

December 08, 2023

Joe Stephenshaw, Director
California Department of Finance
915 L Street
Sacramento, CA 95814

Dear Director Joe Stephenshaw,

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, 2023.

Should you have any questions please contact Fred Castano, Public Information Officer, at (916) 708-5231, fcastano@cgcc.ca.gov.

GOVERNANCE

Mission and Strategic Plan

The Commission's Mission Statement is:

"We are committed to protecting the public by ensuring integrity and justice in the controlled gambling industry through effective regulations and fair application of the law."

The Commission's Vision Statement is:

"Enhance public trust in California's regulated gambling industry by prioritizing compliance, stakeholder engagement, and operational excellence."

The Commission's Values are:

- Integrity
- Accountability
- Excellence
- Teamwork
- Transparency

Strategic Goal #1: Stakeholder Engagement:

- *"Foster constructive and respectful stakeholder engagement."*

Strategic Goal #2: Operational Excellence:

- *"Model fiscal responsibility and enhance operational efficiency."*

Strategic Goal #3: Culture of Learning and Development:

- *"Champion a culture of continuous learning, development, and collaboration."*

Control Environment

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 Information 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.

Information and Communication

Internal Communication

All staff are 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 to improve.

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 Information 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.

At the monthly Leadership Meeting, the Leadership Team assigns roles and responsibilities for any efforts addressing the identified risks. The Public Information 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 are 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 changes to official policies and procedures are emailed to all staff and are posted to the intranet for staff to view at any time. The policies and procedures are reviewed annually to ensure accuracy and efficiency.

External Communications

The Commission communicates with its stakeholders through a variety of ways, including:

- Quarterly newsletters, which provide helpful information regarding licensing, regulations, and disciplinary matters.
- Educational materials such as brochures, flyers, infographics, and video tutorials, which cover many aspects of the Commission's roles and responsibilities.
- Correspondence to our stakeholders to update them on important information relevant to the industry. Topics include information about new or proposed regulations, new laws, Executive Orders, and other relevant updates.
- The Commission website, which hosts a wealth of information about the Commission, its functions, meeting agendas and recordings, license information, Frequently Asked Questions, and more.
- The rulemaking mailing list, which keeps our stakeholders updated on regulations packages that the Commission is working on. The Commission also solicits public comment and holds public workshops for regulations packages.
- The Commission also has a policy and procedure for communicating with the public and the press. The Public Information Officer is the primary contact for the media and works within that policy and procedure to disseminate accurate information to the media, as well as to the general public.

One of the goals of the Commission's 2024-2026 Strategic Plan is to foster constructive and respectful stakeholder engagement. To that end, the Commission will undertake several projects to reach that goal, which will also supplement the Commission's existing external communications efforts.

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: Jason Pope, Chief Counsel; Rebecca Kirk, Deputy Director of Legislative and Regulatory Affairs; Jacob Muscan, Chief Information Officer; Andrew Cooper, Licensing Division Supervisor; Alana Carter, Deputy Director of Operational Services Division; Fred Castano, Public Information Officer; Stacey Luna Baxter, Executive Director.

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 is 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 by all Commission 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 are 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 are 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 completed its Strategic Plan for 2024-2026 and is working on the numerous projects identified in the Strategic Plan that will help the Commission reach its goals. The project teams meet regularly, and these meetings provide another opportunity for the discussion of risks and necessary mitigation efforts.

RISKS AND CONTROLS

Risk: Information Communicated

The gambling industry in California is very diverse, and the Commission recognizes that there are many people in the state's gambling industry who do not speak English as their primary language. To reach these populations, the Commission contracted with a translation service to translate certain informational materials that the Commission had developed in English.

The documents were translated into several languages, and the Commission posted these documents to its website. But as time passed, some of the information in the materials became outdated due to changing statutes and regulations. Certain language and code sections referenced in the informational materials became obsolete, with certain hyperlinks linking to pages that no longer exist. The Commission updated the English versions, but has not updated the foreign language documents.

In making a new update to the English documents, Commission staff discovered that not only were the foreign language documents outdated, but the documents received from the translation service were inadequate. The translation service did not include the hyperlinks in the translated documents that the Commission had included in the original English documents. The underlined blue text appeared in the translated documents, but it was just text, not a hyperlink.

While the Commission utilizes Google Translate for its video captions and website text, which is available in over 100 languages, these outdated documents can create a lack of trust in the Commission from its stakeholders whose primary language is not English.

Control: Document Updates

The Public Information Officer is responsible for updating the Commission brochures using Google Translate and ensuring the hyperlinks are included and link to correct and active web pages. Once finished updating, the Public Information Officer must ensure that every time they update English-language documents, they must also update the foreign language documents as well.

The Commission, via its Gaming Policy Advisory Committee, is also considering additional foreign language materials that the Commission could provide to its stakeholders. The materials will be posted to the Commission's website and will be reviewed and updated as necessary.

In addition, the Commission reviews its website, including all content contained on the website, on a quarterly basis to ensure that all information is up-to-date and hyperlinks are active. The quarterly reviews conducted includes review of these documents, both the English and foreign language versions.

Risk: Leave Balances

The Commission's Operations Services 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 Commission 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 have 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 human resources.

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 Operations Services Division is currently cross-training a current employee who has prior human resources experience. By developing a human resources backup, the employee with the excess leave balance has been able to make some progress towards reducing their leave balance.

Risk: Litigation

The Commission is currently involved in litigation regarding the Commission's regulations concerning the licensure of and documentation related to spouses having a community property interest in a cardroom or a third-party provider of proposition player services (TPPPS).

The Commission has required spouses with a community property interest to be licensed for the better part of two decades. Following an audit, the Commission undertook a regulatory overhaul that standardized the licensure process generally, including for community property interest holders in cardrooms and TPPPS.

As part of that process, the Commission clarified what was required to demonstrate a property interest as separate property. This changed the prior practice, which allowed applicants to simply state that an asset was separate or community property, which did not comport with California statute or California Supreme Court precedent.

To aid this transition, the Commission provided non-binding industry guidance that provided helpful information about filling out the form and documenting a separate property interest. While many in the industry have used this guidance and had no difficulty comporting with the regulations, others have been unwilling to comply and instead chose to sue to invalidate the regulations. This lawsuit may also ultimately expand upon California law pertaining to how to

document a separate property interest.

The litigation will be an ongoing resource drain from the Gambling Control Fund as the matter winds its way through the courts. In the event the litigation is successful, the Commission's subsequent actions will depend on the nature of the judgment, which may be appealed by the litigants or the Commission, which would take additional time and resources.

It is possible, though highly unlikely, that at the end of the litigation, the regulations may be invalidated for a time. This would require new rulemaking to enact the exact same requirements or other requirements consistent with the final judgment.

Control: Litigation Process

The Legal Division is working through the litigation process with the Department of Justice. The Commission is still engaged with the involved parties on an ongoing basis, including providing helpful information and guidance on any questions about the regulations, and looks forward to a favorable resolution in support of the Commission's actions and these regulations.

Risk: Cybersecurity

In the past couple of years, there have been numerous cyberattacks on gambling operations all over the world, including casinos in California. Malicious hackers have successfully attacked casinos of all sizes, from small operations to some of the largest and most well-funded and successful casinos in the world. As a result of these cyberattacks, hackers have stolen sensitive personal information and made the casino operators pay tens of millions of dollars in ransom money. The gambling operations have also lost out on hundreds of millions of dollars in potential profits due to being unable to operate as a result of cyberattacks.

Currently, there is no requirement in statute or Commission regulations that require California gambling operations to take the necessary precautions to protect themselves and their patrons' information from cyberattacks. It is up to the individual operations to implement their own cybersecurity infrastructure, if they choose to do so at all. If gambling operators do not take the necessary steps to protect themselves from cyberattacks, they leave themselves vulnerable to ransomware attacks, and their patrons vulnerable to identity theft.

Control: Cybersecurity Regulations

The Commission's Legislative and Regulatory Affairs Division plans to promulgate regulations that will update the Minimum Internal Control Standards (MICS) for Cardroom Business Licensees to include cybersecurity standards. The MICS are the minimum requirements to operate a cardroom in California, so by codifying cybersecurity standards into the MICS, every cardroom licensee in the state will have to develop a cybersecurity program to protect the gambling operation and their patrons.

Risk: Licensing Division - Policies and Procedures

Over the past couple of years, the Licensing Division (Division) has made significant changes

within the Division's operations; however, the Division's policies and procedures were not adequately maintained and modified when changes were implemented. As such, a significant number of the Division's policies and procedures are outdated.

In addition, there are multiple policies and procedures on the same main topic that should be consolidated to eliminate confusion and improve overall organization of all division policies and procedures. Due to the sheer number of Division policies and procedures, reviewers may find it challenging to identify the specific policy and procedure that addresses their specific need.

The majority of all matters that move through the Commission come through the Division. As such, the Division is vital to the successful operation of the Commission. Having outdated policies and procedures within any Division, let alone one so vital to the Commission, is detrimental to the overall success and ability of the Commission to efficiently operate.

Control: Policy and Procedure Review

The Division will conduct a review of all Division policies and procedures, focusing on:

- what policies and procedures can be consolidated;
- what policies and procedures may no longer be relevant or necessary;
- what policies and procedures require updating;
- and revising the policies and procedures as necessary.

A project lead has been assigned to oversee this project. Once all policies and procedures are revised and brought current, a central file repository will be created and made available to all staff.

A policy and procedure will be established to outline timeframes for future reviews, and to outline and assign responsibilities to ensure all policies and procedures are always kept current.

Risk: Licensing Division - Workflow

The Licensing Division (Division) was recently restructured into two units; however, with the restructuring, there have been inconsistencies with the approaches in some areas, and a crossover of workload between the two units, which may not best support the workflow for the Division.

The majority of all matters that move through the Commission come through the Division. As such, the Division is vital to the successful operation of the Commission. Operations within the Division need to run efficiently. Crossover between units, especially when there are inconsistencies amongst approaches, can cause frustration and confusion, thereby hindering efficient operations.

Control: Workflow Restructuring Plan

The Commission just completed the recruitment and hiring process for a new Deputy Director of the Licensing Division, who will join the Commission in early January. Following

the onboarding process, the incumbent will have an opportunity to assess the Division and its operations. The Deputy Director will then be responsible for evaluating the workload metrics and workflow of the Division, and in collaboration with the staff and Division management, outlining a restructuring plan to improve efficiencies within the Division.

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, Assembly]
California State Auditor
California State Library
California State Controller
Director of California Department of Finance
Secretary of California Government Operations Agency