

December 08, 2025

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, 2025.

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 strategic goals are:

- Foster constructive and respectful stakeholder engagement.
- Model fiscal responsibility and enhance operational efficiency.
- Champion a culture of continuous learning, development, and collaboration.

Control Environment

The Commission's Executive Director, Lisa Wardall, 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 of risk identified 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.

Policies and procedures are reviewed annually. 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.

External Communication

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 media. 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 and the general public.
- Social media updates about upcoming meetings, personnel updates, and more.
- Quarterly surveys of our stakeholders to inform them and gauge their awareness of the Commission's informational resources.

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; Jacob Muscan, Chief Information Officer; Brian Gilleland, Deputy Director, Licensing Division; Nicole Learned, Deputy Director, Legislative and Regulatory Affairs Division; Alana Carter, Deputy Director, Operations Services Division; Fred Castano, Public Information Officer; Lisa Wardall, Executive Director.

To ensure its mission, vision, and goals are 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 2024-2027 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: GLS Implementation

Currently, applicants for gambling licenses must complete their application with pen and paper, and then mail the application and other required forms, along with a paper check, to the Department of Justice's Bureau of Gambling Control (Bureau).

To modernize the application process, the Bureau of Gambling Control, with assistance from the Commission, is developing the Gambling Licensing System (GLS), which will give applicants the option to submit their applications, forms, and payments electronically. Hard copy submissions will still be accepted, even after the implementation of GLS.

The GLS project team is taking several steps to ensure that the project is completed successfully. The application process is the bedrock of the Commission and Bureau's functions and workloads as the gaming regulators in the state. The Commission has roughly 15,000 licensed individuals and entities in the state, and they all rely on the application process to operate efficiently so they are able to work in the gambling industry.

One of the Commission's objectives from its Strategic Plan is to modernize technology systems to optimize data integrity, maximize productivity, and enhance user experience. The GLS project is intended to directly address that objective. However, overhauling the application process from paper to digital poses significant risks if not implemented correctly. Any defect or complication in the GLS could affect an applicant's application process and may affect their ability to attain or renew their license to work.

Control: User Testing and Training

The GLS project team will conduct user testing and training for their staff before making the GLS public portal active. The project team will also create user guides to send out to its stakeholders to educate them on how to use the GLS portal. In addition, the project team plans to roll the public portal out to select industry stakeholders early to assist with the testing process. This will allow stakeholders to provide feedback on the user friendliness of the system.

The GLS project team has already conducted proactive external user surveys to gauge interest in the system, and will implement a feedback mechanism to gather input from the public on their experiences with the portal.

Once the GLS public portal goes live, the project team will be able to address bug fixes and improvements and communicate them to the industry.

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.

The Commission's Gaming Policy Advisory Committee produced an educational document on cybersecurity and distributed it to the state's cardrooms, but it is purely advisory and educational.

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: Unused Office Space

In 2013, the Commission lost a significant amount of personnel due to the Governor's Reorganization Plan No. 2 (GRP 2), which shifted some personnel and duties from the Commission to the Department of Justice's Bureau of Gambling Control.

As a result of GRP 2, the Commission has excess unused office space. The Commission's situation is common among California state agencies, as the California State Auditor found in a review that 19 state agencies had 3.2 million square feet of unused office space—or about 58 percent of the office space allocated to these departments.

One of the Commission's Strategic Goals is to model fiscal responsibility and enhance operational efficiency. This strategic goal is at risk if the Commission, like many state agencies, pays rent for unused office space.

Control: Space Consolidation

The Commission's Operations Services Division is undertaking a Space Consolidation project to downsize the current office space into one more appropriate for the size of the Commission's workforce. By eliminating unused office space, the Commission will model fiscal responsibility by no longer paying for excess unused space.

Risk: Workforce and Succession Planning

The Commission's Workforce and Succession Plans historically have identified a lack of bench strength: throughout the organization there are a number of program experts who are the only experts within their respective program. If an employee separates from the Commission, either temporarily or permanently, historic program knowledge is at risk.

The Commission has addressed these risks by incorporating cross-training, back-up coverage plans, and auditing and updating all policies, procedures, and desk manuals. However, the issue has not been totally eliminated.

Additionally, as the Commission welcomes new hires, who do not yet possess in-depth program knowledge, training will be vital to ensuring the risk does not re-elevate.

Control: Knowledge Transfer Initiatives

One of the Commission's Strategic Goals is to champion a culture of continuous learning, development, and collaboration. To support this Strategic Goal and to address issues found in the Workforce and Succession Plans, the Commission implemented a number of initiatives to support the knowledge transfer from experienced employees to other staff.

These initiatives include:

- Brown Bag Sessions, which are hour-long training sessions on various topics,

- such as the rulemaking process, problem gambling, tech tutorials, and more.
- Mentorship Program, which encourages and provides employees with an opportunity to take advantage of the knowledge and expertise of their peers and leadership. Mentors also provide guidance to employees seeking career advice, skill enhancement, or supplemental advice on how to approach a specific project.

The Commission also anticipates implementing a Transition Binder project for the senior leadership positions. The Transition Binders will ensure that important information, such as historical timelines, policies and procedures, roles and responsibilities, and other institutional knowledge is preserved. As a result, when new hires are onboarded into senior leadership positions, they will have access to valuable institutional knowledge, easing their transition into their new role.

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.

Lisa Wardall, 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