Employees' safety and property can be jeopardized without evidence to provide to the appropriate authorities.

There are no current functioning video surveillance cameras in place.

If building security cameras are not installed, then Commission's employees and property are in jeopardy.

CONTROL A

In order to combat and reduce risks associated with building security the following activities must be performed:

1. Educating staff on building security
 - Security training for employees will help in identifying and avoiding high risk situations and reducing the overall likelihood for negative incidents
2. Installing perimeter building security cameras
 - Provides ability to provide evidence to law enforcement after an incident has occurred
 - Exponentially increases the likelihood for deterring negative events
 - Allows the Commission to study incidents and patterns and provide training to employees in order to increase the likelihood for employee safety

CONCLUSION

The California Gambling Control Commission strives to reduce the risks inherent in our work and accepts the responsibility to continuously improve by addressing newly recognized risks and revising controls to prevent those risks from happening. I certify our internal control and monitoring systems are adequate to identify and address current and potential risks facing the organization.

Stacey Luna Baxter, Executive Director

CC: California Legislature [Senate (2), Assembly (1)]
California State Auditor
California State Library
California State Controller
Director of California Department of Finance
Secretary of California Government Operations Agency