

December 16, 2019

Keely Martin Bosler, Director
California Department of Finance
915 L Street
Sacramento, CA 95814

Dear Ms. Keely Martin Bosler,

In accordance with the State Leadership Accountability Act (Leadership Accountability), 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, 2019.

Should you have any questions please contact Fred Castano, Public Relations Officer, at (916) 263-1522, fcastano@cgcc.ca.gov.

GOVERNANCE

Mission and Strategic Plan

The Commission's mission is "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 statement is "Ensuring integrity and public trust in the controlled gambling industry." Our Strategic Goals are:

- Provide Exceptional Customer Service
- Cultivate Core Competency
- Ensure Efficient Operations
- Promote Technology Modernization, Accessibility, and Security
- Responsible Management of Fiscal Resources

The Commission is currently developing its 2020-2022 Strategic Plan.

Control Environment

Oversight

The Commission's Executive Director, Stacey Luna Baxter, is responsible for the overall establishment and maintenance of the internal control and monitoring systems. The Commission's Deputy Directors facilitate and verify that the Commission's internal control practices are implemented and functioning as intended.

The Commission's Leadership Staff (Executive Director, Deputy Directors, Public Relations Officer, and managers) meet monthly, and have a standing agenda item to discuss the SLAA report, progress on items identified within the report, as well as the discussion of any newly-identified risks and the status of

mitigation efforts taken. This ensures continued oversight and implementation of actions necessary to address all areas addressed within the SLAA report.

Integrity and Ethical Values

One of the Core Values that the Commission identified in the 2017-2019 Strategic Plan is integrity. The Commission continues to identify integrity as a Core Value as we develop our 2020-2022 Strategic Plan.

To the Commission, integrity is behaving in a fair, ethical, and principled manner. We exhibit these behaviors through:

- Conducting our work objectively.
- Treating everyone with dignity, respect, and professionalism in carrying out our duties.
- Adhering to all laws.
- Doing the right things for the right reasons.

The Commission also ensures that each employee completes the Department of Justice's Ethics Training for State Officials course every two years, which is mandated by Government Code section 11146.

In addition, the Commission ensures that each employee has read, reviewed, and agreed to its Incompatible Activities Statement, which is issued to ensure Commission staff are aware of the legal prohibitions against incompatible activities and do not willfully engage in any employment or activity that is illegal, that has or gives the appearance of being incompatible or in conflict with their duties as state employees, that discredit the Commission or the State, or that has an adverse effect on the confidence of the public in the integrity of government. This review is conducted annually by all Commission members and staff.

Responsibility, Authority, and Documentation

A completed goal identified in the Commission's 2017-2019 Strategic Plan was to Ensure Efficient Operations. To reach this goal, the Commission implemented and continues the following measures:

- Ensure the Commission's policies and procedures are complete and up-to-date. This included desk manuals with written procedures for all positions.
- Ensure that the Commission is up-to-date on all Staff Policy Acknowledgments.
- Perform workflow analyses to evaluate if the current policies and procedures are efficient, or if there is a better way to perform our duties.

In addition to updating all current policies and procedures, the Commission implemented a survey to measure how many additional policies or procedures may need to be developed, and continues to address these outstanding items. These internal reviews ensure that for each of the Commission's functions, there is clear and updated documentation of responsibilities.

Competent Workforce

Another completed goal identified in the Commission's 2017-2019 Strategic Plan was to Cultivate Core Competency, which focused on ensuring the Commission's staff is made up of talented, skilled, well-rounded individuals. To reach this goal, the Commission implemented and continues the following

measures:

- Ensure each employee attends at least one training per year to increase their knowledge base. This excludes mandated training.
- Provide a quarterly information-sharing meeting for all staff. At these meetings, each division provides an update on what they are working on, why they're doing it, and what it means for the Commission's operation as a whole.
- Provide an annual information sharing meeting between the licensing divisions of the Commission and the Bureau of Gambling Control.
- Increase access to institutional information, which includes presentations, reports, articles, or other media. These are stored on shared drives accessible to staff, and on the Commission's intranet library.
- Monthly Employee Development Training Sessions, which cover a wide range of topics, including state job application tips, the legislative process, Microsoft Office tips and tricks, making presentations, sports betting, and more, to increase employee knowledge and abilities.

The Commission is also developing its Strategic Plan for 2020-2022. While it is not yet finalized, two of the Strategic Goals are to Cultivate a Culture of Excellence, and Promote a Culture of Growth and Learning. Components of these goals include:

- Strengthen the Commission's onboarding process to ensure a solid understanding of our roles and responsibilities.
- Ensure all management attend annual leadership training.
- Encourage and create opportunities for employees to lead projects, which will aid individual development.
- Review and share other gaming states' regulatory structures to learn best practices.
- Encourage research and internal discussion of emerging issues in the gaming industry.

Performance Evaluation and Accountability

In developing its Strategic Plan for 2020-2022, the Commission identified accountability as one of its Core Values. We define accountability as taking responsibility in all that we do and holding others responsible for their actions. We exhibit these behaviors by:

- Recognizing our mistakes and learning from them.
- Taking ownership of our work products and outcomes.
- Holding individuals we regulate responsible for their actions.
- Expeditiously acting to correct errors or shortcomings to the greatest extent possible.

We also identified Transparency as a Core Value for the 2020-2022 Strategic Plan. Transparency is key to Accountability. By conducting our business in a manner that promotes meaningful stakeholder participation and provides responsible public access to information, we allow our stakeholders to hold us accountable. We practice Transparency by:

- Promoting the sharing of information and providing the opportunity for feedback.
- Providing useful license history and other valuable information.
- Providing optimal public access to information through livestream, resources on our website, and other media.

- Responding to stakeholders with with relevant and timely information, while adhering to confidentiality laws.

Management performs annual performance reviews of their staff members, and gives them the opportunity to discuss the evaluation with their supervisor. Management also encourages staff to complete Individual Development Plans (IDP), and commits to helping staff achieve their goals identified in the IDP.

The Commission also updated its Workplace Guidelines and Expectations, which guides Commission personnel on how to conduct themselves in the workplace and to ensure consistency throughout the Commission's various programs.

The Commission regularly reviews its policies and procedures to ensure accountability for each of the Commission's functions, as well as to ensure that the policies and procedures in place continue to be the most effective and efficient.

Information and Communication

All staff is encouraged to immediately report any areas of concern or potential risk to their manager. In addition, managers hold staff meetings at least monthly, which allows for a formal setting for staff to provide notification of potential risks and to discuss ideas for improvement of operations.

Managers are to immediately notify their Deputy Directors of areas of concern once they are identified.

The Commission's Leadership Staff (Executive Director, Deputy Directors, Public Relations Officer, and managers) meet monthly, and have a standing agenda item to discuss the SLAA report, progress on items identified within the report, as well as the discussion of any newly-identified risks and the status of mitigation efforts taken.

Deputy Directors provide any new areas of concern provided by staff, propose corrective action measures to address the concerns, and/or provide updates regarding current mitigation efforts on a monthly basis.

Roles and responsibilities for addressing any necessary or beneficial tasks or internal controls are identified and discussed during our monthly leadership meetings. The Public Relations Officer maintains a listing of all risks identified and the corresponding mitigation efforts, via the Implementation Plan.

In addition, the Commission holds all-staff meetings on a quarterly basis, at which the SLAA report is discussed, staff is given an opportunity to identify new risks, and status updates are given on mitigation efforts of existing identified risks.

When mitigation efforts are required, the Commission may do any combination of the following:

- Assign roles and responsibilities to mitigate the risk(s) identified
- Meet monthly until risk(s) are resolved
- Distribute an all-staff email
- Provide training
- Create/update official policies and procedures.

Any change to official policies and procedures are emailed to all staff, posted to the intranet for staff to view at any time, and are reviewed annually to ensure accuracy and efficiency.

MONITORING

The information included here discusses the entity-wide, continuous process to ensure internal control systems are working as intended. The role of the executive monitoring sponsor includes facilitating and verifying that the California Gambling Control Commission monitoring practices are implemented and functioning. The responsibilities as the executive monitoring sponsor(s) have been given to:

Fred Castano, Public Relations Officer; Todd Vlaanderen, Chief Counsel;

Stacey Luna Baxter, Executive Director; Alana Carter, Deputy Director of Administration;

Adrianna Alcalá-Beshara, Deputy Director of Licensing; Jacob Muscan, Chief Information Officer; and Quinn Hedges, Licensing Division Supervisor.

To ensure its mission, vision, and goals are being achieved, the Commission uses the following tools:

- Continuous tracking of key performance indicators (KPI) that set specific target ranges and measure progress of specific objectives, including the status of associated KPI projects;
- Surveys are used to gather feedback from internal and/or external stakeholders and to 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 included at the monthly meetings to discuss and/or identify 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 are 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.

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.

The following methods were used to identify risks: brainstorming meetings, employee engagement surveys, ongoing monitoring activities, audit/review results, other/prior risk assessments, external stakeholders, questionnaires, consideration of potential fraud, and performance metrics.

The following criteria were used to rank risks: likelihood of occurrence, potential impact to mission/goals/objectives, timing of potential event, potential impact of remediation efforts, and tolerance level for the type of risk.

The Commission has a risk assessment process in place and has utilized that process to continually check in with staff regarding any concerns and/or risks. Management discusses the SLAA Report, Implementation Plans, Strategic Plan, our progress, and additional risks at monthly leadership meetings.

Staff is encouraged to participate in ongoing monitoring and to speak with their supervisors. At quarterly all-staff meetings, management encourages partnership and participation and provides an informal setting for staff to raise any concerns. In addition, each division head meets with their staff at least monthly, which creates another opportunity for staff to share potential risks.

The Commission is currently working on its Strategic Plan for 2020-2022 while still committing to the goals it set in its 2017-2019 Strategic Plan. These strategic planning meetings provide another opportunity for the discussion of risks and necessary mitigation efforts.

RISKS AND CONTROLS

Risk: Data Security

The Commission recognizes the rising number and severity of cyber-attacks which may expose business and personal data. Sixteen percent of data breach victims are public sector agencies. If staff is not properly trained to recognize cyber-attacks, such as phishing emails, sensitive and confidential data may be exposed to hackers.

Control: Information Security and Privacy Training

The Commission's Information Technology (IT) staff holds an annual Information Security and Privacy Training for all management and staff members. These trainings educate attendees on the following:

- Cyber threats and how to counter them (back up your data, install updates, complex passwords, etc.)
- Information Security
- Right to Privacy
- How to protect private information
- Information Practices Act
- Right of Access to Information
- Disclosure of Unauthorized Information
- Commission Policies and Procedures on Information Security and Privacy (which are all located on Commission intranet)
- Incident Reporting
- Public Records Act

Control: Phishing Tests

The IT Unit conducts phishing tests as a way to test and educate Commission staff on the dangers of phishing emails and the importance of data security. The IT unit emails Commission staff posing as an outside entity, and tries to induce staff to open a link contained in the email, just like how a malicious actor would do in a phishing attempt. If the staff member clicks on the link, the IT unit is

notified and the staff member must take a training session about cyber security. This is an ongoing program, with measurable results from test to test.

Risk: Leave Balances

The Commission's Administration Division has identified employees who were not in compliance with the California Department of Human Resources (CalHR) Leave Reduction Program. CalHR requires all state employers and employees to make every effort to adhere to a maximum cap of annual leave/vacation hours in accordance with Memorandums of Understanding and California Code of Regulations. The maximum cap of annual leave/vacation hours for all CGCC employees is 640 hours.

California state employees who have accumulated significant leave hours create an unfunded liability for the State and individual department budgets. The value of this liability increases with each passing promotion and salary increase. Accordingly, leave balances exceeding established limits need to be addressed immediately.

The employees who were identified have since submitted Leave Reduction Plans. However, risk still exists because even though plans have been submitted and staff has made good-faith efforts to follow their plans, there are still staff members over the 640-hour threshold. It is difficult for certain staff members to substantially reduce their leave balances due to the specialization of their work, such as information technology and human resources.

Control: CGCC Leave Reduction Policy

Employee Responsibilities

- Monitor your vacation/annual leave balances for excess time on a regular basis
- Use excess time in the pay period accrued, when possible
- For leave balances over 640 hours, complete CalHR's Leave Reduction Plan form annually and submit to supervisor for approval in December of each year

Supervisor Responsibility

- Monitor your employees' vacation/annual leave balances for excess time on a regular basis
- Encourage staff to use excess time in the pay period accrued, when possible
- Require the completion of CalHR's Leave Reduction Plan form annually for staff with excess leave balances by December 31 each year
- Review and approve submitted plans, after ensuring the plan will not impede workload requirements
- Encourage staff to use excess leave as planned on the submitted Leave Reduction Plan

Human Resources Responsibility

- Generate quarterly reports and provide them to managers/supervisors to monitor their staff's excess leave balance reduction
- Maintain record of all CalHR 138 forms and file appropriately in employee Official Personnel Files

Control: Cross Training

One of the employees who has a Leave Reduction Plan works in human resources. This is a specialized skill set, and there is not a backup person for this employee due to the Commission being such a small agency. As a result, this employee has difficulty in reducing their excess leave balance because there is no one who can complete their human resources duties during an absence. The Administration Division will cross-train a current employee who has prior human resources experience. By developing a human resources backup, the employee with the excess leave balance will be able to make greater progress towards reducing their leave balance.

Risk: Commission Roles and Responsibilities

Despite significant efforts on behalf of the Commission to clearly identify the distinct roles and responsibilities of the Commission and its sister agency, the Bureau of Gambling Control (Bureau), there are those in the industry who still do not understand the separation of duties. The Commission and Bureau continue to be confused with one another, which increases the risk of miscommunication, documents being submitted to the incorrect agency and subsequently creating delays, and a general lack of clarity within the industry about how the state's gambling regulatory structure operates.

This is compounded by the media also frequently confusing the two agencies and their respective responsibilities. There have been instances of news articles using the agencies almost interchangeably. This creates further confusion among the industry and the public at large.

This confusion creates a major risk for one of our most valuable assets: the public's trust. It is difficult to maintain the public's trust when they read conflicting reports about who we are, what we do, and why we do it.

Control: Workshops

The Licensing Divisions of the Commission and the Bureau organized five workshops across the state in 2019 to give presentations on each agency's roles and responsibilities, specifically focusing on the licensing and background investigation processes. These workshops covered the application process (when a person or entity applies for a gambling license or finding of suitability) as well as what the Bureau's investigation process entails. These workshops provided a forum for attendees to ask questions and gain a better understanding of the agencies' functions. The Commission will also conduct a webinar of the same training and post it on the Commission's website for those individuals who were unable to attend one of the in-person sessions.

In reviewing feedback from the training sessions, our stakeholders indicated that the sessions were highly successful, and beneficial to the industry. In addition, we have noted that there is further opportunity to better serve our stakeholders by having industry-specific trainings, split among the tribal gaming, cardroom, and third-party provider industries.

Control: Easily Accessible Information

Newsletter

The Commission produces a quarterly newsletter, which provides information on the Commission's roles and responsibilities. There have been several articles published in the newsletter that

specifically detail the differences between the Commission and the Bureau. The newsletter will continue to include these types of articles in an ongoing effort to educate its stakeholders. The newsletter is distributed to an email list, and all editions are available on the website.

Website

The Commission maintains a number of pages on its website that explain the agency's roles and responsibilities. These pages include an About Us page, an FAQ page, and another page dedicated solely to explaining who to contact (Commission or Bureau) regarding gambling-related matters.

Control: Customer Service

One of the Commission's strategic goals is to *Provide Exceptional Customer Service*. The Commission's home page has a direct number to the Licensing Division, which is a phone line that is staffed by a Licensing Analyst during business hours. The contact information for the Public Relations Officer is also on the home page, and that position is available to answer any public inquiries, including questions from our stakeholders. In surveys completed by members of the gambling industry, the Commission consistently ranks very high in customer service, which includes such factors as prompt, accurate responses.

All these customer service amenities exist for the industry to use in order to address any questions they may have about the roles and responsibilities of the Commission.

Control: Outreach Program

The Commission's Public Relations Officer will begin to visit cardrooms in 2020 for informal meetings with cardroom owners, management, and staff. The purpose of these meetings is to address any existing confusion regarding the responsibilities of the Commission and the Bureau.

In addition, these visits will give the Public Relations Officer an opportunity to further explain the Commission's functions, which may include explanations of regulations packages, the licensing process, or information about the Gaming Policy Advisory Committee.

These in-person meetings will allow the Commission and its stakeholders to strengthen their relationships and increase their knowledge and understanding of each other's roles and responsibilities.

Control: Media Policy

The Public Relations Officer will work with the Attorney General's Press Office, which handles media inquiries for the Bureau of Gambling Control, to educate the media on the two agencies' roles and responsibilities. The Attorney General's Press Office is in the process of hiring a staff member who will be responsible for inquiries pertaining to the Department of Justice's Division of Law Enforcement, which includes the Bureau of Gambling Control. Once that position is filled, the Commission's Public Relations Officer will work with that staff member to familiarize them with the state's gambling industry and the agencies' roles and responsibilities. The Public Relations Officer and the Attorney General's Press Office will also establish a process for handling news story corrections for stories that do not accurately reflect the two agencies' roles and responsibilities.

Risk: Inconsistent Regulations

One of the Commission's responsibilities is to promulgate regulations that govern the controlled gambling industry in California. In the course of establishing new regulations or updating existing ones, there is significant risk that any new or modified regulation may conflict with other existing regulations. If conflicting regulations are not rectified, it may result in confusion, could hamper efforts to implement the regulation, or could cause regulations to be applied inconsistently.

In 2019, the California State Auditor found inconsistencies across license types in the regulations regarding processing time frames, the application process, and the ability to reapply after denial. The Commission had already begun the process of updating the regulations prior to the audit.

Control: Regular Rulemaking Process

The Commission's Legislative and Regulatory Affairs Division has initiated the regular rulemaking process to address inconsistencies. This includes the following steps:

1. The Commissioners formally approved the initiation of the Rulemaking Process at a regulations workshop on August 12, 2019.
2. Staff is collecting information on estimated private sector cost impacts from the industry and the fiscal effect on the Bureau of Gambling Control prior to submitting the Fiscal Impact Statement to the Department of Finance and initiating the formal Rulemaking Process. Responses from the public are due December 20, 2019, and the Bureau of Gambling Control will review as well.
3. The Commission will publish a notice of proposed action in the California Regulatory Notice Register. We will also mail the notice of proposed action to those persons who have requested notice of regulatory actions, and post the notice of proposed action, express terms, and initial statement of reasons on the website. This initiates the Administrative Procedures Act rulemaking process.

A 45-day public comment period is part of the APA process, which gives the regulations another layer of review in addition to review done by staff, management, and other agencies.

Control: Regulations Review

The Commission is in the process of hiring a Deputy Director of Legislative and Regulatory Affairs. This person hired for this position will be responsible for establishing a system of consistent review of existing regulations to ensure that the Commission does not have any more inconsistent regulations. This system will be formalized in a desk procedure, and through this process, the Commission will reduce its risk of inconsistent regulations.

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 risk mitigation strategies as appropriate. 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