

**PENNSYLVANIA GAMING CONTROL BOARD**



**REPORT TO THE GOVERNOR**

*AND*

**MEMBERS OF THE GENERAL ASSEMBLY**

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## **REPORT TO THE GOVERNOR AND MEMBERS OF THE GENERAL ASSEMBLY**

The following report is respectfully submitted in accordance with Section 1211 and 1212 of Act 71, The Pennsylvania Race Horse Development and Gaming Act ("Gaming Act"). The report is divided into two parts. Part 1 is responsive to Section 1211 of the Act in reference to the General Operation of the Board. Part 2 is responsive to Section 1212 of the Act in reference to the Boards work in the area of diversity.

### **PART 1**

#### **Report on the General Operation of the Board**

##### **Section 1211 of the Gaming Act states:**

Eighteen months after the effective date of this part and every year on that date thereafter, the Board shall issue a report to the Governor and each member of the General Assembly on the general operation of the Board and each slot machine licensee's performance, including, but not limited to, number and win per slot machine at licensed facilities during the previous year, all taxes, fees, fines and other revenue collected and, where appropriate, disbursed, the costs of operation of the Board, all hearings conducted and the results of the hearings and other information that the Board deems necessary and appropriate.

#### **General Operation of the Board**

As of January 4, 2006, the Pennsylvania Gaming Control Board (Board) has achieved significant progress toward the implementation of gaming in the Commonwealth. The following report sets forth those activities that have been undertaken and accomplished in the establishment of a strong foundation from which to commence gaming.

## **Accomplishments**

According to the Gaming Industry Observer, the three states to legalize gaming before Pennsylvania – Michigan, New Mexico and New York – each required more than two years from legalization to implementation.

The Board will match that performance while maintaining the most important mandate: protecting the people of Pennsylvania and licensing economically viable, reputable operators.

Fourteen (14) gaming facilities will anchor an industry that is expected to contribute some \$5.7 billion to Pennsylvania's economy annually, according to various experts. The industry will create 35,000 jobs and an additional 6,800 jobs in the Commonwealth's horse-racing industry will be preserved. A projected \$1.5 billion in tax revenues will fund property-tax relief for homeowners across the state, as well as local and statewide economic-development initiatives.

The following highlights are the key accomplishments that have been achieved by the Board over the last eighteen months.

### **Administration - Staffing**

The first state agency to be built from the ground up in more than thirty years, the Board is not unlike any start-up enterprise that is focused on achieving its goals and producing measured results. To assist this regulatory agency with its mission, the Bureau of Administration is responsible for its human resources, information technology and office service needs.

Starting from scratch literally means no computers, phones, desks, offices--- or even employees. Given that the first hurdle to overcome was the need for office space, the Bureau of Administration moved quickly to identify and build-out office space in Harrisburg and worked with the Department of General Services and

Department of Revenue to outfit the offices with furniture and IT equipment. Subsequently, the Board entered into an agreement for space in Conshohocken and is currently engaged in reviewing proposals for much needed additional office space in Pittsburgh and a second location in Harrisburg.

Given that Act 71 allows the Board to develop its own classification and compensation system, the Bureau of Administration is currently in the development stages of a new system that will meet some of the unique needs of the agency. The Human Resources staff has reviewed compensation models from other independent state agencies, and from other gaming jurisdictions, and will present the same to the Board and the Executive Staff for its review.

As with the development of any new business entity, technology plays an important role to help fulfill the core agency mission. In addition to providing the network and desktop support for the employees, the information technology staff will work with the Bureau of Licensing and the Bureau of Investigations and Enforcement on the development a comprehensive applicant tracking system that will eventually assist in the processing of more than 35,000 applications each year. Additional databases and programs will need to be developed as the agency continues its growth.

Attracting a top-rate staff requires the dedication of significant time and energy to interview and evaluate candidates in numerous disciplines, and for literally dozens of positions. Beginning with the creation of a talent bank database, the Bureau of Administration has entered more than 1700 applicants based on area of interest and expertise. From that pool of applicants, the agency has conducted more than 600 interviews and has now filled more than 151 positions—including the top three positions-- Executive Director, Chief Counsel and Director of the Bureau of Investigations and Enforcement--in which the agency partnered with outside search firms.

In addition to finding staff that have expertise in their particular field, the Board is particularly proud to have attracted top talent from other gaming jurisdictions---allowing this new agency to overcome some of the learning curve that is inevitable when creating something new. For example, our Executive Director, Anne LaCour Neeb, most recently was the Executive Director of the Louisiana Gaming Control Board, and was a former prosecutor with a strong record of integrity and results. Additionally, before coming to Pennsylvania to lead our Bureau of Gaming Laboratory Operations, Richard Williamson worked for nearly three decades in the New Jersey Department of Gaming Enforcement. Top staff with gaming expertise also serves in our Office of Chief Counsel and assist with the ongoing work of drafting regulations and procedures for the implementation of gaming.

The Bureau of Investigations and Enforcement (BIE) has attracted individuals from a variety of law enforcement backgrounds. Currently, BIE has seven individuals previously employed by the Federal Bureau of Investigation, eight individuals from police departments in various parts of the state. Several former policemen are also graduates of the Federal Bureau of Investigation National Academy in Quantico, Virginia. In addition numerous individuals have served as the Chief of Police in various jurisdictions throughout Pennsylvania.

BIE also has employees who have served in the following capacities:

- United States Postal Inspector
- Regional Security Officer in the Department of State's Diplomatic Security Service
- Securities Compliance Investigator for the Pennsylvania Securities Commission
- Welfare Fraud Investigator in the Pennsylvania Office of Inspector General
- Narcotics Agent for the Pennsylvania Office of Attorney General
- District Justice in western Pennsylvania

- Investigator with the Criminal Investigations Division in the Internal Revenue Service
- Commander in the City of Pittsburgh Police Department
- Liquor Enforcement Officer with the Pennsylvania State Police
- Lieutenant with the New Jersey State Police assigned to the Gaming Enforcement Division in Atlantic City
- Assistant Agent in Charge of the FBI Pittsburgh Office
- Deputy Chief with the Pennsylvania Office of Attorney General.

In the area of financial accounting and investigation, BIE has an impressive team of individuals with experience in financial analysis and investigations and internal controls. Many are Certified Public Accountants with extensive accounting experience. Previously held positions include:

- Acting Director of Fiscal and Office Services in the Governor's Office of Administration
- Auditor in the National City Bank of Pennsylvania
- Audit Supervisor with the Bureau of Audits in the Pennsylvania Treasury Department
- Director of Billing Services with Metro Teleconnect Companies
- State Auditor for the Pennsylvania Auditor General's Office
- Forensic Accountant in the Pennsylvania Office of Attorney General
- Auditor with Price Waterhouse Coopers
- Manager of the Trust Investigations Service Area with PNC Bank
- Special Agent Accountant with the Federal Bureau of Investigations.

BIE hired several individuals with extensive gaming industry experience from other states. For example, Gaming Laboratory Operations consists of Engineers and a Statistician from the Division of Gaming Enforcement in New Jersey. Also hired was an individual that has experience working with various gaming groups in Nevada, Louisiana, and New Jersey; including MGM, Capital Gaming, Showboat Star Casino and Trump Taj Mahal.

## **Investigations and Enforcement**

Act 71 created the Bureau of Investigations & Enforcement (BIE) with the primary mandate of insuring the integrity of the Commonwealth's Gaming Industry through suitability investigations of gaming operators, their key employees and key employee qualifiers to determine their business viability and suitability for licensing. BIE also performs similar suitability investigations for manufacturers, junketeers and other entities interested in conducting business within Commonwealth's Gaming Industry. BIE will work in conjunction with the PSP to investigate suppliers and vendors. BIE investigators must conduct their investigations in accordance with the highest ethical standards of honesty, objectivity and integrity. Through these practices, gaming in Pennsylvania will be free from corruption and criminal influences which are essential to insure public confidence.

Act 71 effectively created a statewide gaming industry locating casinos in multiple statewide geographical areas. To allow BIE to be geographically positioned and ensure that Board is able to efficiently address suitability investigations and the regulation of casinos, the Board established Eastern, Central and Western Regional offices.

BIE managers reviewed hundreds of resumes, interviewed numerous well qualified applicants and hired a complement of highly skilled professionals from a variety of backgrounds which brought needed expertise to all levels of the background suitability investigations and the casino regulatory process. BIE staff includes lawyers; accountants; individuals with previous gaming expertise; former federal law enforcement officers from the F.B.I., I.R.S, and Secret Service; and former police officers from Philadelphia, and Pittsburgh Police Departments as well as numerous other Pennsylvania Police Departments.

BIE created an intake process to support an efficient method of receiving applications from the Bureau of Licensing (BOL), the assignment of investigations, and the preparation of an investigative report. A database was created for the



efficient control and flow of information. BIE investigators are assigned an investigation and interact with BOL's analytical team throughout the process. Investigatory protocols have been established and a method of disseminating information to the Pennsylvania State Police (PSP) has also been created. Acting from BIE's referral forms, PSP will conduct all criminal background investigations, fingerprints and photographs of gaming applicants.

One important cornerstone of the BIE's ability to successfully regulate the gaming industry is the coordinated relationship with the PSP. The Board and PSP entered into an "interagency agreement" on December 12, 2005, which sets forth the procedures to be used by the PSP and the Board in carrying out their respective duties under Act 71. Particularly, four main procedural categories are dealt with in the interagency agreement: (1) fingerprinting, photographing and handwriting exemplars of applicants and board employees; (2) background investigations of applicants and board employees, as directed by BIE; (3) criminal investigation and enforcement by PSP at licensed gaming facilities; and (4) Board's reimbursement of cost incurred by the PSP for duties performed pursuant to Act 71 and the interagency agreement.

The interagency agreement represents a collaborative effort between the PSP and the Board and symbolizes the continued commitment of both parties to work together in order to satisfy the requirements of Act 71 and to ensure the continued success of gaming in Pennsylvania.

In addition to the PSP interagency agreement, the Board entered into contracts with the investigative firms of Manuel, Daniels, Burke International, LLC ("MDBI") and OMNISEC for professional and investigative services. Because of the time and manpower constraints the contracts were rendered under the "Emergency Contract" provision of the Commonwealth Procurement Code.

The investigative firms of MDBI and OMNISEC will perform comprehensive due diligence investigations of their assigned applicants for manufacturer licenses.

A due diligence investigation is the verification of information in order to evaluate and minimize risk by ensuring the credibility and licensing ability of all companies and individuals with whom an entity conducts business. MDBI and OMNISEC will consult with BIE to determine the investigative techniques that will be utilized in conducting due diligence investigations for each individual applicant. Areas of concern or derogatory findings discovered during the course of an investigation will be brought immediately to the attention of BIE for consultation and resolution.

BIE, together with its Office of Enforcement Counsel, is actively engaged in discussions with gaming regulatory agencies in other jurisdictions to negotiate agreements concerning BIE access to the investigatory files in the possession of these agencies in order to facilitate the background investigations that are and will continue to be conducted by MDBI, OMNISEC, PSP and the Board. These discussions will be ongoing as the needs of BIE dictate.

The process of building BIE as a new investigatory entity in Pennsylvania has incorporated many functions. In addition to establishing investigatory protocols, BIE managers have dealt with personnel issues such as job descriptions, code of conduct, policy and procedure manuals and performance appraisal reports. An Internal Affairs function was created to deal with potential personnel complaints and discipline. An Intelligence Officer was named and will have the direct responsibility of interacting with the PSP and other law enforcement agencies to insure that BIE complies with all elements of the CHRIA statute.

Beginning January 23<sup>rd</sup> and continuing through February 3<sup>rd</sup>, an extensive and intense training academy was conducted for BIE investigators, supervisors and support staff.

Speakers and attendees included Chairman Tad Decker, Commissioner Ken McCabe, Commissioner Sanford Rivers, Commissioner Jeff Coy and Commissioner Mary Colins and Board Executive Director Anne Neeb. Instruction

was provided by Director of Gaming Lab Operations, Richard Williamson; Director of Corporate Compliance and Internal Controls, Denyse Miskin; Chief Enforcement Counsel, Mike Schwoyer; Director of Hearing & Appeals, Mike Edmiston; Director of Communications, Nick Hays; Director of Licensing, Susan Hensel; Deputy Chief Counsel, LaMonte Williams; Consultant to the Board, Lynn Stelle; PA State Police Captain Tim Allue; Vice President of Choice Point, Chuck Campbell; and an assortment of high level agents from various federal agencies including the FBI and US Attorney's Office. Gaming companies such as Mars Electronics and Alliance Gaming were also represented.

Course content included, but was not limited to, law and agent authority/responsibility, ethics, background investigations, slot operations and slot monitoring systems, gathering and processing financial information, organized crime, terrorism, operational gaming, casino crime and slot cheats, licensing, financial due diligence investigations, gaming regulations, diversity, communications and legislative process. One of the more memorable moments occurred during an FBI presentation. An individual who is currently in the Federal Witness Protection Program was introduced to an audience including newly hired BIE staff, PSP troopers who are members of this agency's Gaming Enforcement Unit, Corporate Compliance and Internal Controls personnel and personnel from the Bureau of Licensing. The "snitch" described his rise to prominence in La Cosa Nostra and his criminal actions targeting casinos throughout the country.

During the training academy the Financial Suitability Task Force training was also completed. The Task Force is discussed in detail in the section on the Bureau of Corporate Compliance and Internal Control and will focus primarily on financial statement analysis utilizing analytical tools to study historical and estimated financial performance.

A common thread throughout the training was the absolute necessity of all individuals associated with gaming in Pennsylvania to conduct their professional and personal lives with the highest standards of integrity. Attendees were

frequently reminded that their call to service demands constant vigilance so that their ethical standards will never become an issue.

## **Investigations and Enforcement Counsel**

Act 71 provides for the rigorous and thorough regulation of the slot machine gaming industry in the Commonwealth of Pennsylvania. The Act charges the Board with this mission. To assist the Board, the Act grants the specific power and duty to create within it the Bureau of Investigations and Enforcement (“Bureau”) and further directs the Board to promulgate regulations pertaining to the operation of the Bureau to insure separation of functions between the Bureau and the Board.

On September 28, 2005, the Board adopted temporary regulations promulgated pursuant to Act 71, to establish the Bureau and to establish the Office of Enforcement Counsel as a separate office within the Bureau.

When these regulations were initially presented to the Board in order to authorize the solicitation of public comment, the Office of Enforcement Counsel was described by Board Member Mary Colins as the “prosecutorial arm of BIE” and the director of the Office as the “chief prosecution counsel for the Board.” Board Member Colins also explained that the purpose and intent in promulgating the chapter in the regulations containing the specific regulations mentioned above was to ensure at all times the appropriate separation of BIE from the Board to ensure compliance with the decision of the Pennsylvania Supreme Court in Lyness vs. State Board of Medicine, 605 A.2d 1204 (Pa. 1992). The Court held in Lyness that the commingling of prosecutorial and adjudicative functions is a violation of due process under the Pennsylvania Constitution and therefore any state entity which prosecutes matters is required to have a group of individuals or an entity that is completely separate from the individuals adjudicating the matter. The Board serves as the adjudicator in regulatory matters under Act 71 and the Bureau is the separate investigatory entity. The Office of Enforcement Counsel is the legal

advisor to the Bureau and charged with the duty to prosecute regulatory violations of Act 71.

Specifically, section 405.3 (a) of the Board's regulations creates the Office of Enforcement Counsel within the Bureau and sets forth the powers and duties of the Office. Section 405.3 (b) provides that the Board shall select an attorney admitted to practice before the Pennsylvania Supreme Court as Enforcement Counsel who shall be the Director of the Office of Enforcement Counsel. Enforcement Counsel reports directly to the Board's Executive Director on administrative and operational matters.

The powers and duties of the Office of Enforcement Counsel are as follows:

- (1) Advise the Bureau on all matters, including the granting of licenses, permits or registrations, the conduct of background investigations, audits and inspections and the investigation of potential violations of the act.
- (2) File recommendations and objections relating to the issuance of licenses, permits and registrations on behalf of the Bureau.
- (3) Initiate, in its sole discretion, proceedings for violations of the act by filing a complaint or other pleading with the Board seeking civil fines or penalties, the imposition of conditions on licenses, or the suspension or revocation of a license.
- (4) The Office of Enforcement Counsel may seek a settlement that may include fines, penalties or other actions subject to approval by the Board.

Since establishment the Office of Enforcement Counsel has diligently worked to support the Bureau in all of its functions by providing sound legal advice and representation.

Accomplishments and tasks of note are as follows:

- The negotiation, drafting and execution of an Interagency Agreement between the Board and the Pennsylvania State Police (“PSP”) providing for the reimbursement to the PSP of the costs incurred in the conduct of background investigations and other PSP duties performed pursuant to the direction of the Board and PSP’s duties under Act 71.
- The development of policies and procedures pertaining to the operation of the Bureau including the fingerprinting and photographing applicants, compliance with the Fair Credit Reporting Act.
- The drafting of forms and letters necessary to facilitate the conduct of background investigations on persons who file applications with the Board, such as release authorizations, credential letters and liability waivers.
- The development of Board regulations.
- The preparation and provision of instruction at the Bureau’s training program for newly hired investigators concerning Act 71 and the duties and responsibilities of Bureau agents.
- The coordination of contacts with gaming regulatory agencies in other jurisdictions to establish guidelines for the exchange of information with these agencies in an effort to secure the Bureau’s access to the information and files of these agencies.
- The negotiation, drafting and execution of contracts and other documents necessary to secure goods and services, including the

Board's Applicant Photo and Credential System and contracts between the Board and the investigative firms of MDBI and OMNISEC which secure the services of these firms to assist with the conduct of background investigations on persons who have filed manufacturer applications with the Board.

## **Licensing**

Since the Board first met in December 2004, efforts have been underway to build a Bureau of Licensing. Shortly after the first Board meeting, staff reached out to other jurisdictions for assistance in laying the foundation for the Bureau.

The effort was spearheaded by, Susan Hensel, Director of Licensing. Ms. Hensel had spent several months serving as Special Assistant to the Secretary of Revenue. Immediately prior to joining the Department of Revenue Hensel served as an Assistant General Counsel in the Governor's Office of General Counsel.

One of the first steps to building the Bureau was identification of the various procedures that would be necessary for the Board to accept and process licensing applications. Jurisdictions consulted were Nevada and New Jersey with New Jersey serving as an ongoing resource during the Bureau's start up.

As the coordinator of all applications received by the Board, the Bureau must interact with all of Board's divisions. While the Bureau is involved in the applications from the time they are received until the time they are acted on by the Board, the work does not begin or end there. Prior to the filing of the applications, the Bureau answers inquiries and provides guidance to prospective applicants. Once licensed, the Bureau must ensure the licensee is in good standing or recommend action be taken to bring the licensee into compliance.

As the first stop for all applications the Bureau knew very early on that it had to put in place a plan for physically accepting and storing what would at least

initially be paper based applications, develop an intake process to docket and track the applications, and set up accounts in which to deposit fees. The Bureau also had to determine a procedure to thoroughly process all applications received.

Fundamental to the accomplishment of these tasks was the development of a database. While the goal is to work in as paperless an environment as possible, limited information technology resources forced the Bureau to think creatively to develop an interim solution. With the assistance of April Fegley, Special Assistant to Licensing, an initial database design was conceived. The Board then utilized Sean Hannon as a resource database expert and now a manager within the Bureau of Licensing. The database, though still an interim system, has evolved into an integral tool utilized by several Board Bureaus. By starting early on the development of the database, the Bureau had in place, in time for the arrival of the first applications, a tool to track all fees paid, all applications received and critical data concerning each applicant. At the same time, the Bureau has been exploring a technology solution to eliminate its paper files, including working with the Michigan Gaming Control Board in an effort to take advantage of the customized document management system it uses to support the agency.

Simultaneous with construction of the database was the development of the applications themselves. The initial manufacturer application was actually a package of applications consisting of an application for the manufacturer applicant itself and separate applications for all of its key employee qualifiers, key employees and gaming employees. Nan Horner, with experience including counseling tribal, state and foreign government and gaming industry clients, has lead the development of our applications as Deputy Chief Counsel for Licensing. Working with paralegal Deb Joyce, Ms. Horner developed the applications for Manufacturers, Category 1, 2 and 3 operators, Suppliers, and Vendors. Applications are also under development for junkets and nongaming registrants.

As work proceeded on the applications, the Bureau focused on creating a manual to direct hired licensing analysts on the standards to be used to review the



applications. The first manual focused on manufacturer applications and additional manuals focused on Category 1, 2 and 3 applications, vendors and suppliers. The core of each manual provides a checklist to direct the analysts through each step in the intake process and through the completeness review of each application in each application package. The completeness review checklists are specifically tailored to each application, tracking every question or request for information in the applications. The checklists advise the analyst to assess whether the answer or documentation provided in response to the question or request is in fact “complete.” The manual also instructs the analysts on how to create entity profiles of the applicant company. An entity profile assists the Bureau in determining whether the appropriate entities and natural persons have submitted application or whether more must be licensed.

In addition, the manual contains letter templates that form the starting point for communication with the applicant. For example, following a completeness review, the analyst prepares a “deficiency letter” to the applicant advising them of additional information or documentation required to complete the application. The deficiency letter begins what becomes an ongoing dialogue between the analyst and the applicant to fill in the deficiencies in their applications.

Additional instructional information available in the manuals include workflow charts of how applications move through the Bureau and throughout the agency, database instruction, job descriptions, an overview of the hearings and appeal process, sample applications and regulations specific to the type of manual. Bureau staff constantly works to update and improve the various manuals. Because the Bureau is committed to constant improvement, analysts are encouraged to bring their ideas for new and better ways to complete tasks to their supervisors. Identified improvements are then incorporated into Bureau procedures. In keeping with its theme to leverage technology, the Bureau is now producing its manual electronically.

As the various processes were developed, the Bureau hired and trained a staff of licensing analysts and administrative support personnel. Along with a specially developed orientation program, the analysts benefit from investigation specific accounting training that assists them in evaluating the complex financial data contained in each application. The analysts have also benefited from financial investigation training.

The Bureau currently includes two managers, a special assistant, approximately sixteen analysts, and four administrative staff who make up the Bureau. One manager, Sean Hannon, oversees Enterprise Licensing while the other, Bill Kunkel, oversees Vendor Licensing. Ms. Horner, Deputy Director of Licensing and Compliance and four licensing attorneys serve as advisor and special counsel to provide assistance concerning daily operational and legal questions that arise in both the analysts' review of the applications and from current and prospective applicants.

The first applications to come into the Board were the manufacturer applications, which were due August 15, 2005. Once through the intake process, the newly trained licensing analysts reviewed the applications scrutinizing for the smallest missing detail. When the analysts finished, the applications were delivered to the BIE for investigation.

Work is ongoing on the Category 1, 2 and 3 applications, which were due to the Board on December 28, 2005. Applications are also expected in the very near future for Suppliers, Vendors, Management Companies, Junkets and Gaming Employees.

In preparation for the award of licenses, the Bureau is working to develop the physical licenses that will be awarded to the licensees. In addition, the Bureau, in conjunction with BIE is working to obtain the technology and equipment necessary to create credentials for those individuals who will be working in a licensed slots facility.

## **Gaming Laboratory Operations**

The Bureau of Gaming Laboratory Operations is developing the technical standards which will govern the manner in which slot machines will operate in the Commonwealth. The technical standards are being drafted in conjunction with the creation of internal controls which are specific procedures intended to insure the integrity and ability to audit the casino operations. The Bureau has also been involved in working with prospective operators with regard to technical issues pertaining to facility designs and the development of operating plans for associated equipment. Extensive work has been accomplished in conjunction with Department of Revenue personnel in the development of the central computer operation. On-going training of new staff continues to provide personnel with an understanding of the processes and information sources associated with slot machines.

### **PERSONNEL**

When the Supreme Court case was settled, the Board proceeded with hiring key individuals for the agency. Interviews conducted prior to the Supreme Court's decision enabled quick action to bring some experienced personnel to the agency. In particular, the Board hired Richard Williamson as Director of the Gaming Laboratory Operations. Mr. Williamson has 25 years of experience with the New Jersey Division of Gaming Enforcement, a casino regulatory agency under the New Jersey Attorney General.

Mr. Williamson an accountant with a degree from Rutgers, began his association with DGE as an auditor where he conducted operational reviews at the casino properties and evaluations of existing and proposed internal controls. In 1984, agency officials transferred Mr. Williamson to what was then called the Slot Machine Unit for the purpose of being its administrator. The Slot Machine Unit became the Electronic Games Section and ultimately the Technical Services Bureau. The evolution of the operation was actually in the manner of

accomplishing the product evaluations and in the preparation of new rules to accommodate the advances in technology.

During Mr. Williamson's tenure at DGE, he directed the incorporation of several slot machine technological advancements including the virtual reel technology (Telnaes patent) which was a milestone in the evolution of slot machines. The virtual reel feature required extensive new regulations and testing procedures to insure its integrity due to the many related issues; i.e. mapping, near-miss, changing probabilities, volatility, maximum odds, game-within-a-game and mixed odds. Other slot machine innovations included credit meters, bill validators, on-screen changing pay tables, standardization of tower light functions and many more complex issues. The introduction of voucher payments (ticket-in, ticket-out) and downloadable credits were the precursors to both server based gaming and downloadable game software.

All changes to the operation of the bureau were administered by Mr. Williamson. The need to add statistician's to the staff for review of the methods used by slot manufacturers for game play payout proved critical in many issues to determine the fairness of the available awards. In addition, the complexity of the procedures and volume of information necessary to review the games in the casinos prior to their availability to the general public necessitated acquiring a software tool-maker to catalog, maintain, train and distribute the information necessary for examining the gaming equipment. Many innovative procedures were implemented to optimize personnel and the whole review process in order to shorten the time to market for the products submitted for approval. Mr. Williamson is using his experience in New Jersey to streamline the process in Pennsylvania by utilizing provisions in the Act that permit accepting approvals of peer jurisdictions.

During Mr. Williamson's tenure at the DGE, he worked with many regulators from around the world, both emerging and established, to develop common procedures and standards which became the lynchpin to a strong regulatory

approach to ensuring the integrity of the gaming operation while being able to help the manufacturer's get product to market quickly to the benefit of the casino operators.

The Board has taken steps to insure that the Lab staffed with experienced personnel and therefore, with the recommendation from Director Williamson, made offers to three key people who have experience in the conduct of a government gaming lab. The Bureau is now prepared to deliver slot machine certifications in conjunction with the issuance of the casino licenses. The Bureau's primary responsibility is to insure for the general public that the slot machines and ancillary equipment operate in compliance with adopted rules. The Bureau also recognizes the licensed gaming entities as the consumer of these gaming products. The manufacturers submit products to maintain an inventory of available approved products. As there are no products currently approved in Pennsylvania the number of products to be tested will be significant and could be in the thousands. The credentials of the lab's staffing will be software/electrical engineers and statisticians. Some technicians will be used to handle issues at the casinos and to assist in the gathering of evidence for regulatory or criminal investigations.

### **THE ROLE OF THE LAB**

No bureau within the Board has a more direct role in guaranteeing the operational integrity of the slot operations than the Gaming Laboratory Operation (GLO) located in Harrisburg, more commonly known as the Slot Lab. Its mandate is to test, evaluate and insure the integrity of any electronic gaming equipment utilized by slot machine licensees of the Commonwealth. Initially, this mandate will largely involve the testing and evaluation of slot machine prototypes and the gaming theme programs through which the various payout percentages available on each prototype are defined. In addition to the slot machines are the systems which have the full-scale embrace by the casino industry. The systems were originally utilized exclusively for player tracking and promotional purposes; however, slot monitoring systems have, in the last five years, evolved into a core component in an interconnected maze of peripheral systems driving such gross

revenue impacting events as the issuance and redemption of gaming vouchers and the count rooms' certification of revenue. As such, the slot monitoring systems are all now subject to testing and review by GLO. The Slot Lab's workload from this product development alone will be substantial. However, these systems are not the only source of new innovation. In the past five years, the industry has also seen phenomenal developments involving electronic funds transfer systems, progressive controller units, bill validation technology, bonusing systems and server based or downloadable capabilities. All of these innovations fall within GLO's mandate to ensure the integrity of electronic gaming equipment.

Rule making is also a large part of the process with each new innovation. In many cases the existing rules do not preclude a new product but, due to the technological nature of the equipment or software, rules are deemed necessary often as a consumer protection aspect of its operation. Integrity of the gaming operation governs any decision to permit a product to be used in by a licensed gaming facility.

#### **CENTRAL CONTROL COMPUTER**

The Department of Revenue is responsible for operation of the central control computer (CCS). This equipment will be located in Harrisburg and will be the conduit for obtaining all revenue information which will be used to collect the taxes on gross terminal revenue on a daily basis. The operation of the CCS will be conducted by employees of the company selected by the Department to provide and maintain it. Since announcing the contractor of the CCS, the Department has hosted a series of meetings with the contractor of the CCS in which personnel of many agencies were involved to define the manner in which the system will be configured. The Board was represented at all these meetings to offer insight to the process. The CCS will ultimately generate a plethora information which will be used by Commonwealth employees representing several agencies. The specifics of the information deemed essential and how it is gathered, disseminated and stored has occupied many hours of review and discussion.

The Department also has the responsibility for governing what access, if any, each Commonwealth employee has to the CCS on-line information and the extent of that access. The Board has the responsibility to certify that all slot machines for use in this Commonwealth are compatible and comply with the central control computer and protocol specifications approved by the department. This certification process will occur in the Board's lab and the results will be conveyed to the Department for use in the operation of the central control computer room.

One of the main functions of the CCS will be its capability to verify on-line, real-time whenever the Department deems appropriate the programs that will be resident on the slot machines. This process will begin by the evaluation performed in the lab at which time an electronic signature will be obtained. Simultaneously with the product approval, this information will be transmitted to the Department for use in the CCS. The two-way communication between the CCS and each slot machine in the Commonwealth will provide assurance that the slot machine programs have not changed. Any changes that are discovered through this process will render the game inoperable and will launch an investigation.

### **Slot Lab Procedures**

Since 2000, the manufacturers have increased the production of products through their own development innovations which increases the volume of the products submitted to all testing labs for review. With increased volume comes a more complex product with innovative features to offer unique bonus rounds or novel approaches to achieving awards. The nature of the lab development is essential to foster the ability to preserve the integrity of the evaluation process yet be responsive to the industry for it to remain competitive. In addition to the proper staffing, the physical format of the lab will provide the ability to perform all the necessary tasks in the most efficient manner to meet the goals of quality and quantity. To achieve these goals, the burden does not rest solely on the lab

personnel and procedures. It is the manufacturers who submit products to the lab that now readily acknowledge their responsibility to submit a quality product in order for the lab to achieve its responsiveness and its commitment to ensuring that Pennsylvania casino operators maintain a competitive edge through full and timely access to the latest gaming technology.

To that end, the Bureau will utilize a prototype submission process designed to enhance the overall quality of products submitted to the Lab for review. To reduce the number of products rejected due to operational deficiencies, the manufacturers are provided with checklists which mirror not only the minimum standards for each product but include testing procedures conducted in the laboratory environment. This process has raised the bar for the manufacturers. Each submission is required to be accompanied with documentation supporting the manufacturer's own testing of the product, including specifics of the testing methodology and the test results. The linchpin of this submission process is the requirement that the chief engineer of the product manufacturer provide a certification of compliance. This does not guarantee perfection but it goes a long way to receiving a product that is more thoroughly tested. All required emulation must be performed to the procedural standards specified in the Board's product submission procedures. Manufacturers do respond to this certification requirement and create compliance and testing departments which are not subordinate to the sales or marketing departments. This procedure has a track record of creating measurable improvements in the quality of the products submitted. Consequently, these improvements in initial quality will translate into improved turnaround times on product submissions.

### **Future Products and Systems**

The Slot Lab will continually receive a steady stream of technologically sophisticated and innovative products and systems which are all designed to enhance the player experience and/or the revenue impact of electronic gaming



devices. Among the most noteworthy are up-loadable slot accounts, cashable and non-cashable gaming vouchers, and downloadable slot games.

Up-loadable slot accounts, if permitted, would enable a patron to leave their gaming funds on account at the licensed property. Currently very few jurisdictions permit this but, like using ATMs, the technology is available and the slot machines are capable of issuing a receipt for such transactions. By far the most sweeping change currently under consideration involves downloadable slot machines. This technology will, for all intents and purposes, revolutionize slot management as it will enable managers to undertake substantial reconfiguration of their slot floors simply by deleting the existing software on a particular slot machine and installing new software from a central server on which approved programs would reside. The server would reside in the IT department of a licensed facility and be managed by the slot department. The changes made will be based on statistical analysis which is extracted from the gaming operation. This innovation will also allow slot managers to change percentages or to tailor games to an individual player's preferences. While there are numerous security and regulatory issues to be resolved, GLO will continue to evaluate this technology, evaluate its applications in peer jurisdictions and determine if potential Pennsylvania licensees are interested in such a product in order to develop and adopt the rules to maintain the competitive edge in this jurisdiction.

### **Regulations: Manufacturer, Supplier, Vendors, Category 1, 2, and 3.**

Pursuant to 4 Pa.C.S. § 1203, the Board is authorized to promulgate temporary regulations for a two year period ending on July 5, 2006. The purpose of this authorization is to “facilitate the prompt implementation of [the act].” See 4 Pa.C.S. § 1203(a). The temporary regulations are not subject to sections 201 through 205 of the Commonwealth Documents Law and the Regulatory Review Act. Based on this authority, the Board has promulgated approximately 20 chapters of regulations implementing the provisions of Act 71.

The Board developed an initial strategy for drafting and adoption of regulations. The strategy required a specific timeline for each group of regulations in order to comply with the statutory time requirements for application submission and license issuance. Specifically in section 1306 of the act, the Board is required to “consider, approve, condition or deny the approval of all filed applications for manufacturer and supplier licenses as soon as administratively possible and at least three months prior to the Board’s approval of any [slot machine license].” See 4 Pa.C.S. § 1306. The objective in creating and adhering to a timeline was to develop regulations simultaneously with licensing applications and create a uniform regulatory and licensing process.

The Board considered and reviewed numerous existing regulatory formats in developing its regulations. The Board considered regulations promulgated by state agencies within the Commonwealth that have similar licensing and quasi-judicial functions such as the Public Utilities Commission, the Liquor Control Board, the Department of Transportation and the Bureau of Professional Licensing. Additionally, the Board reviewed the regulations of a number of gaming jurisdictions including New Jersey, Louisiana, Michigan, Mississippi, New Mexico and Nevada.

As a result the Board selected various regulations from these bodies as models for drafting a regulatory model. At the same time, the Board recognized the nuances in Act 71 that are unique to Pennsylvania and created regulations to comply with these provisions.

Due to the existence of litigation against the Board which delayed the hiring of necessary personnel and in part to the newness of the agency and the gaming industry in Pennsylvania, the Board enlisted the assistance of a “volunteer” legislative working group to draft the initial body of regulations. Many of these staff members participated in the drafting of Act 71 and provided a great deal of invaluable insight into the legislative history and the provisions of the act. These working group members included the following senior staff:

- Fran Cleaver, Esq., Executive Director & Counsel to the Senate Consumer Protection and Professional Licensure Committee
- George Bedwick, Esq., Legal Counsel to the House Democratic Whip
- Audrey Powell, Policy Director for the House Democratic Leader
- Michael Schwoyer, Esq., Formerly Chief Counsel to the House Judiciary Committee
- Kathy Eakin, Esq., Deputy General Counsel to the Senate Majority Caucus
- Nora Winkelman, Esq., Executive Deputy General Counsel to the Governor
- Christopher Craig, Esq., Counsel to Senator Vincent Fumo
- Steve Tuckey, Esq., General Counsel to the House Majority Caucus

The working group and Board staff drafted the first series of regulations governing Board administration, application requirements, license requirements, supplier license requirements, manufacturer license requirements, employee licensing, women and minority business participation, diversity plans and practice and procedure before the Board. The draft licensing regulations were created in conjunction with the licensing applications for manufacturers and suppliers. During the public comment period, the Board published alternative regulations for the licensing of suppliers, which included a regionalization plan. The Board received over 20 public comments from various industry representatives, concerned citizens and public officials. The Board considered all public comments submitted, amended the regulations based on the public comments and published its responses to the comments. On June 16, 2005 the Board adopted its first body of temporary regulations. In addition, the Board opened the application process for manufacturer licenses with a deadline of August 15, 2005.

After the adoption of first series of regulations, the working group and Board staff began drafting regulations pertaining to general slot machine licensing and Category 1 slot machine licenses. Based on public comments offered by Senator Fumo, the Board also created a chapter of regulations pertaining to compulsive

and problem gambling. The Board received substantial public comment on the draft regulations, responded to the comments submitted and amended the regulations. On July 21, 2005, the Board adopted this body of regulations. These regulations served as the basis for the creation of the operator applications.

Following the adoption of the slot machine licensing regulations and the Category 1 license regulations, the working group and Board staff focused on the Category 2 and Category 3 licensing regulations and the establishment of the Bureau of Investigations and Enforcement. The Category 2 and Category 3 licensing regulations were closely aligned with the geographical and accommodation statutory requirements.

In developing the Bureau of Investigations and Enforcement regulations, the working group and Board staff considered a number of factors affecting the structure of this Bureau within the Board including the respective roles of BIE and the Pennsylvania State Police and a procedure for ensuring compliance with the mandates of the *Lyness* decision which requires a separation of the adjudicative and prosecutorial functions of a state agency. The Board promulgated the regulations by publishing the regulations for a 30-day public comment period, accepting and responding to public comments and amending the regulations. The Board adopted this series of regulations on September 28, 2005.

Once the licensing process was in place for all of the statutorily required licenses, the Board then focused on other areas of the gaming industry which require license oversight. The first series of regulations developed in this area pertained to vendors. These regulations were drafted to regulate entities involved in the gaming industry, usually providers of goods or services to slot operators, who were not covered by the manufacturer or supplier license requirements.

In developing these regulations the Board wanted to encourage the participation of small businesses and was cognizant of the potentially large number of vendors that would be regulated under this model. Therefore the Board

required vendors to be “certified” and “registered,” rather than licensed by the Board, in order to allow these entities to be subject to four year renewal rather than yearly renewal as required of licensed entities by the act.

The regulations were again promulgated in the same manner, allowing for a public comment. On November 2, 2005, the Board also announced that the slot machine license application process would be opening in the coming months.

With slot machine license application period approaching the working group and the Board staff focused on sections 1328 and 1330 of the act, which pertain to change in ownership or control of slot machine licensee and multiple slot machine license ownership. The Board staff reviewed this regulation at the September 28<sup>th</sup> public meeting. This regulation was subject to the public comment period and Board response. The Board adopted this regulation at the November 17, 2005 public meeting.

The Board staff also drafted regulations pertaining to licensing junket enterprises and junket representatives and created a regulatory model and reporting schedule for the movement of slot machines within the Commonwealth. These regulations were also subject to a public comment period and Board response. These regulations were adopted at the November 17, 2005 public meeting.

Currently the Board is revising regulations governing the hearings and appeals process. The regulations will govern the petition process and the conduct of hearings before the Board. The regulations will likely be finalized and subsequently considered by the Board for adoption in the near future. The regulations will be processed in the same manner with a 30-day public comment period.

## **Regulations: Internal Controls and Audit Protocols**

Act 71 also requires a “person” seeking a slot machine license to obtain the Board's approval of “ . . . its proposed site plan and internal control systems and audit protocols . . .” prior to commencing operations at a licensed facility. §1322. To meet these requirements the Board is drafting accounting and internal control regulations as well as regulations defining design standards applicable to the licensed facility.

The gaming entity accounting and internal control systems have been crafted taking into consideration the experience and information received from New Jersey. They will insure the complete and accurate reporting of gross terminal revenue as well as the auditability of the systems and procedures. The Board’s regulations ease of access to new technology for the operator and be capable of efficient and cost-effective implementation.

To date, the Board has adopted temporary regulations dealing with the following:

- Possession and movement of slot machines,
- The sufficiency of accounting records,
- The review and approval of a slot machine licensee's initial system of internal controls,
- The filing of audited financial statements and statistical reports, and
- Record retention and complimentary reporting.

The Board has also adopted provisions requiring the concurrent filing with the Board of copies of any federally mandated Currency Transaction Reports and Suspicious Activity Reports. See §463.1 through §463.6 and §465.1 through §465.9.

Temporary regulations applicable to the physical layout and design of the licensed facility have been adopted and cover topics including alarm systems, specifications applicable to the provision of on site office facilities for use by the Board, the Department and the Pennsylvania State Police and emergency communication systems.

Regulations have also been adopted which address the required surveillance system, the use of an analog or digital systems, minimum retention standards for surveillance recordings, surveillance department minimum staffing and system failure protocols. The Board has also adopted its first technical standard dealing with digital video recording format in an effort to provide guidance to the industry on such technical specifications as expected frames per second and visual resolution. See §456.10 and 11.

Board staff is currently drafting additional regulations addressing the following topics:

**Operational Structure.** These regulations will specify reporting requirements applicable to six mandatory departments: Information Technology, Internal Audit, Security, Slot Accounting, Slot Operations and Surveillance. These departments are proposed as mandatory and shall be required to interact independently to maintain the integrity of any slot operation. The regulations will embrace the concept of a strong and independent audit committee of the licensee's Board of Directors.

**Cashiers' Cage, Slot Booths and Soft Count Room.** These regulations will establish the facility requirements applicable to the cashiers' cage, slot booths and the soft count room including the accounting procedures and controls. The regulations will also address cage procedures and transactions including personal check cashing, acceptance of cash equivalents, wire transfers, and the prohibitions on the acceptance of credit and debit cards. As all licensed facilities are anticipated to employ gaming voucher systems, the regulatory proposal is not

expected to make provisions for tokens or coins or the large scale counting and handling of either.

**Slot machine transactions.** The regulations will involve accounting procedures and controls ancillary to the Board's technical standards for slot machines and on line slot systems, progressive slot machines, wide area progressive slot systems, financial transaction kiosks, jackpot payouts, gaming vouchers, non-cashable and cashable coupons and promotional credits, and electronic funds transfer. The regulations are also expected to address casino computer systems.

**Other Provisions.** A few of the regulations that are being developed will address changes to the approved slot areas within the licensed facility, maintenance of an Exclusion List, the Self Exclusion List, lottery, ATM placement and provisions dealing with the acceptance of tips and gratuities by employees of slot machine licensees.

## **Compliance and Internal Controls**

The Bureau of Corporate Compliance and Internal Controls is responsible for the continuous assessment/review and approval of applicants and licensed entities financial documentation, internal controls, and corporate structure to provide reasonable assurance that the licensee is operating in accordance with Act 71 and related regulations.

The bureau has a compliment of seven employees. This includes the Director, Denyse Frushone Miskin; a Manager of Corporate Compliance and a Manager of Internal Controls. The bureau has established a Financial Suitability Task Force with additional support from BIE and BOL. The task force will develop the process that will assess each applicant's initial and ongoing financial suitability and report those findings to the Board.



Included within this assessment will be the examination and analysis of corporate structures, review the financial statements, determination of significant sources and uses of funds and determination that financial control is accurately disclosed. The information obtained through these analyses will be included in the final report to the Board.

The assessment process will provide a standard for evaluating each applicant and licensee. The task force's approach will primarily focus on numerical analysis of the financial statement utilizing analytical tools to study historical and estimated financial performance and will avoid narratives in order to remain factual and consistent.

The bureau has also established an Internal Control Task Force with the assistance of BIE. Act 71 §1322 requires that a person seeking a slot machine license must obtain the Board's approval of its proposed site plan, internal control systems and audit protocols, prior to commencing operations at a licensed facility. Internal Control submissions reviewed will include controls surrounding security, surveillance, internal audits unit, slot accounting, slot operations and information technology.

The Board will regulate the operator's internal controls and the bureau and BIE will monitor the licensed gaming entities compliance with these regulations. The bureau will review and analyze data from the operator's slot monitoring system and the Commonwealth's Central Computer System and resolve any variances to ensure maximum integrity.

After licenses are issued, the Bureau will be responsible for compliance with regulations pertaining to financial information reporting, tax revenue analysis and internal controls. The Bureau reports all potential violations to the BIE for investigation and enforcement. Violations could be as minor as operational out-of-compliance events to the more serious detections of theft or fraud.

## Hearings and Appeals

The initial task for the Bureau of Hearings and Appeals was the development of regulations for the disposition of disputes presented to the Board. The paramount concern was that a regulatory framework be established whereby the requirements of due process of law, applicable to proceedings before administrative agencies, be reflected in the Board regulations and that the Board be provided mechanisms that would guide the orderly performance of its regulatory responsibilities.

A Director of the Bureau of Hearings and Appeals and a Hearing Officer were hired as the initial staff to advance these goals. Staff undertook an extensive review of Pennsylvania administrative law and practice before Commonwealth agencies, as well as the rules of procedure used in Pennsylvania's Unified Judicial System. Instructive case law that has emerged from the statewide appellate court system was carefully analyzed and the elements of due process, which require notice and an opportunity to be heard and the separation of the prosecutorial and adjudicatory functions of an administrative agency, were examined and incorporated in the initial draft of the regulations for the Bureau of Hearings and Appeals.

The range of the draft regulations anticipated controversies that might emerge as to: license applications, administrative sanctions or regulatory enforcement proceedings, and the need for the Board to provide interpretive guidance, through declaratory orders, as to regulations and practice for every aspect of the regulated industry for individuals who will appear before the Board.

Particular attention focused upon the regulations and procedures for practice before the Pennsylvania Public Utility Commission, the Pennsylvania Liquor Control Board and the Department of State's Bureau of Occupational Affairs, Office of Hearings and Appeals. Several site visits and discussions with the staff of these agencies were important aspects of the drafting and refinement

of the regulations for the Bureau of Hearings and Appeals. Consideration was also given to the procedures within the Office of General Counsel's hearing officer program. The structure, regulations and procedures of the Horse Racing Commission and Harness Racing Commissions, the Department of Public Welfare and the Department of Insurance were also taken into account.

Additionally, the design and procedures reflected in the regulations of other gaming regulating entities were also examined. Among them were the procedures used in those of our sister states that regulate slot machine gaming as well as those used by the Seneca Nation of Indians Gaming Authority. The procedures used in New Jersey, Nevada and Louisiana were particularly instructive and included a number of approaches that seemed well suited to Pennsylvania's needs. A meeting and site visit was held with the New Jersey Deputy Director of the Division of Gaming Enforcement and Assistant Attorney General with supervisory responsibility for the Division of Gaming Enforcement's Atlantic City operations, including the Technical Services Bureau (Slot Lab) and the Regulatory Enforcement Bureau and the Regulatory Prosecutions Bureau, the Assistant Attorney General and Ethics Officer for the Division of Gaming Enforcement and the Deputy Attorney General in the Regulatory Prosecutions Bureau, wherein comparisons between the Pennsylvania statute and New Jersey's, as well as the related body of regulations, case law and related insights and experience were discussed.

From late September through early December, 2005 the bureau convened a series of meetings to develop regulations. The drafting group included the bureau's staff, BOL, the Chief Prosecuting Attorney and lawyers on the staff of the Office of Chief Counsel. As part of the process, the developing regulations were also provided to executive and legislative branch lawyers as well as individuals with knowledge and experience as to industry regulation.

The effort culminated in regulations that were presented to the Board for approval for publication and public commentary at the December 15, 2005 meeting

of the Board. The regulations were published in the Pennsylvania Bulletin and posted on the Board website as draft regulations, comprising 58 PA. CODE, Chapters 492, 493 and 494.

The regulations included provisions for: the administration of oaths, receipt of evidence, management of conferences, disposition of procedural matters and public hearings that will be held in Harrisburg. The procedures set forth in the proposed regulations, for the most part, are in accord with the Pa. Code and establish a range of pleadings that include complaints, petitions, motions, answers, exceptions and appeals.

At present, comments on the regulations have been received and are being reviewed to determine whether it will be necessary to amend the draft regulations, prior to their approval as final regulations by the Board.

While the comment review of the draft regulations is ongoing, the staff of the Bureau of Hearings and Appeals is working with the Bureau of Administration and the Board in the planning for expansion to full authorized complement and the development of specifications for hearing facilities and record keeping and tracking systems, a fee structure and the assemblage of those tools necessary for Hearings Officers to provide Reports and Recommendations to the Board that equip the Board to make those decisions and determinations that satisfy its statutory obligations. Bureau staff also participated in the definition of the role of the Clerk to the Board and the advancement of a proffer of employment to a candidate for the position of the agency's second hearing officer.

An additional project of the staff of the Bureau of Hearings and Appeals is the design, planning and execution of a series of thirteen days of Public Input Hearings at nine locations across Pennsylvania in April and May of 2006. The hearings are intended to provide applicants for operators' licenses, local government entities, interest groups and concerned individuals the opportunity to comment upon the applications for operators licenses that are pending before the

Board. The statements and submittals provided at each of the Public Input Hearings will be made a part of the evidentiary record the Board will have before it as it makes its decisions relative to the slot operator licenses applications.

## **Communications**

The Office of Communications of the Board is charged with maintaining the flow of public information about the Board's activities, ensuring the accuracy of that information and building public confidence in the Board's integrity and commitment to protecting the safety of the people of Pennsylvania.

The Office's three employees – a director, an administrative assistant and a press aide – have been hired and oversee the writing, editing and publication of all public materials related to the Board and its activities. Activities include press releases and meeting notices, letters to the editor and op-ed pieces, correspondence with the public, speeches and presentations by Board and staff members at public meetings and conferences, as well as interviews with the print and broadcast media and making all preparations for public meetings, including drafting and planning locations and agendas.

Communications staff responsibilities also include the content of the Gaming Control Board's Web site – [www.pgcb.state.pa.us](http://www.pgcb.state.pa.us)

The Board publishes complete transcripts of all public meetings on the website as soon as possible, as well as, press releases. In addition, the Board maintains an e-mail sign-up list for interested members of the public and members of the media that has approximately 400 subscribers. The e-mail list ensures instant dissemination of releases to those who have signed up.

All draft regulations, public comments and final regulations are posted, along with the text of Act 71 and the complete biographies of all Board members and members of the senior staff.

The Bureau of Licensing used the site to post its applications, and the Office of Hearings and Appeals assisted the Communications staff to develop and to implement a new series of pages to facilitate and promote the thirteen days of public hearings at nine locations throughout the Commonwealth.

In 2005, the Bureau of Communications promoted the Board's diversity forums in Philadelphia and Pittsburgh which helped to attract more than 350 participants.

## **Diversity**

Pursuant to section 1212 and 1325 of the Pennsylvania Race Horse Development and Gaming Act and as well as Section 481 of the Regulations, the Board is charged with promoting and ensuring diversity in all aspects of gaming activities authorized under the law. The Board takes this responsibility seriously and is committed to enhancing the representation of diverse groups in the ownership, participation and operation of licensed entities and licensed facilities. In addition, the Board seeks to improve diversity in contracts for goods and services entered into by licensees. In the spirit of this legislative mandate, the Board has hosted and sponsored diversity forums, participated in women's conferences, issued industry letters re-affirming the Board's commitment to diversity, participated in process improvement initiatives for the certification of minority and women owned businesses, and assessed the diversity plans of applicants for manufacturer gaming licenses.

## **Diversity Forums**

The Board in conjunction with the Small Business Development Center hosted diversity forums in Philadelphia and Pittsburgh on September 29, 2005 and October 27, 2005, respectively. Attendees were provided with a wealth of knowledge and advice regarding how to do business in the gaming industry.

The Forum consisted of three sessions. Session One covered gaming in Pennsylvania and included topics such as:

- Act 71 and its regulations,
- Pennsylvania Gaming Control Board operations,
- diversity plan requirements under Act 71, and
- a panel discussion.

Session Two covered the advancement of manufacturer, supplier, and vendor diversity. It provided information regarding:

- enterprise opportunities in the Pennsylvania gaming industry,
- performing effective outreach to women, minority and disadvantaged business owners, and
- a panel discussion.

Session Three included information about preparing to do business and included details on:

- licensing requirements,
- certification requirements,
- starting a business, and
- a panel discussion

Community and business leaders participated as forum panelist and presenters. They included MGM Mirage, Harrah's Entertainment, Penn National Gaming, Inc., The Meadows Racing, the office of Commonwealth Representative H. William DeWeese, the National Minority Supplier Development Council, the Las Vegas Urban Chamber of Commerce, the Greater Philadelphia Urban Affairs Coalition, The Swarthmore Group, the Pennsylvania Department of General Services (DGS), the Pennsylvania Small Business Development Center, Citizens Bank, the Governor's Commission on Women, the Women's Business Development Center, Goldenberg Rosenthal, LLP, JEVS Work & Recovery Services, the PA Minority Business Development Center, and CFC3 Management Services. Over 350 individuals attended the forums representing a wide range of

business entities from locally-owned small businesses to world-wide gaming industry leaders.

### **Industry Letters**

In October of 2005, the Board issued an industry letter as a result of feedback received at the September 29<sup>th</sup> Diversity Forum held in Philadelphia. The feedback indicated that although potential slot facility operators were moving forward with plans to locate in communities throughout the state, little or no outreach efforts were underway to increase diversity. The letter placed current and future applicants for slot machine related licenses on notice that in examining an applicant's diversity practices, the Board would review the applicant's diversity practice history, in addition to its practices after an application has been submitted. This review would be particularly relevant to those applicants breaking ground on new projects and developing new businesses in Pennsylvania. The Board advised those interested in applying for licensure to reach out to minorities, women, people with disabilities, and disadvantaged businesses. In addition, the Board informed applicants for slot facility licenses that during the application review process, the Board would consider the applicant's plans to improve diversity in all employment classifications and to enhance the participation of diverse groups in all aspects of their operation.

The Board is in the process of issuing an additional industry letter to encourage potential applicants to host community events. For example, the Board will encourage applicant-sponsored workshops that focus on employment and/or procurement opportunities for local Pennsylvania small and minorities, and women owned businesses. The Board views such a plan for community outreach as consistent with the initiatives set forth in Section 1212 of the Pennsylvania Race Horse Development and Gaming Act and its subsequent regulations. The Board requests that entities who plan to conduct community events disclose to the attendees the entity's status as an applicant that is seeking licensure with the Board. Entities are also requested to inform attendees that attendance at the



community event is not a guarantee of employment or a contract award and that the Board is not a sponsor of the event. Moreover, an entity should inform the Board of its plan to host such activities prior to facilitation of such. At the conclusion of an event, an entity should submit to the Board a report that includes, but is not limited to, the number of registrants, the number of attendees, and a copy of the event materials.

### **Certification of Minority and Women Owned Businesses**

The Board also assisted the Pennsylvania DGS in developing a policy for businesses seeking certification as minority or women business enterprises (MBE/WBE) as part of their application with the Board for supplier licensure. Under this newly created policy, DGS will conditionally certify a MBE/WBE, if the applicant shows that it meets all of the criteria for DGS certification.

Recognizing that currently slot machine supplier licenses do not exist in Pennsylvania, DGS is willing to issue companies conditional MBE/WBE certification. The conditional certification by DGS will assure the potential business partners that the entity will be certified as a Commonwealth MBE or WBE upon the issuance of a supplier license by the Board provided that there has been no change in the operational control, management control, or ownership of the entity.

The conditional certification will expire on December 31, 2006, and is a one-time certification specific to gaming enterprises that will not be reissued or extended. Recipients of a conditional certification will not appear on the Bureau of Minority and Women Business Opportunities (BMWBO) database of certified companies. Furthermore, complete certification will only be issued when a company submits the following to BMWBO on or before December 31, 2006: 1) a copy of the supplier license issued by the Board pursuant to Act 71 and 2) a notarized affidavit, in a form prepared by BMWBO that is signed by the company's authorized representative. The affidavit shall state that there have been no changes in the operational control, management control, ownership or any of the

required documentation submitted to BMWBO when the conditional certification was granted.

### **Assessment of Gaming Applicant's Diversity Plans**

Pursuant to its authority under section 1212 and 1325 of the Pennsylvania Race Horse Development and Gaming Act as well as section 481 of the Regulations, the Board is reviewing the diversity plans that were submitted by applicants for a manufacturer gaming license. The Board is reviewing each plan to assess good faith and effectiveness.

The board assessment includes, but is not limited to, the following factors:

- Equal Opportunity and Anti-Discrimination/Harassment Policy Statement
- Dissemination of Policy Statement
- Complaint Procedure
- Utilization Analysis
  - Workforce Analysis
  - Job Group Analysis Summary
  - Availability and Utilization Analysis
  - Procurement Analysis
- Program Action Objectives
- Executive Officer Certification

### **Prevention and Treatment**

The Board, working with the Department of Health to develop a program to help prevent and treat problem gambling. This initiative will include a public awareness campaign, programs for mental health professionals to treat compulsive and problem gamblers and a toll free hotline for people to seek help. The Board will also require applicants to submit plans to address the issue and require licensees to create, maintain and monitor a list of people self-excluded from gaming facilities.

## **Financial Review - 7/5/2004 – 12/31/2005**

Act 71 authorized the sum of \$7,500,000 to the Board. The Board has expended \$7.2 million during its first eighteen months to accomplish the significant work previously outlined. Major challenges confronted the Board and created a drain on resources and have delayed the start-up of gaming by many months. At its first meeting in December 2004, the Board was served with several law suites challenging the constitutionality of Act 71. This litigation negatively impacted the Board's ability to hire key personnel, including the chief counsel, and to fill other operating positions until the constitutional challenge was favorably resolved on June 22, 2005.

This litigation also forced the Board to spend approximately \$1 million dollars for professional services. A significant portion of these funds was allocated to the defense in the litigation described above as well as several other significant suits.

The Board has been delayed from moving more expeditiously on the issuance of the gaming licenses due to the lack of consensus on the issue of whether to mandate regional suppliers.

The following is summary of the expenditures during the first eighteen months since the passage of gaming. More than 92% of all expenses are summarized in four categories including personnel, 49.74%; office space, 21.22%; professional services, 13.88% and computer expenses 7.46%.

Many of these expenses are non-recurring.

Pennsylvania Gaming Control Board

Summary of Expenses 7/5/2004 – 12/31/2005

	YEAR END 6/30/2005	Combined 1st and 2nd Quarter Expenses 2005-06 Fiscal Year	Combined Expenses	Percentage of Total Expenditures
Salaries-RegHour	\$ 787,216.83	\$ 1,884,611.44	\$ 2,671,828.27	37.02%
State Mandated Benefits	\$ 193,197.87	\$ 526,065.75	\$ 719,263.62	9.97%
Travel and Related Expense	\$ 60,047.95	\$ 138,651.75	\$ 198,699.70	2.75%
<b>Total Cost of Personnel</b>	<b>\$ 1,040,462.65</b>	<b>\$ 2,549,328.94</b>	<b>\$ 3,589,791.59</b>	<b>49.74%</b>
Cost of Office Space	\$ 799,387.57	\$ 732,049.89	\$ 1,531,437.46	21.22%
ConsultntSvc-Non-EDP	\$ 222,020.73	\$ 91,845.29	\$ 313,866.02	4.35%
Legal Services/Fees	\$ 434,931.23	\$ 567,163.09	\$ 1,002,094.32	13.88%
Specialized Services	\$ 109,650.67	\$ 54,554.02	\$ 164,204.69	2.28%
Computer and Related Expenses	\$ 232,266.72	\$ 306,184.21	\$ 538,450.93	7.46%
Miscellaneous Expenses	\$ 15,707.31	\$ 62,041.61	\$ 77,748.92	1.08%
<b>Total Expenses</b>	<b>\$ 2,854,426.88</b>	<b>\$ 4,363,167.05</b>	<b>\$ 7,217,593.93</b>	<b>100.00%</b>

The following is a detailed review of the significant costs related to start-up.

**Personnel- 49.74% of Total Expense**

Personnel costs equaled 49.74% of gross expenditures which includes approximately 10% for state mandated benefits and 2.75% for training and travel related expenses. State mandated benefits have run as high as 43% of payroll expenditures during the first year of operation. We anticipate that this expenditure should reduce and level off close to 30% as the Board matures.

The Board interviewed hundreds of candidates for positions in every aspect of the Board's areas of responsibility. As of December 31<sup>st</sup> the Board employed a complement of 66 full time employees working with offers outstanding for an additional 66 staff to begin during the third quarter.

PERSONNEL	2004-05 1st Qtr July - Sept	2004-05 2nd Qtr Oct - Dec	2004-05 3rd Qtr Jan - Mar	2004-05 4th Qtr Apr - June	2005-06 1st Qtr July - Sept	2005-06 2nd Qtr Oct - Dec
Board	0	9	9	9	10	11
Executive Director's Office	0	0	1	2	3	5
Office of the Chief Counsel	0	0	1	1	8	10
Bureau of Corporate Compliance	0	0	0	0	2	2
Bureau of Gaming Laboratory Operations	0	0	0	0	1	1
Bureau of Budget and Financial Management	0	0	0	0	0	0
Bureau of Investigations and Enforcement	0	0	0	0	8	12
Bureau of Licensing	0	0	0	1	8	11
Bureau of Chief of Investigations and Enforcement Counsel	0	0	0	0	2	3
Bureau of Hearings and Appeals	0	0	0	1	3	3
Bureau of Administration	<u>0</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>6</u>	<u>8</u>
Total Complement	0	10	13	17	51	66
Numbers shown above are estimated based on the date each employee is voted on and approved by the Board and adjusted for actual start dates when known..						

### Office Space – 21.22 % of Total Expenses

The Board moved quickly to secure office space in Harrisburg at a competitive rate. The Board entered into a lease for the 5<sup>th</sup> floor of the Verizon Tower located at Strawberry Square. Costs include the office space and the related furniture and equipment required to base approximately ½ of the Board's expected headquarters staffing level.

### Legal Services – 13.88 % of Total Expenses

The Board recently announced the selection of a Chief Counsel, Frank Donaghue. Until his appointment the Board was required to hire outside counsel for many issues which would have been handled by the chief counsel. In addition the Board was forced to defend itself against several pieces of litigation during the last 18 months.

The above described legal services include the following litigation and other key assignments:

1. Pennsylvanians Against Gambling Expansion
2. Pittsburgh Palisades Park, LLC and Charles Betters
3. Pittsburgh Development Group II, LP
4. Pennsylvania State Troopers Association
5. Various Legal Research assignments such as public access to the Board, immunity and indemnity and Act 71 interpretations.

### **Professional Services – 4.35 % of Total Expenses**

Without the ability to hire staff, the Board has utilized outside consultants as experts in determining the implementation process as well as to conduct market studies of other gaming jurisdictions. Price Waterhouse Coopers has conducted best practices on several areas of gaming including, security and surveillance processes, cost of gaming regulations and types of gaming control.

Additionally, consultants have assisted the board in the establishment of our staffing plan, creation of our operational timelines and workflow charts, development of our financial projections and reporting documents, creation of our initial application forms and review of operational assumptions.

### **Computer and Related Expenses – 7.46 % of Total Expenses**

The Board adopted a policy of utilizing, where possible, those resources available from the state. The Department of Revenue greatly assisted the Board in the configuration of its IT requirements and in the acquisition of the requisite equipment.

In conclusion, the Board has successfully completed a significant number of the key tasks necessary for the implementation of gaming. Shortly after the beginning of the third quarter of the 2005-06 fiscal year, the Board entered into an agreement with the Department of Revenue transferring \$7.3 million of the Departments appropriation to the Board.

## **Part 2**

### **Diversity Report**

#### **Section 1212 of the Gaming Act states:**

The Board is authorized to investigate and conduct an annual study to ascertain whether effective and meaningful action has been taken or will be taken to enhance the representation of diverse groups in the ownership and operation of business enterprises associated with or utilized by slot machine licensees, by the provision of goods and services utilized by slot machine licensees and through employment opportunities with licensed facilities in this Commonwealth.

Although no gaming licenses have been issued, the Board has received manufacturer, supplier and operator gaming applications. As part of the application process, the Board requires each applicant to submit a diversity plan. The Board Chief Diversity Officer and Office of Chief Counsel are in the process of reviewing the diversity plans of each applicant for compliance with the diversity mandates and objectives of the Gaming Act.

Once licenses have been issued, the Board will investigate all licenses activities and declarations to make sure that they are in compliance with both the letter of their diversity plans and the intent of the Act. The Board will provide the study that as required by Section 1212 at its earliest opportunity.

In addition, the Board in conjunction with the Small Business Development Center hosted diversity forums in Philadelphia and Pittsburgh on September 29, 2005 and October 27, 2005 respectfully. Over 350 individuals attended the forums representing a wide range of business entities from locally-owned small business to world-wide gaming industry leaders, such as MGM Mirage, Harrah's Entertainment, Penn National Gaming, Inc. and The Meadows Racing. As a result, there were many networking opportunities for those in attendance. Attendees were provided with a wealth of knowledge and advice regarding how to do business in the gaming industry. Presentation topics ranged from an overview

of the Gaming Act and its regulations to accounting practices, state certification, and business planning.