



DEPARTMENT OF
FINANCE

ARNOLD SCHWARZENEGGER, GOVERNOR

915 L STREET ■ SACRAMENTO CA ■ 95814-3706 ■ WWW.DOF.CA.GOV

June 1, 2009

Ms. Terri A. Ciau, Executive Director
California Gambling Control Commission
2399 Gateway Oaks Drive, Suite 220
Sacramento, CA 95833

Dear Ms. Ciau:

Final Report—California Gambling Control Commission Performance Review

The Department of Finance, Office of State Audits and Evaluations (Finance), has completed its performance review of the California Gambling Control Commission's (Commission) Licensing Division and Cashiering Operations.

The enclosed report is for your information and use. The Commission's response to the report findings are incorporated into this final report. The Commission agreed with our observations and we appreciate its willingness to implement corrective actions. The observations in our report are intended to assist management in improving the effectiveness and efficiency of its operations.

In accordance with Finance's policy of increased transparency, the final report will be placed on our website.

We appreciate the assistance and cooperation of the Commission. If you have any questions regarding this report, please contact Susan M. Botkin, Manager, or Zachary T. Stacy, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

David Botelho, CPA
Chief, Office of State Audits and Evaluations

Enclosure

cc: Ms. Tina Littleton, Deputy Director, Licensing Division, California Gambling Control Commission
Mr. Dale Kuroda, Manager, Support Services Division, California Gambling Control Commission

A P_{ERFORMANCE} R_{EVIEW}

California Gambling Control Commission Licensing Division and Cashiering Operations

Prepared By:
Office of State Audits and Evaluations
Department of Finance

MEMBERS OF THE TEAM

Susan M. Botkin, CGFM
Manager

Zachary T. Stacy
Supervisor

Staff
Michael West, CPA
Toni Silva

Final reports are available on our website at <http://www.dof.ca.gov>

You can contact our office at:

Department of Finance
Office of State Audits and Evaluations
300 Capitol Mall, Suite 801
Sacramento, CA 95814
(916) 322-2985

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BACKGROUND, SCOPE, AND METHODOLOGY

BACKGROUND

The California Gambling Control Commission (Commission) is responsible for setting policy, establishing regulations, conducting audits, making determinations of suitability for gaming employees and other individuals and entities, issuing licenses, acting as the administrator of gaming revenues deposited into the Indian Gaming Special Distribution Fund and the trustee over the revenues deposited into the Indian Gaming Revenue Sharing Trust Fund, and administering the provisions of the Gambling Control Act and the Tribal-State Gaming Compacts.

The Commission oversees the operations of approximately 91 cardrooms and 58 tribal casinos according to state law and Tribal-State Gaming Compacts. The Department of Justice, Bureau of Gambling Control also shares oversight responsibilities by performing criminal background investigations of license applicants.

The Commission requested the Department of Finance, Office of State Audits and Evaluations (Finance), to perform a review to determine if the Commission implemented adequate corrective action for previous findings noted in the Commission's Office of Internal Audit's May 2006 Report—A Review of Licensing Processes Inconsistent Leadership and Minimal Commitment (Report).

SCOPE

The scope of the review included:

- Reviewing Licensing Division operations to determine compliance with applicable laws, regulations, policies, and procedures specifically related to the findings noted in the Report.
- Reviewing application processing procedures and determine if the procedures result in a backlog of unprocessed applications.
- Reviewing the controls of the mailroom and cashiering operations
- Issuing a report on the results of the review, including recommendations for improvements.

METHODOLOGY

We reviewed the Report findings and recommendations and the Commission's response to the Report, which detailed the Commission's action plan to resolve Report findings. Based on this review, we analyzed whether the Commission's action plans were sufficient to rectify issues and address recommendations noted in the Report.

Licensing Division

To determine that the Commission implemented adequate corrective action to rectify the Report findings; the Licensing Division was in compliance with laws, regulations, and procedures specifically related to the Report findings; and whether licensing procedures resulted in a backlog of unprocessed applications, we reviewed the Commission's Mission Statement, state gambling regulations, and Licensing Division procedures. We also interviewed management and key staff directly responsible for processing license applications. In addition, we reviewed the license application database to assess reliability of the data. Based on our review, we determined the data to be sufficiently reliable for review purposes.

The following types of license applications, review periods, and test samples were judgmentally selected for testing.

- Gambling Establishment (Cardrooms)—January 2009 through mid-February 2009, (16 tested out of a population of 16)
- Key Employee—November 2008 through mid-February 2009, (12 tested out of a population of 35)
- Tribal Key Employee—November 2008 through mid-February 2009, (28 tested out of a population of 546)
- Work Permits—November 2008 through mid-February 2009, (10 tested out of a population of 29)

Mailroom and Cashiering Operations

To determine that the Commission implemented adequate corrective action to rectify the Report findings, we reviewed and observed current mailroom and cashiering procedures. We also interviewed management and key staff directly responsible for cashiering and mailroom operations. In addition, we judgmentally tested a sample of cash received and deposited during January 2009 and February 2009.

Report findings, recommendations, and action plans were itemized and followed-up on to determine that the Commission adequately addressed Report issues. See Table 1: Status of Prior Findings.

Recommendations were developed based on our review of documentation made available to us, our observations, and interviews with management and key staff directly responsible for processing applications in the Licensing Division and overseeing mailroom and cashiering operations. This review was conducted during the period January 2009 through April 2009.

Except as noted below, this review was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our observations and recommendations based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our observations and recommendations.

In connection with our review, there are certain disclosures required by *Government Auditing Standards*. Finance is not independent of the Commission, as both are part of the State of California's Executive Branch. As required by various statutes within the California Government Code, Finance performs certain management and accounting functions. These activities impair independence. However, sufficient safeguards exist for readers of this report to rely on the information contained herein.

Overall the California Gambling Control Commission (Commission) implemented corrective action to rectify major issues concerning management commitment and leadership, regulatory processing time requirements, and the safeguarding and deposits of cash receipts noted in the Commission's Office of Internal Audit's May 2006 Report—A Review of Licensing Processes Inconsistent Leadership and Minimal Commitment (Report).

We determined the Commission's action plan, if implemented, would rectify issues and address recommendations noted in the Report. Based on the results of this review, the Commission implemented the majority of its action plan. Of the 28 issues extracted from the Report, 16 were cleared, 11 were partially cleared, and 1 was not cleared. See Table 1: Status of Prior Findings for a detailed summary. As a result, licensing and cashiering operations are much improved.

The determination to partially clear or not clear the issues noted in Table 1 is based on the following observations. The proposed recommendations, if implemented, will enhance compliance with the regulations noted in the Report and improve internal controls.

Observation 1: The Licensing Division Should Improve Monitoring and Oversight

The Licensing Division can do more to monitor license application and work permit processing to ensure compliance with regulations and procedures. The failure to monitor the application process resulted in the following instances of non compliance.

Gambling Establishment (Cardroom) License

- The acknowledgement letters to 4 applicants, or 25 percent, were not sent within the required time limit.
- Two applications, or 12 percent, were forwarded to the Bureau of Gambling Control (Bureau) prior to the receipt of all fees.

Gambling Establishment Key Employee and Tribal Key Employee Licenses

- Acknowledgement letters for 6 Tribal Key Employee applications, or 21 percent, were not processed in accordance with regulations. Four applications did not have acknowledgement letters sent, and 2 others had acknowledgement letters that were sent late.
- The Commission approval letters for 2 Cardroom Key Employee applications, or 17 percent, were not sent to the applicant.

Title 4, Section 12343, of the California Code of Regulations (CCR) requires written notification to an initial key employee or cardroom applicant within 21 days of receiving the application. Section 12345 requires written notification to a renewal applicant within

ten days of receiving the application. Also, the Commission's internal policies and procedures require an acknowledgment letter be sent within ten days of receipt of an application to satisfy these regulations.

Title 4, Section 12344 of the CCR requires that all fees be submitted with an application for it to be considered complete and before it is processed by either the Commission or Bureau. Section 12008 also states that all required fees be submitted with an application.

The Commission's internal policies require an approval letter and badge be sent to each employee after their application has been approved by the Commission.

Work Permits

- The acknowledgement letter for 1 work permit application, or 10 percent, was not sent within the required time limit.
- 1 application, or 10 percent, was not processed within 120 days, as required.

Title 4, Section 12126 of the CCR requires written notification to a work permit applicant within ten days of receiving the application, and a temporary work permit be issued within fifteen days of receiving the application. Also the Commission's procedures require an acknowledgment letter be sent within ten days of receipt of an application to satisfy these regulations.

Title 4, Section 12120 of the CCR requires that the permanent work permit be issued within 120 days or a new application be submitted by the applicant for approval, with the fee being waived by the Commission.

Recommendations

- A. Establish and implement policies and procedures to ensure that management monitors the Division's compliance with regulations and the Licensing Division's Procedures Manual. Document the activities that substantiate monitoring efforts.
- B. Provide training to ensure employees understand the regulations and the reasons for complying with regulations and procedures.

Observation 2: Internal Control Issues

The following internal control issues were noted:

- Contracted Fiscal Services (CFS) of the Department of General Services does the bank reconciliations for the Commission. The Commission does not receive or review the bank reconciliations for accuracy or risk indicators.
- The written procedures for Licensing include some cashing procedures that are not consistent with actual practices. Additionally, there are no written procedures for cash disbursements, including the issuance of refunds; and the written procedures for processing work permits is incomplete.
- The safe combination has never been changed, even after the turnover of key employees.

Section 20050 of the State Administrative Manual (SAM) requires adequate policies and procedures are in place to protect assets of the state, and that there be an effective system of internal review in place.

Section 8024 of the SAM requires safe combinations be changed when key employees leave.

Recommendations

- A. Receive bank reconciliations from CFS and review them for accuracy and risk indicators.
- B. Ensure written policies and procedures are current and complete. Periodically review the written policies and procedures to ensure current practices are documented.
- C. Change the combination of the safe when key employees leave the Commission.

This report is intended solely for the information and use of the Commission, and is not intended to be and should not be used by anyone other than the specified party. However, this report is a matter of public record and its distribution is not limited.

Source: California Gambling Control Commission Office of Internal Audit's May 2006 Report—A Review of Licensing Processes Inconsistent Leadership and Minimal Commitment (Report)

Table 1: Status of Prior Findings

| <p>Finding 1: Improper Manipulation of Transmittal Dates. Significant discrepancies between California Gambling Control Commission (Commission) transmittal letter dates and the actual dates documents were sent to the Bureau of Gambling Control (Bureau) existed. Eighty-one percent of the 27 gaming license applications, work permits, key employee applications, and authorization for temporary additional tables examined had differences ranging up to 78 days.</p> <p><i>Note: Finding 1 is no longer applicable. Since the implementation of the Licensing Information System (LIS), the Commission no longer uses the transmittal letter process to forward documents to the Bureau. Instead, documents are date stamped as received and immediately scanned into LIS. The date stamp is the official receipt date for the workload and the Bureau is automatically notified when documents are available in LIS. Overall Status—Cleared.</i></p> | | | | |
|--|---|------------------------|----------------|---|
| <p>Finding 2: Inconsistent Leadership and Minimal Commitment to Meet Regulatory Processing Time Requirements. Licensing management made little or no effort to comply with regulations for processing gambling applications or permits within regulatory timeframes. 85 percent of the 27 gaming license applications, work permits, key employee applications and authorization for temporary additional tables examined were not processed in accordance with regulatory requirements. Overall Status—Partially Cleared</p> | | | | |
| Issue to be Followed-Up On or Included in Action Plan | Internal Auditor Recommendation | Commission Action Plan | Current Status | Comment |
| 1 | Leadership and commitment to the Commission's core mission, statutes and regulations should be implemented and monitored. | Not Addressed | Cleared | The major issues noted in the 2006 Internal Audit Report have been resolved, and management's commitment to the Commission's core mission is evident. |

| Issue to be Followed-Up On or Included in Action Plan | Internal Auditor Recommendation | Commission Action Plan | Current Status | Comment |
|---|---|---|----------------------------------|---|
| 2 3 | Executive staff should ensure gambling applications, permits, etc., are submitted to the Bureau within regulatory time limits. | Licensing has incorporated the regulatory timelines in the licensing process. Acknowledgement letters are forwarded to the applicants indicating if the application is complete or deficient. | Cleared Partially Cleared | The Commission has established procedures to forward acknowledgement letters to applicants; however, we noted several instances where acknowledgement letters were either not sent, or sent late. |
| 4 5 | Reallocate licensing staff authority, responsibilities, and duties and implement effective monitoring controls that track the progress of applications and permits. | The responsibility for processing new and renewal applications for gambling license, cardroom key employees, and work permits has been assigned to the appropriate analyst for the license type. The responsibility for processing temporary authorization for additional tables in cardrooms has been redirected to an analyst responsible for additional tables. | Partially Cleared Cleared | The Commission has assigned employees to a particular function; however, monitoring controls and oversight over the progress of applications and permits could be improved. |
| 6 | Develop written policies and procedures consistent with regulatory requirements. | Licensing Division employees have been advised the procedures for all licensing functions are to be drafted and are to be included in the Division's project list. | Partially Cleared | For the most part, written policies and procedures for the Licensing Division are documented, however, some of the procedures are outdated or incomplete. |

| Issue to be Followed-Up On or Included in Action Plan | Internal Auditor Recommendation | Commission Action Plan | Current Status | Comment |
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| 7 | Develop, use, and review check lists for staff according to their licensing assignments and responsibilities. | | Partially Cleared | Some analysts use checklists when processing applications. However, because some applications were missing acknowledgement letters, others were missing approval letters, and others did not have any letters, it appears the checklists are not consistently used or reviewed by management. |
| 8 | Document management's review and approval of staff work and recommendations. | The Commission has implemented the use of Staff Summaries for staff work. Management approval of Staff Summaries is necessary before Commission approval can be obtained. | Cleared | |
| 9 | Develop workload and backlog analyses and reports. Review the reports monthly and make adjustment if necessary. | Licensing management and staff are working to develop formats for collection of workload data. LIS will have the capability to provide management reports. | Not Cleared | The management reports related to workload data that can be generated in LIS are not useful or not used. Additionally, staff indicates there is a back log in the key employee and work permit applications. |
| 10 | Develop and install recording, tracking and monitoring systems. | In March 2006, Licensing implemented the LIS, where documents are imaged and indexed and reminders are automatically sent to the Bureau. | Cleared | |

| Issue to be Followed-Up On or Included in Action Plan | Internal Auditor Recommendation | Commission Action Plan | Current Status | Comment |
|---|---|---|-------------------|--|
| 11 | Train staff regarding statutory and regulatory requirements, workload expectations, use of checklists, and use of recording, tracking and monitoring systems. | Management will include training of licensing staff on statutes and regulations for licensing and functions and processes. | Partially Cleared | Licensing Division staff received training, however, because we found instances where not all fees were collected before deeming an application complete, and acknowledgement letters are not consistently mailed, more training is necessary. |
| 12 | Review and change who, how and when applications are considered complete and how large and more complicated applications are treated. | The Department of Justice has advised Licensing that original applications should not be forwarded until the application is complete. | Partially Cleared | Testing revealed that in most instances, applications were deemed complete before being sent to the Bureau; however, in two instances, applications were forwarded to the Bureau prior to all the necessary fees being received. |
| 13 | Temporarily reassign staff when needed to address immediate bottlenecks due to uneven flow of licensing demands. | Licensing staff have been redirected and assisted other staff in addressing the "backlog" of workload. The Division is also attempting to hire two temporary staff to assist in the workload. | Partially Cleared | Staff indicated they were slightly back logged in tribal and general key employee applications and work permits due to vacations and furloughs. |
| 14 | | Licensing is reviewing duty statements and drafting individual development plans. | Cleared | |

| Issue to be Followed-Up On or Included in Action Plan | Internal Auditor Recommendation | Commission Action Plan | Current Status | Comment |
|---|---|--|-----------------------|---|
| 15 | Comply with regulations for processing applications and permits within required timeframes, including Temporary Authorizations for Additional Tables. | Not addressed | Partially Cleared | With the exception of one work permit application, applications (from receipt of application to Commission approval) are processed timely. However, we noted several instances where acknowledgment letters were not sent in the required time frame. Additionally, we noted two instances where approval letters were not sent to the applicant. |
| 16 | Maintain the log used to track Temporary Authorizations for Additional Tables properly. | Not addressed | Partially Cleared | LIS reports can track temporary authorizations for additional tables; however, this report is not reviewed on a regular basis. |
| Finding 3: Internal Controls over Cash with Regard to Receipting, Security, Accounting and Reporting were Substandard in Licensing Revenues, Licensing Refunds, and Gaming License Draw Pre Payments. Overall Status—Partially Cleared | | | | |
| Issue to be Followed-Up On or Included in Action Plan | Internal Auditor Recommendation | Commission Action Plan | Current Status | Comment |
| 17 | Ensure that corrective action is implemented to ensure the cash receipting is in accordance with SAM for timely deposits. | Administrative staff on a daily basis endorse checks and cashier fees. | Cleared | |
| 18 | Ensure proper delegation of authority and responsibility so that duties are adequately separated. | Not addressed | Cleared | |

| Issue to be Followed-Up On or Included on Action Plan | Internal Auditor Recommendation | Commission Action Plan | Current Status | Comment |
|---|--|---|-------------------|---|
| 19 | Ensure that corrective action be implemented to ensure the cash receipting is in accordance with SAM for bank reconciliations. | A reconciliation of deposit is prepared. | Cleared | |
| 20 | Ensure that corrective action be implemented to ensure the cash receipting is in accordance with SAM for restricted access custodial functions (i.e. safeguarded cash & logs.) | Not addressed | Partially Cleared | Overall, the custodial controls over cash are adequate; however, the combination to the safe has never been changed, even when key employees have left. |
| 21 | Ensure accounting and reporting of cash is accurate. | The Commission will prepare a log of cashing transactions. | Cleared | |
| 22 | Ensure monitoring and correcting mechanisms are in place. | Not Addressed | Partially Cleared | Per issue 19 above, bank reconciliations are prepared; however, they are prepared by DGS's Contracted Fiscal Services. The Commission does not review these bank reconciliations for errors or risk indicators. |
| 23 | CFS/SCO should forward refund checks directly to payees and the Commission should receive documentation that refunds were sent. | Licensing staff were advised all refund checks are to be sent directly from CFS/SCO to the payee. This process is documented in the cashing procedures and forms. | Cleared | |
| 24 | Tribal checks relating to gaming device draws should be deposited, recorded and reported in accordance with SAM. | The Commission will re-visit the existing policy regarding the RSTF relating to the gaming license draw; to determine if revisions should be considered to meet SAM requirements. | Cleared | The Commission's Support Services Division has changed the process to ensure that checks are deposited and refunded in a timely manner. |

| Issue to be Followed-Up On or Included in Action Plan | Internal Auditor Recommendation | Commission Action Plan | Current Status | Comment |
|--|---|--|-----------------------|----------------|
| 25 | Ensure checks are separated from applications and then recorded and deposited in accordance with SAM. | All checks or fees accompanying applications go directly from the mail area to the cashier for processing. Fees are separated and secured in the safe until deposited. | Cleared | |
| 26 | | The Commission is preparing a courier services contract to deliver checks to the bank. | Cleared | |
| 27 | Maintain a record indicating who, when, and where draw refunds are sent. | Not Addressed | Cleared | |
| 28 | Only allow proper access to the P.O. Box in the main hall. | Not Addressed | Cleared | |



GAMBLING CONTROL COMMISSION

2399 Gateway Oaks Drive, Suite 220
Sacramento, CA 95833-4231
(916) 263-0700 Phone
(916) 263-0499 Fax
www.cgcc.ca.gov

DEAN SHELTON, CHAIRMAN
STEPHANIE SHIMAZU
ALEXANDRA VUKSICH

May 18, 2009

Department of Finance
Office of State Audits and Evaluations
300 Capitol Mall, Suite 801
Sacramento, CA 95814

**Re: Draft Report for the California Gambling Control Commission
(Commission) Performance Review**

Dear Sir/Madam:

Thank you for providing us a draft copy of the report and providing an opportunity to comment on the Department of Finance's (DOF) recommendations.

The Commission concurs with the six recommendations regarding:

1. Improvement of the monitoring and oversight for the processing of license and work permit applications to ensure they are within regulatory timelines.
2. Internal control issues related to cashiering procedures, changing of Commission's safe combination and reviewing bank reconciliations.

It should be noted that the Department of General Services' (DGS) Consolidated Fiscal Services cannot provide the Commission with bank reconciliations. However, we will continue to work with DGS to explore other options to address the reconciliations.

Enclosed is the Commission's Action Plan for addressing the DOF recommendations.

Department of Finance
Office of State Audits and Evaluations
May 18, 2009
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If you have any questions regarding our Action Plan, please contact me at (916) 263-0493.

Sincerely,

A handwritten signature in black ink that reads "Terresa A. CiaU". The signature is written in a cursive, flowing style.

TERRESA A. CIAU.
Executive Director

Enclosure

cc: Tina Littleton, Deputy Director,
Licensing Division
Dale Kuroda, Manager
Support Services Division