

Report To The Mississippi Legislature



A Review of the Adequacy of the Mississippi Gaming Commission's Regulation of Legalized Gambling in Mississippi

September 11, 1996

In its efforts to assist in development of the state's dockside gambling industry, the Mississippi Gaming Commission (MGC) began licensing gaming establishments before its regulatory infrastructure was fully in place. While the industry has grown dramatically since legalization in 1990, the Gaming Control Act authorized MGC to regulate the industry, not to promote economic development. Although the commission has recently added staff and procedures to fill many of its regulatory gaps, the consequences of its failure to conduct more thorough audits and investigations heretofore may not be fully known until its own audit staff has the opportunity to complete its first audit cycle of Mississippi's casinos.

With respect to regulation of charitable bingo, MGC does not have an adequate system in place to determine industry compliance with the law. Also, the law itself provides no assurance that legitimate charities receive any of the proceeds from operation of a licensed bingo establishment.

The PEER Committee

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Regulation of Legalized Gambling in Mississippi**

September 11, 1996

**The PEER Committee
Mississippi Legislature**

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Joint Committee on Performance Evaluation and Expenditure Review

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September 11, 1996

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At its meeting of September 11, 1996, the PEER Committee authorized release of the report entitled **A Review of the Adequacy of the Mississippi Gaming Commission's Regulation of Legalized Gambling in Mississippi.**



Senator Bill Canon, Chairman

**This report does not recommend increased
funding or additional staff.**

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A Review of the Adequacy of the Mississippi Gaming Commission's Regulation of Legalized Gambling in Mississippi

September 11, 1996

Executive Summary

Overview

In June 1990, the Legislature passed the Mississippi Gaming Control Act, which legalized dockside gambling. In less than six years, Mississippi has become the third largest gambling jurisdiction in the United States in terms of revenues (totaling \$1.7 billion, annually) and the second largest in terms of gambling space, with twenty-nine casinos housing 1.2 million square feet of gambling space. By April 1996, Mississippi's casinos had generated over half a billion dollars in gaming tax revenues paid to the state and local governments.

Part of the reason that the industry has grown so rapidly is that the state entity charged with regulating the industry, the Mississippi Gaming Commission (MGC), has assumed an economic development role not contemplated or authorized by the Gaming Control Act. In its efforts to assist in development of the industry, the Gaming Commission began licensing gaming establishments before its regulatory infrastructure was fully in place.

While the Gaming Commission has recently begun to fill some of its rather substantial regulatory gaps, such as pre-license investigations of public corporations and ongoing auditing of licensees for compliance with applicable laws and regulations, the consequences of its failure to conduct more thorough audits and investigations heretofore may not be fully known until its own audit staff has the opportunity to complete its first audit cycle of Mississippi's casinos. Further, MGC has no established audit program for monitoring the play of casino games, and continues to be deficient in its monitoring of the social costs of legalized gambling and its pre-licensing financial investigations of individuals and private corporations.

With respect to regulation of charitable bingo, PEER found that MGC does not have an adequate system in place to determine industry compliance with the provisions of the Charitable Bingo Law. Also, the law itself provides no assurances that any of the proceeds from operation of a licensed bingo establishment will be received by a legitimate charity.

Recommendations

Casino Gambling

Licensing and Background Investigations

1. MGC should ensure that the necessary regulatory infrastructure is in place to carry out its licensing and background investigation functions adequately, particularly the financial expertise and analytical plan needed to investigate adequately the backgrounds of individuals and private corporations. MGC should obtain and review at least five years of financial background information in order to afford a reasonable basis for conclusions concerning the character, ethics, and business quality of individuals and private corporations. Also, MGC's analysis of the information obtained during the pre-license background investigations should be more in-depth, including thorough analysis of the sources and uses of all funds. MGC should subject private corporations to the same level of financial investigation as individuals.
2. MGC should proceed with the planned work of its Compliance Division to conduct thorough financial pre-licensing investigations of public corporations and ongoing audits of licensees for compliance with gaming laws and regulations.
3. MGC should continue to expedite the background check process by reducing the time involved in all procedures which are under the commission's control—e.g., improving the readability of fingerprints submitted to the FBI.

Also, the Legislature should amend MISS. CODE ANN. Section 75-76-131 to authorize the Mississippi Gaming Commission to issue temporary work permits, which the Executive Director may revoke without pre-revocation notice and hearing. The legislation should grant a post-revocation hearing within fifteen days of the revocation.

See Appendix G, page 73, for recommended legislation.

4. MGC should continue using existing resources to obtain the investigatory services needed to complete a higher percentage of key employee investigations.

Monitoring of the Games

5. MGC should define and establish criteria for monitoring the “honest and competitive” conduct of table games and electronic games.
6. MGC should develop written criteria for approval of new table games.
7. MGC should develop a written audit program for monitoring the play of the games in compliance with gaming laws and regulations.
8. MGC should revise its training requirements for enforcement agents to include a minimum number of required hours of training related specifically to the detection of cheating on games. MGC should not rely on the casinos to provide this training.
9. MGC should obtain and distribute to all Mississippi casinos the names of persons maintained on exclusion lists from other gambling jurisdictions (particularly Nevada and New Jersey).
10. MGC should maintain in its permanent records any motion and order, or any other document, denoting the reasoning and outcome for all show cause hearings as evidenced by the Executive Director.
11. MGC should standardize its fines for violations of the Gaming Control Act and regulations.
12. MGC should include monitoring of casino compliance with legal requirements governing the handling of patron disputes as part of its ongoing casino audit program.
13. The Gaming Commission regulations or statutes should require casinos to file a one-page incident report each time they eject any patron for any reason. The law should require that these reports be made available to law enforcement agencies.

Ongoing Auditing of Licensees

14. The Legislature should amend MISS. CODE ANN. Sections 75-76-45 and -51 to provide that the Mississippi Gaming Commission and the State Tax Commission jointly develop and promulgate for the casinos a single set of minimum internal control standards and rules for defining gross revenue.

Such rules should be the only rules each of the agencies use in determining licensees' gross revenue, and such minimum internal control standards should be the only minimum internal control standards enforceable by the two regulatory agencies. Such rules and standards should become effective January 1, 1998. When any material differences in the interpretation or application of the single set of rules or minimum internal control standards arise, staff of the Mississippi Gaming Commission and the State Tax Commission should meet jointly to develop a joint resolution of the differences in a timely manner.

In the event that the Mississippi Gaming Commission and the State Tax Commission cannot agree on the content or necessity of a proposed rule or minimum internal control standard or subsequent interpretation of adopted rules and minimum internal control standards, the agencies should submit such differences in writing to the State Auditor for arbitration. The State Auditor may resolve the differences by selecting a proposal of the Mississippi Gaming Commission or the State Tax Commission or by developing a proposal based on the positions of the two agencies. The Mississippi Gaming Commission and the State Tax Commission should be required to adopt in rule form any arbitration decisions developed by the State Auditor.

The Mississippi Gaming Commission and the State Tax Commission should meet annually by April 1 to discuss the need for new rules and minimum internal control standards or revision of existing rules and minimum internal control standards. The two agencies' revisions of the single set of rules and minimum internal control standards should be completed each year by May 15 for initial comment by the licensees. Conflicts between the two agencies should be referred in writing to the State Auditor for resolution as provided for above. When developing the initial set of

rules and minimum internal control standards and revising the rules and minimum internal control standards annually, the Mississippi Gaming Commission and the State Tax Commission should comply with provisions of the state's Administrative Procedures Act.

See Appendix G, page 73, for recommended legislation.

15. The Legislature should amend MISS. CODE ANN. Section 75-76-17 by deleting the prohibition against the Mississippi Gaming Commission's establishment of an audit division.

See Appendix G, page 73, for recommended legislation.

16. The Legislature should amend MISS. CODE ANN. Sections 75-76-81 and 75-76-87 to require that information collected by either MGC or the State Tax Commission during the course of their audits and investigations be made available to the other party.

See Appendix G, page 73, for recommended legislation.

17. The Legislature should require that casinos prepare a duplicate copy of each Currency Transaction Report (Title 31) and file it with the Gaming Commission. The law should require the commission to make copies of the forms available to law enforcement agencies.

See Appendix G, page 73, for recommended legislation.

Monitoring Negative Social Consequences

18. Using existing resources, MGC should conduct an ongoing cost/benefit analysis of Mississippi's legalized gambling industry and report its findings to the Legislature, industry, and the general public. The analysis should monitor such relevant factors as the percentage of gamblers who are in-state versus out-of-state, the socioeconomic profile of these gamblers, and the incidence and associated costs of casino-related problems such as compulsive gambling and white collar crime. MGC should develop strategies for reducing the incidence of any serious problems identified through its analysis.
19. MGC should eliminate the language in its mission statement directing it to work with the legalized gambling industry to "promote economic development." Such language places the commission in the conflicting roles of industry regulator and industry developer.

Charitable Bingo

20. MGC should develop a bingo enforcement system governed by a written audit program including steps for conducting systematic, detailed inspections of bingo operations. The commission should also standardize its fines for violations of the Charitable Bingo Law and regulations, as well as its patron complaint system.
21. The Legislature should consider amending the Charitable Bingo Law to require that a certain percentage of proceeds from operation of a licensed bingo establishment be given to charity and to grant MGC the authority to audit the flow of bingo hall revenues to ensure that they are being channeled into legitimate charities.

See Appendix G, page 73, for recommended legislation.

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A Review of the Adequacy of the Mississippi Gaming Commission's Regulation of Legalized Gambling in Mississippi

Introduction

Prior to the legalization of dockside gambling through the Mississippi Gaming Control Act in June 1990, most forms of gambling were illegal in Mississippi. Facing slowed growth in state tax revenues in the late 1980s, Mississippi legislators turned to legalized gambling as a possible means of raising revenues to support government programs without increasing state sales or income taxes. By March 1996, Mississippi's casinos had generated over \$4 billion in gross revenues and slightly over half a billion dollars in gaming tax revenues paid to the state and local governments. With annual casino revenues totaling \$1.7 billion, Mississippi had become the third largest gambling jurisdiction in the United States in terms of revenues and the second largest in terms of gambling space, with twenty-nine casinos, 1.2 million square feet of gambling space and 28,292 casino employees (representing approximately two percent of the state's workforce).

In legalizing gambling, the Legislature knew that the possible economic benefits from the industry did not come without risks--risks deemed so significant that gambling had been outlawed for most of the state's history. Aside from the pervasive moral argument against an industry built on notions of "getting rich quick" without exerting any productive labor were the traditional concerns over such risks as increased crime and corruption (particularly white-collar and organized crime) and the fear that legalized gambling would foster compulsive behavior.

Keeping these and other risks in check requires an extraordinary degree of regulation over the legalized gambling industry. The rapid growth of Mississippi's gambling industry in such a short time prompted the PEER Committee to question whether the Gaming Commission, which is also responsible for regulation of charitable bingo, adequately discharges its responsibility for keeping gambling-related risks to a minimum.

Authority

The PEER Committee authorized a review of the Mississippi Gaming Commission (MGC) pursuant to the authority granted to the Committee by MISS. CODE ANN. Section 5-3-57 et seq. (1972).

Scope and Purpose

The purpose of this review is to assess the adequacy of the Mississippi Gaming Commission's regulation of the legalized gambling industry.

Following a start-up period during which the Legislature placed responsibility for enforcement of the Gaming Control Act and the Charitable Bingo Law with the State Tax Commission, the Legislature transferred these responsibilities to the newly created Mississippi Gaming Commission. While this review contains some historical information concerning the period when the State Tax Commission regulated legalized gambling, the focus of the analysis is on the adequacy of the Mississippi Gaming Commission's regulatory efforts.

Part I of the report, which focuses on MGC's regulation of dockside (i.e., casino) gambling, begins with a background section describing the primary risks associated with legalized gambling and accompanying need for regulation of the industry, followed by brief discussions of Mississippi's Gaming Control Act, the perception of Mississippi's regulatory climate as relatively lax, and the purpose and organizational structure of the Mississippi Gaming Commission.

The report contains an examination of the adequacy of MGC's regulatory efforts with respect to each of the primary tools used to control legalized gambling: licensing of casinos (including investigation of the companies applying for a license and associated individuals with significant influence over the applicant's operations), ongoing monitoring of casino games, ongoing auditing of casino operations for compliance with laws and regulations, and monitoring of the negative social consequences of legalized gambling. The primary risks which these tools seek to address are crime (particularly white collar and organized), corruption (including ensuring that licensed gambling is conducted honestly and competitively), mishandling and improper reporting of money flowing through the casinos, and endangerment to the general welfare of the state's inhabitants.

Part II of the report focuses on MGC's regulation of charitable bingo, and Part III contains recommendations for correcting noted deficiencies in MGC's regulatory efforts.

Method

In conducting this review, PEER:

- reviewed state law governing gambling in Mississippi;
- reviewed minutes and other records of the Mississippi Gaming Commission;
- interviewed staff and members of the Mississippi Gaming Commission, as well as staff and gambling officials in other states, particularly Nevada and New Jersey (the two largest gambling jurisdictions in the United States, in terms of revenues), and Colorado;
- conducted on-site inspections of selected casinos; and,

- reviewed the literature on legalized gambling, including studies focusing on gambling in Mississippi.

Overview

Possibly the greatest regulatory risk that a state faces in legalizing gambling is issuing licenses to operate gambling establishments before an adequate gambling control infrastructure is in place. PEER reviewed the regulatory systems of selected states which have legalized gambling, and while states vary in their regulatory approaches to legalized gambling, the following basic elements emerge as necessary to an effective regulatory system:

- a **licensing** component, which conditions licensure on an in-depth investigation of the suitability of individuals and companies for conducting gambling business in the state. These investigations focus on both financial and personal suitability, including whether the person or company under investigation has any links to organized crime;
- **background checks** of casino employees directly involved with the games for evidence of a criminal history, particularly convictions related to organized crime and/or infractions of gambling laws in other states;
- **monitoring of the games** for honesty and competitiveness;
- ongoing **auditing** of licensee operations for evidence of compliance with applicable laws and regulations, particularly those governing white-collar crime; and,
- ongoing **monitoring of the negativesocialconsequences** of legalized gambling, particularly the magnitude and costs of compulsive gambling.

MGC needs to make improvements in all of these basic regulatory areas. The commission has not assigned the staff or developed the procedures necessary to conduct a thorough financial investigation of individuals or privately held corporations applying to operate a gambling establishment in Mississippi. The commission has only recently assembled the resources necessary to conduct a thorough financial investigation of publicly held corporations applying to operate a legalized gambling establishment in Mississippi. Further, the commission has not adequately audited the ongoing operations of Mississippi's casinos and will not begin to do so until its Compliance Division becomes fully operational. The division does not plan to complete its first full audit cycle of the state's casinos until July 1998. PEER also noted deficiencies in MGC's monitoring of the play of the games in that the commission has no established audit program for this purpose, and does not conduct any ongoing monitoring of the negative social consequences of legalized gambling. Since its creation, the commission has focused the majority of its resources on issuing licenses to gambling establishments following investigations of the nonfinancial background of individuals associated therewith and conducting background checks on

individuals applying for a permit to work in a gambling-related job in a licensed gambling establishment in Mississippi.

While no regulatory system can prevent all violations of the laws governing the industry being regulated, the purpose of such a system is to minimize the occurrence of significant violations and to maximize the likelihood of their detection in the event that they do occur. The consequences of MGC's regulatory gaps are unknown at this point, particularly since the commission has not conducted the ongoing audits necessary to uncover serious problems. To an extent, during the period when MGC licensed as many as twenty-three casinos in 1994 without conducting adequate financial investigations of the companies and individuals applying to conduct gambling business in the state, the commission relied on the work of external regulatory agencies, such as gambling regulatory agencies in other states and the federal Securities and Exchange Commission (which regulates publicly held corporations) to fill the gaps. To regulate the gambling industry in Mississippi effectively, MGC must rely on its own expertise. PEER concludes that with the creation of its Compliance Division, MGC is making significant progress towards filling some of its most serious regulatory gaps. The ongoing challenge facing the commission is to avoid being co-opted by an industry with substantial wealth and lobbying power. The commission members and agency staff must consistently demonstrate through regulations and enforcement that the entity exists to protect the general public, not to promote the industry which it regulates.

With respect to regulation of charitable bingo, PEER found that MGC does not have an adequate system in place to determine industry compliance with the provisions of the Charitable Bingo Law. Also, the law itself provides no assurances that any of the proceeds from operation of a licensed bingo establishment will be received by the intended charity or that the intended charity is legitimate.

Part I. Regulation of Casino Gambling

A. Background

The Mississippi Legislature legalized dockside gambling in June 1990, with passage of the Mississippi Gaming Control Act. The first dockside gambling casino, the Isle of Capri-Biloxi, opened in August 1992. Appendix A on page 59 contains descriptive data for each of the forty-six casinos licensed to operate in Mississippi since passage of the Gaming Control Act. Exhibit 1 on page 6 is a map showing the location of the twenty-nine casinos currently operating in Mississippi and the counties which have voted to allow and voted not to allow legalized gambling. These twenty-nine casinos' 28,292 employees represent approximately two percent of the state's total workforce. By April 1996, Mississippi was the second largest gambling jurisdiction in the United States in terms of gambling space, with 1.2 million square feet accommodating 30,371 electronic gambling devices (e.g., slot and video poker machines) and 1,335 table games; and the third largest gambling jurisdiction in the United States in terms of revenues, with monthly gross gaming revenues exceeding \$145 million (refer to Appendix B on page 61, which lists gross gaming revenues, by month, and Appendix C on page 63, which contains basic data describing the casino gambling industry in each of the three largest casino gambling states: Nevada, New Jersey, and Mississippi).

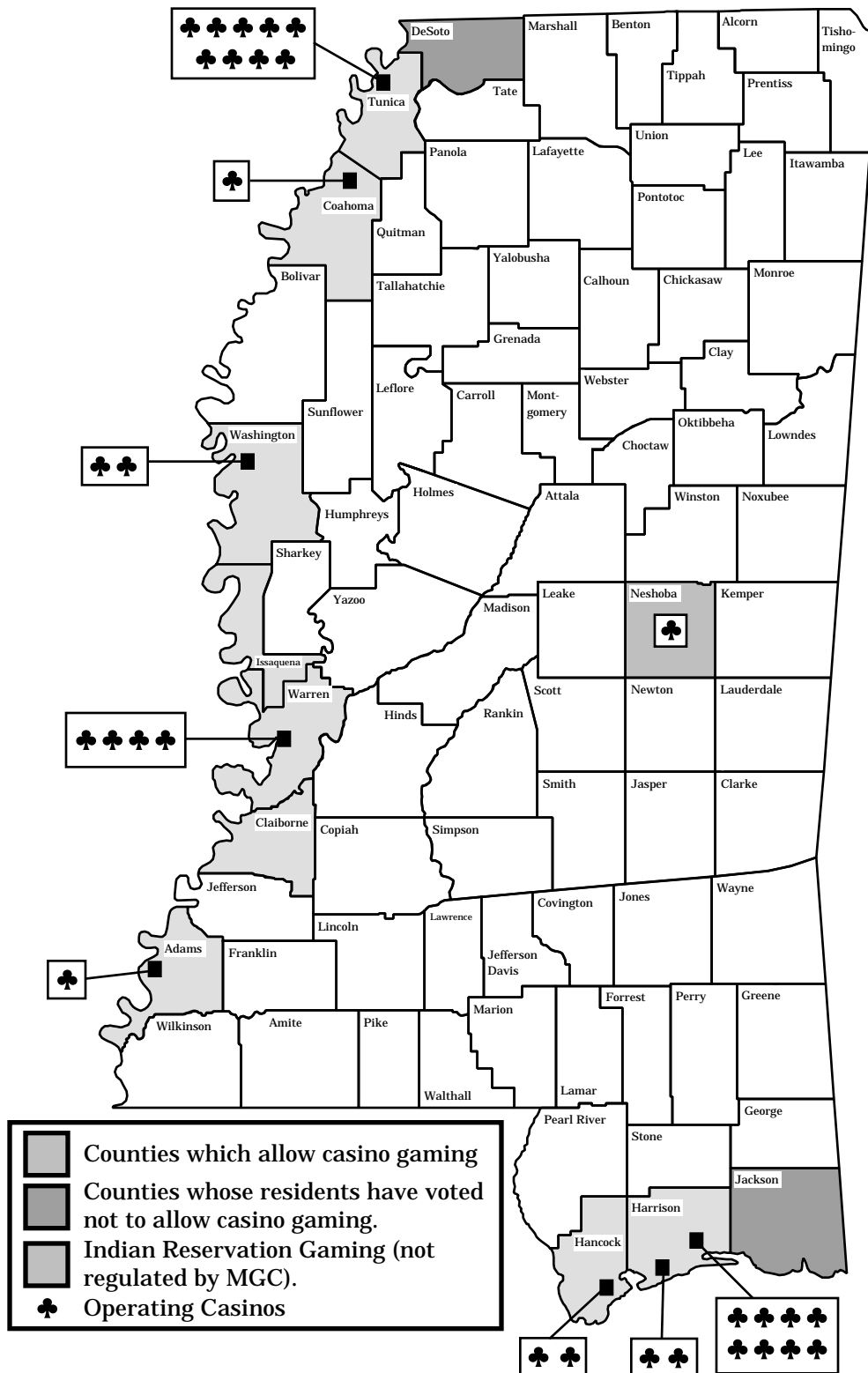
From the opening of the state's first casino through February 1996, Mississippi's casinos had generated slightly over half a billion dollars in gaming tax revenues, distributed as follows: \$329.4 million to the state's general fund; \$22 million to retire bonds issued for construction and/or reconstruction of various state highways, and \$150.4 million to local governments allowing gambling operations. Appendix D on page 64 shows the distribution of tax revenues from gaming, by month, followed by a description of the various fees and taxes imposed upon Mississippi's casinos. Exhibit 2 on page 7 contains a graphic representation of the increase in gaming tax revenues, by quarter, for fiscal years 1993 through the third quarter of 1996. Gaming tax revenues collected by the state in 1995, the most recently completed fiscal year, represented approximately five percent of total general fund revenues.

Risks Associated with Legalized Gambling

In 1990, legislators looking for an economic development tool and a source of new tax revenues to support state and local governments turned to legalization of dockside gambling as one possible answer. In turning to legalized gambling, legislators were aware that legalized gambling would not come without risks. As summarized in Exhibit 3 on page 8, these risks fall into the following major categories: economic, criminal, social, and public health and safety.

While some of these risks are risks of any business (e.g., public safety concerns relative to increased traffic associated with a large new business), some

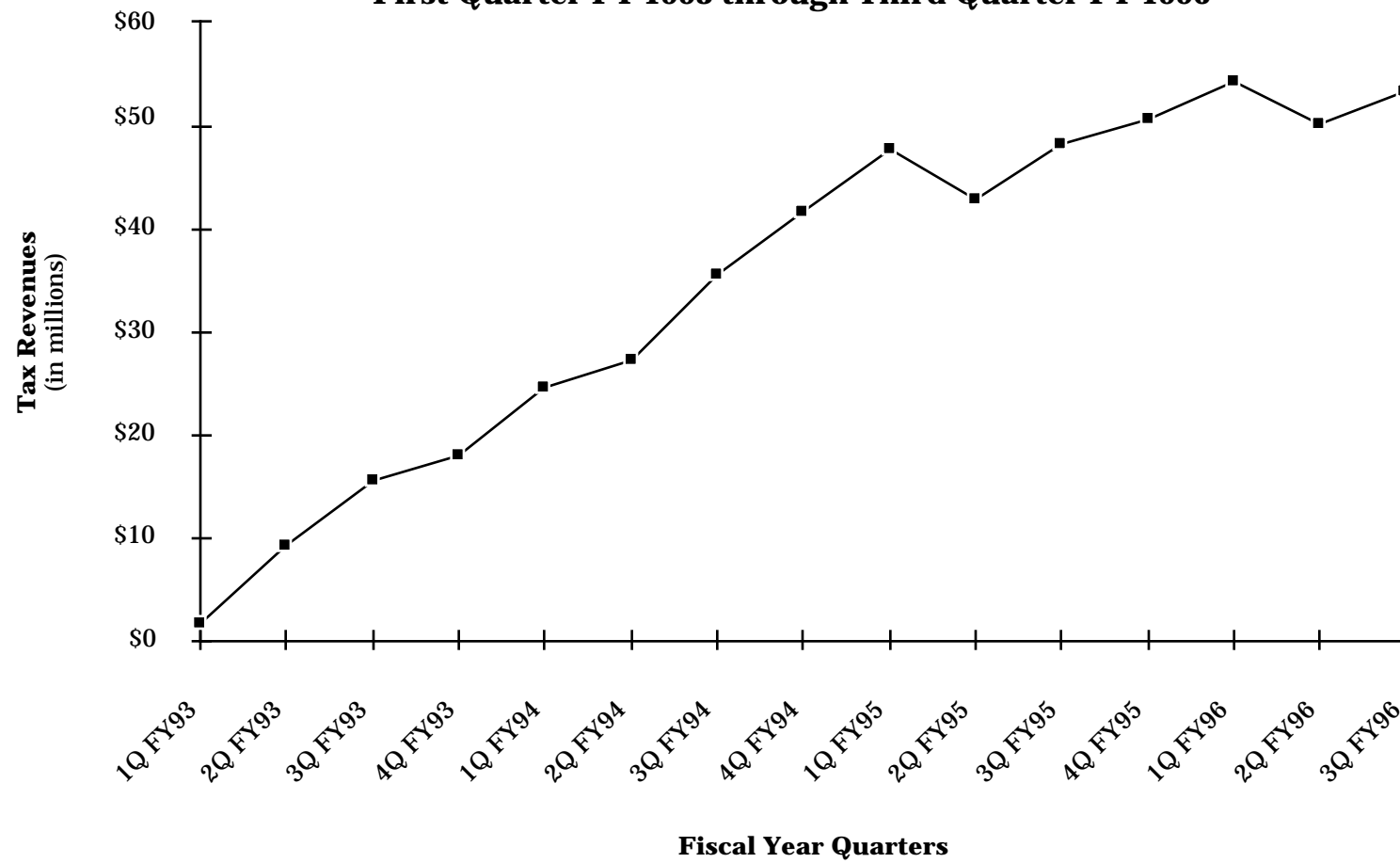
Exhibit 1 **Mississippi Gaming Casinos in Operation, May 1996**



SOURCE: PEER analysis.

Exhibit 2

Mississippi State and Local Gaming Tax Revenues, by Quarter, First Quarter FY 1993 through Third Quarter FY 1996



SOURCE: PEER analysis.

Exhibit 3
Summary of Risks Associated with Legalized Gambling

Economic	Criminal	Social	Public Health and Safety
<p><i>Shifting of discretionary consumer dollars away from existing business.</i></p> <p>To the extent that casino patrons are local residents who would not have otherwise spent their money out-of-state, casino revenues represent a shifting of dollars within the local economy (i.e., a substitution of discretionary dollars).</p>	<p><i>Increase in white collar and organized crime.</i></p> <p>The cash-intensive casino environment is conducive to crimes such as skimming money from the machines and count room, embezzlement, money laundering, loan sharking, and kickbacks to public officials as bribes for fixing casino licenses.</p>	<p><i>Compulsive gambling.</i></p> <p>Compulsive gambling creates a plethora of serious and costly social problems, including debt which creditors are unable to collect, theft, fraud (including insurance fraud and accompanying increases in insurance rates), forgery,</p>	<p><i>Health and safety concerns include:</i></p> <p>Concerns include safety of the gambling vessels; health threat of working and gambling in a smoke-filled environment; environmental issues, such as encroachment of casino-related construction on wetlands;</p>
<p>Local restaurants and bars can be particularly hard hit, as casinos subsidize their own restaurants and bars as a means of attracting patrons to gamble.</p> <p><i>State dependence on an unstable and regressive source of revenue</i></p> <p>Typically, tax revenues from legalized gambling grow slowly, then decline or flatten, as the novelty of a new casino or game wears off. Casinos may turn to the state for relief and the state, becoming increasingly dependent on the industry, may comply.</p>	<p>In other states, organized crime has reportedly infiltrated numerous businesses related to the casino industry.</p> <p><i>Increase in illegal gambling</i></p> <p>Illegal gambling may increase because it offers types of games which legalized gambling may not (e.g., sports betting), and legalized gambling could make all forms of illegal gambling more socially acceptable.</p>	<p>increased domestic violence, devastation of family savings, increased medical and health problems, and suicide.</p> <p><i>Corruption of values</i></p> <p>Legalized gambling promotes the notion of getting "something for nothing." Studies suggest that there is more compulsive gambling among teenage gamblers (7 to 11%) than among adult gamblers.</p>	<p>traffic control and safety (including increases in alcohol-related accidents). Public infrastructure (e.g., local roads, schools) may be inadequate to support the casinos.</p>
<p><i>Growth of state regulatory staff</i></p> <p>Controlling the risks of legalized gambling is expensive. As problems increase over time, the costs of regulation may also increase.</p>	<p><i>Cheating on the games</i></p> <p>Wherever there is legalized gambling, there is the risk that both patrons and the casinos will cheat on the games.</p>		
	<p><i>Increase in street crime</i></p> <p>The large amounts of cash associated with casinos can lead to an increase in street crime such as robberies, prostitution, car thefts, credit car thefts and drug related crimes.</p>		

SOURCE: PEER analysis.

are unique to or more characteristic of the gambling industry and most of the risks are magnified by the size of most casino enterprises. In the words of New York Congressman John LaFalce, then Chairman of the House Committee on Small Business:

If casinos were typical businesses in the recreation industry, there would be little reason for us to focus on the impact of their explosive growth, except to applaud the success of casino owners. But casinos do not appear to be typical businesses. In social and economic terms, casinos may have significant externalities that we do not see in other businesses or industries.

In his evaluation of the legalized gambling industry, Robert Goodman, director of the 1994 United States Gambling Study (funded by the Ford Foundation and the Aspen Institute) and author of *The Luck Business: The Devastating Consequences and Broken Promises of America's Gambling Explosion*, concluded that the industry's negative externalities outweigh its benefits. Citing numerous negative side effects of the legalized gambling industry such as the cannibalization of local consumer dollars away from pre-existing businesses and the extremely high costs associated with compulsive gamblers, Mr. Goodman concludes:

While the state may be able to use its new gambling enterprises as a short-term way to create hundreds of millions of dollars in public revenues and thousands of jobs in the gambling industry, over the long term governments must cope with flattening or falling gambling revenues, while simultaneously dealing with the increased private- and public-sector costs left in the wake of gambling expansion.

Mr. Goodman warns that the economic benefits of legalized gambling are dramatic and visible while the costs are slower to realize, more individual in nature, and therefore more easily hidden from public view (for example, defaulting on personal debt). He believes that the cumulative problems created by legalized gambling typically result in hundreds of millions of dollars in private and public costs to a state in a year. A large component of this cost is the estimated cost of compulsive gambling. Depending on the state, estimates of the number of compulsive gamblers range from 1.5% to 6% of the adult population. A conservative estimate of the individual yearly average private and public costs of problem gamblers is \$13,200. A 1990 statewide study by the Maryland Department of Health and Mental Hygiene reported that the state's 50,000 compulsive gamblers had contributed to a total yearly cost of \$1.5 billion in declining work productivity, monies stolen or embezzled, unpaid state taxes, and other losses--i.e., \$30,000 annually per compulsive gambler. Applying the conservative 1.5% figure and \$13,200 estimate to Mississippi's adult population of approximately 1.7 million (the population twenty-one years of age or older, based on 1990 census data), the *annual* public and private costs of compulsive gambling in Mississippi would be \$337 million--equivalent to 178% of total gambling tax revenues paid to the state and local governments in FY 1995, and more than the *total* gaming taxes

paid into the state's general fund from inception through February 1996. While the cost of compulsive gambling to Mississippi is hypothetical, since no comprehensive study has been conducted specific to the state (refer to related recommendation on page 56), the point is that compulsive gambling is a costly risk of legalized gambling.

While Mr. Goodman's focus is on the social and economic problems resulting from legalized gambling, the risk which Mississippi's gambling industry regulators and regulators in most other states surveyed by PEER deemed most significant is the risk of organized crime entering and controlling the gambling industry. As will be discussed later, many MGC regulatory efforts are directed at keeping organized crime out of Mississippi's casino industry, while virtually none of its efforts are directed toward monitoring the negative social/economic effects of legalized gambling. This widespread concern over organized crime is probably a reaction to the fact that in the early days of legalized gambling in Nevada, organized crime did control the industry and sensational crimes such as murder, embezzlement, and money laundering were relatively commonplace. Because such crimes are more visible to the general public and more readily identifiable as casino-related than, for instance, a compulsive gambler becoming bankrupt, regulators tend to focus their efforts on the former.

The Need for Regulation and Controls

The general risks of legalized gambling and resulting need for controls are discussed in Nevada case law:

Human experience has shown gaming to be like quicksilver, and unless controls are complete and resourceful, the industry will be fraught with conditions of potential threat to its continued existence.

Nevada v. Glusman, 651 P.2d 639, 643 and 645 (Nev. 1982).

The risks to which the public is subjected by the legalizing of this otherwise unlawful activity are met solely by the manner in which licensing and control are carried out.

Nevada v. Rosenthal, 559 P.2d 830, 833-34 (Nev. 1977)

Possibly the greatest regulatory risk that a state with legalized gambling faces is not having the necessary gambling control infrastructure in place prior to beginning to issue operating licenses to gaming establishments.

The Mississippi Gaming Control Act

The Mississippi Legislature patterned the Mississippi Gaming Control Act (MISS. CODE ANN. Section 75-76-1 et. seq.) after Nevada's gambling laws, specifying its intent to:

- control crime and corruption (including ensuring that licensed gambling is conducted “honestly and competitively”);
- protect the rights of the creditors of licensed gambling establishments in Mississippi; and,
- protect the “public health, safety, morals, good order and general welfare of the inhabitants of the state.”

The act further states that “public confidence and trust can only be maintained by strict regulation of all persons, locations, practices, associations and activities related to the operation of licensed gaming establishments and the manufacture or distribution of gambling devices and equipment.” In an official opinion dated July 14, 1993, Mississippi's Attorney General concluded from this and similar language in the act that “gaming is meant to be strictly regulated, with broad powers accorded to the Commission.”

Upon passage of the Gaming Control Act, the Legislature temporarily placed organizational responsibility for its enforcement with the State Tax Commission and ordered that effective October 1, 1993, this responsibility would transfer to an independent Mississippi Gaming Commission. The primary tools which the act gave to these authorities for controlling Mississippi's gambling industry are summarized in Exhibit 4 on page 12. In addition to the specific regulatory tools summarized in Exhibit 4, MISS. CODE ANN. Section 97-33-7 limits gambling geographically to vessels on the waters south of the three most southern counties of the state, or vessels on the Mississippi River or navigable waters within any county bordering on the Mississippi River, provided the voters in the counties where said vessels would be docked have not voted to prohibit casino gambling. As shown in Exhibit 1 on page 6, dockside gambling is legal in the following counties: Adams, Claiborne, Coahoma, Hancock, Harrison, Issaquena, Tunica, Warren, and Washington. Citizens of DeSoto and Jackson counties denied petitions to authorize dockside gambling.

Perception of Mississippi's Gaming Regulatory Climate as Relatively Lax

The perception of the legalized gambling regulatory climate in Mississippi is that it is relatively lax. The *Show Directory* conference agenda for the 1996 Southern Gaming Summit held in Biloxi, Mississippi, noted “Mississippi is the success story of the South, with its free-market philosophy attracting some of the industry's biggest players.” Robert Goodman, author of the book *The Luck Business: The Devastating Consequences and Broken Promises of America's*

Exhibit 4

Summary of Primary Regulatory Tools Contained in the Gaming Control Act (MISS. CODE ANN. Section 75-76-1 et seq.)

Category of Action	Action
Licensing/ Permitting	<ul style="list-style-type: none">•license, as a pre-condition to operation, all establishments where gambling games are conducted or operated or where gambling devices are manufactured or distributed, and all gaming schools•determine the suitability of all persons with power to exercise significant influence over a licensee's operation of a gaming establishment (e.g., corporate owners, directors, lenders and holders of indebtedness of a gaming licensee, owners of more than five percent of a licensee's stock) as part of the licensing process•issue a work permit as a precondition to employment of any "gaming employee" by a casino
Rulemaking	<ul style="list-style-type: none">•define and limit the area, games, and devices permitted in a gaming establishment and the method of operation of such games and devices•prescribe for all gaming licensees: minimum internal controls over fiscal affairs, a uniform code of accounts, and standard forms for reporting relevant financial information
Monitoring	<ul style="list-style-type: none">•inspect and examine all premises, equipment, supplies, papers, books and records of establishments where gaming is conducted and where gambling devices or equipment are manufactured, sold or distributed•investigate (including the power to issue subpoenas to compel the attendance of witnesses), for the purposes of prosecution, any suspected criminal violation of the provisions of the act•institute administrative proceedings against persons who violate gaming regulations and laws•regulate who can enter a licensed gaming establishment (i.e., exclude anyone whose presence threatens the objective of keeping the industry free from crime and corruption)•investigate and resolve patron disputes

SOURCE: PEER analysis.

Gambling Explosion, observed “. . . more gambling space had been constructed [in Mississippi] in less than two years than had been built in Atlantic City in sixteen years.” In a paper presented on October 27, 1992, to the second annual Australian Conference on Casinos and Gaming held in Sydney, William R. Eadington, Professor of Economics and Director of the Institute for the Study of Gambling and Commercial Gaming of the University of Nevada-Reno observed that two of Iowa’s five riverboat casinos closed after the first year, and moved to “less constrained gaming markets in Mississippi.” Mr. Goodman paralleled this observation in his book noting, “Less than a year after Iowa’s riverboat act became law, Illinois and Mississippi had legalized their own, much more aggressive, hard-core brand of riverboat gambling.” As evidence of Mississippi’s approach, Mr. Goodman noted that the state’s gambling laws and regulations allow unlimited: betting on individual games; total player losses; percentage of total casino floor space which can be used for games, and hours of casino operation; and legalization of a wide variety of casino games (see list of games on page 32-33). Mr. Goodman observed that in response to Mississippi’s aggressive pursuit of the legalized gambling market, a little more than a year after the first gambling boat in Iowa had opened, its owners decided to relocate it, as well as a second Iowa boat, to Biloxi, Mississippi. Further, in order to compete with Mississippi and other states with more liberal gambling laws and regulations, Iowa loosened its own restrictions on riverboat gambling.

The perception of Mississippi as an industry-friendly state was not limited to academicians and the many casino owners choosing to locate in Mississippi. An affidavit from the FBI dated November 1993 requesting authorization for wire taps of organized crime figures suspected of racketeering and later convicted of conducting a blackjack scam at Mississippi’s President Casino in Biloxi noted that the FBI had “documented the intent of several LCN [La Cosa Nostra] families from around the country to infiltrate the legalized gambling industry in Mississippi.” In attempting to explain this intent, the affidavit included the following quote from a conversation between a “known” La Cosa Nostra associate and underboss, “In Mississippi there’s no regulations, there’s no laws, there’s no nothing, you can do anything you want to do.”

Purpose and Organization of the Mississippi Gaming Commission

MGC’s 1995 Annual Report states that the Mississippi Gaming Commission’s mission is to work “with the industry and international, national, state, county and local regulatory and law enforcement agencies to establish a safe and crime free environment and to promote economic development that is in the best interest and public safety of the citizens of the State of Mississippi.” (Refer to discussion on page 47 which is critical of MGC’s promotion of the economic development of Mississippi’s legalized gambling industry as a primary objective.)

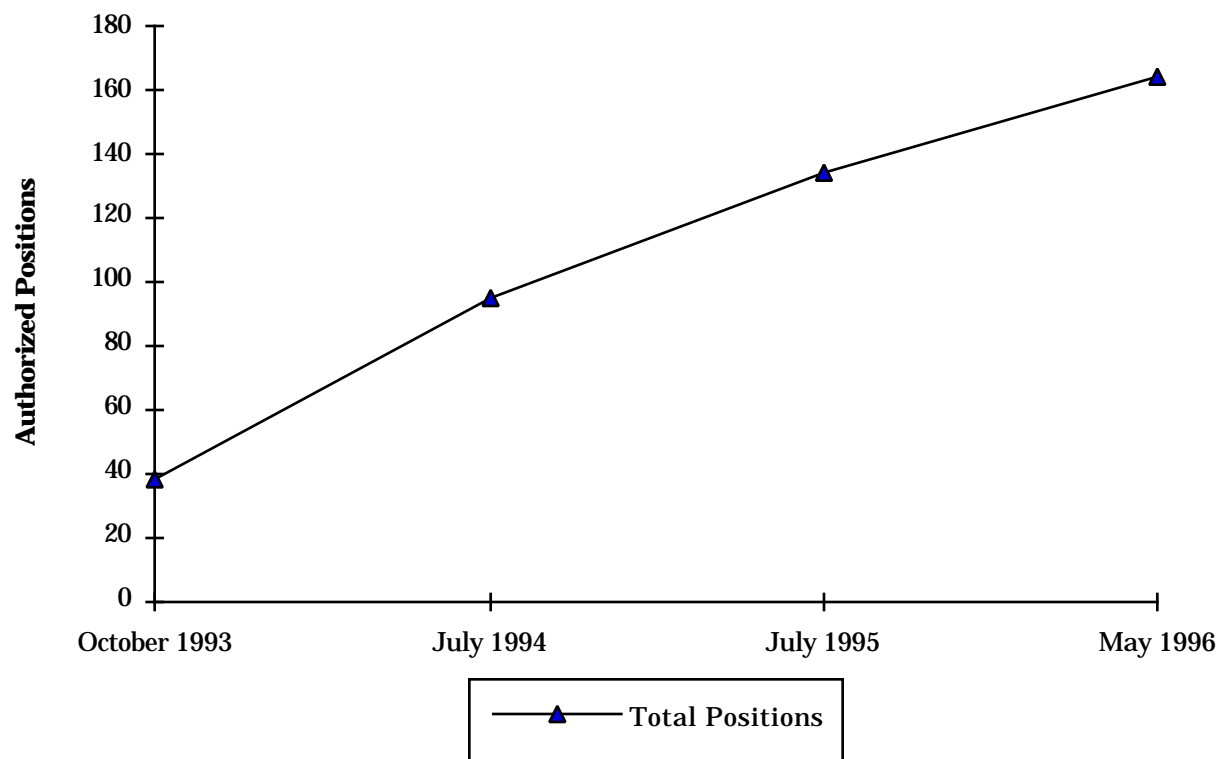
MGC Organization Structure

According to MGC employees, the Legislature initially placed responsibility for gambling regulation with the State Tax Commission because it already had trained staff on board. When the legalized gambling division of the State Tax Commission first began operations in 1992, it had a staff of nine employees.

In addition to its Gaming Division employees, since inception of legalized dockside gambling, the State Tax Commission has also assigned a separate group of tax auditors to audit the collection of gaming taxes. The Gaming Control Act specifically authorizes the State Tax Commission to assess and collect all gaming “taxes, fees, licenses, interest, penalties, damages and fines” and to promulgate rules and regulations to administer such collections. The tax auditors assigned to gaming audit the casinos for compliance with the rules and regulations which the Tax Commission has promulgated for the purpose of assuring that all gaming tax revenues due to the state are properly reported and collected. While the Legislature transferred the legalized gambling division of the State Tax Commission to the independently created MGC, effective October 1993, the State Tax Commission’s authority over the assessment and collection of gaming revenues was not affected by this transfer; State Tax Commission staff continue to audit the state’s casinos for the purpose of ensuring the full and accurate reporting of revenues due to the state. [See related discussion on page 45 regarding PEER’s recommendation that in addition to having the responsibility to collect all gaming taxes and fees, the State Tax Commission should have the legal authority to define gross gaming revenues and to set internal controls for the industry related to the assessment and collection of said revenues.]

Exhibit 5 on page 15 contains an overview of the changes in the number of employees assigned to regulation of legalized gambling in Mississippi, from inception of the legalized gambling division of the State Tax Commission through April 30, 1996. (These staffing numbers do not include the State Tax Commission employees who audit the casinos as part of the commission’s tax collection work.) When the independent Mississippi Gaming Commission was created in October 1993, it had thirty-eight authorized positions. The Gaming Control Act mandated that with creation of the MGC, there would be two divisions, an Enforcement Division and an Investigation Division, and authorized MGC’s Executive Director to create other divisions as deemed necessary to implement the provisions of the act, excluding an audit division. While this language would appear to bar MGC from establishing an audit division, other provisions of the Gaming Control Act, such as § 75-76-29, specifically empower the Gaming Commission to conduct audits of licensees. (See related discussion on page 42.) Subsequent to the enactment of the Gaming Control Act, the Legislature included funds in the commission’s FY 1996 appropriation for compliance officer positions, which have the responsibility for auditing licensees. MGC currently has 164 authorized positions organized into the following major divisions: Legal, Investigation, Enforcement, Intelligence, Gaming Lab, Compliance, and Charitable Gaming. Exhibit 6 on page 16 summarizes the major functions of each of these divisions.

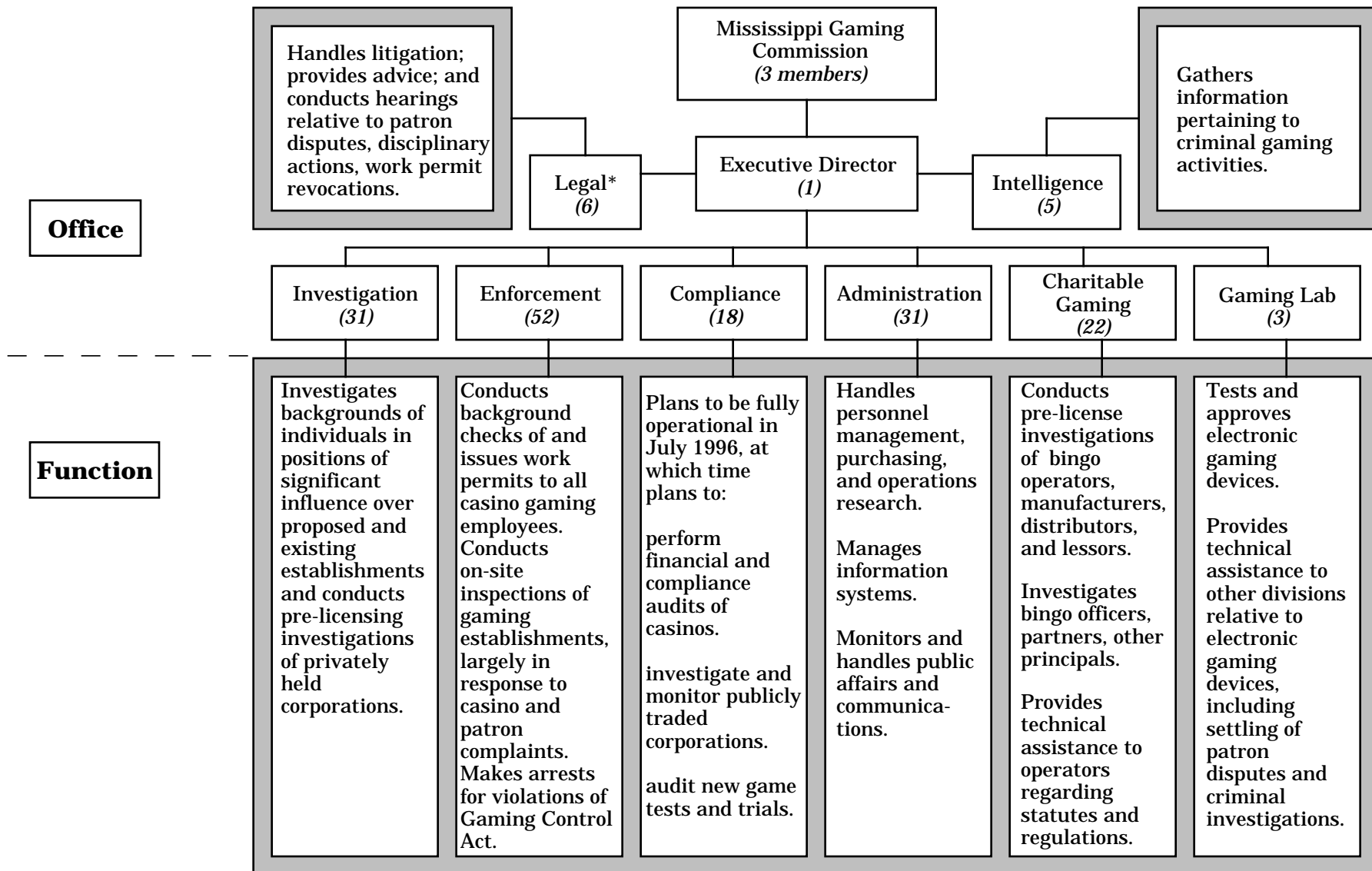
Exhibit 5
Mississippi Gaming Commission Authorized Positions, Fiscal
Years 1993-1996



SOURCE: PEER analysis.

Exhibit 6

Organizational Structure and Major Functions of the Mississippi Gaming Commission May 1996



*Five attorneys are on loan to the Gaming Commission from the Attorney General's Office. The Gaming Commission has 164 total authorized positions.

SOURCE: PEER analysis.

MGC Regulations

The primary way that MGC attempts to control the risks associated with legalized gambling is through enforcement of its published regulations, which contain the commission's rules governing the operation of legalized gambling establishments, including licensure, rules of the game, and minimum internal control standards. Specific regulations are discussed in greater detail in the chapters which follow, as they relate to each of these three primary areas.

B. Background Investigations of Companies and Individuals

Since creation, MGC has focused the majority of its regulatory efforts on investigating the backgrounds of:

- companies applying for licenses to operate gaming establishments in Mississippi;
- individuals in positions of control relative to the companies applying for licenses; and,
- employees hired by licensed gaming establishments to work in positions involved in any way with gambling.

PEER found that while MGC conducts thorough investigations of the criminal backgrounds of such individuals, it has not devoted sufficient resources to investigations of their financial backgrounds. Further, MGC's investigations of corporations applying to operate gaming establishments in Mississippi have also been lacking in financial depth. Detailed financial analysis is important because it can lead the investigator to otherwise undetected illegal and unethical activities.

Pre-Licensing Investigations of Individuals and Companies

Prior to operating a casino or gambling school, or manufacturing, selling, or distributing gambling equipment in Mississippi, state law requires the owners to obtain a license from MGC. The licensee must apply for a new license every two years. MGC's authority with respect to licensure is absolute--i.e., the commission has the authority to approve, deny, limit, condition, restrict, or revoke a license and its decision cannot be appealed. The Gaming Control Act requires that the commission not issue a license until it is satisfied that the financing of the operation is adequate and from a suitable source and that the applicant:

- is a person of good character, honesty, and integrity;
- is a person whose prior activities, reputation, habits, and associations do not pose a threat to the public interest; and,

- has adequate business probity (or integrity), competence, and experience in gaming or generally.

The importance of pre-licensing investigations in the regulatory structure established by Mississippi's Gaming Control Act is evidenced by the fact that the act created an Investigation Division as one of only two mandated divisions of MGC (refer to discussion on page 14). The importance of investigations is further evidenced by the volume of sections in the act specifically addressing licensure of gaming establishments.

Pre-Licensing Investigations of Individuals

As part of the licensing process, Mississippi's Gaming Control Act requires MGC to investigate the "suitability" of individuals who have significant influence over the proposed gambling operation. Only those individuals who MGC finds suitable may hold controlling positions with the proposed operation. In general, MGC requires pre-licensing suitability determinations of all gaming establishment owners (including board members and holders of more than five percent of a corporation's stock), corporate officers (e.g., the chief executive officer, chief financial officer, treasurer), and the manager of the proposed operation in Mississippi. The act also provides that MGC's Executive Director may require a finding of suitability for other individuals such as those: owning an interest in the premises or real property used by the licensee; furnishing services or property to a licensee in return for payments based on earnings, profits, or receipts from gaming; or anyone doing business on the premises of the licensee.

The Gaming Control Act requires MGC to investigate the applicant's records for at least the ten-year period immediately prior to application. The act expressly prohibits the commission from finding suitable any person who has been convicted of a:

- felony in any court of Mississippi, another state, or the United States;
- crime in another state which would be a felony in Mississippi; or,
- misdemeanor involving gambling, sale of alcoholic beverages to minors, prostitution, or procuring individuals to engage in prostitution.

The commission reports conducting a minimum of seven to eight suitability investigations per new license applicant, with some new license applications requiring over twenty such investigations. From December 1991 through December 1995, MGC conducted 630 suitability investigations of 521 individuals (the investigations are updated every two years when the gaming establishment re-applies for a license). Since inception, MGC has only found five of the 521 individuals investigated (less than one percent) unsuitable. (One of the five was found unsuitable because he did not send in the information necessary to

complete his application, not because the investigation uncovered a serious problem.)

The applicant bears the cost of MGC's suitability investigations, at a rate of \$40 per investigative hour plus actual travel expenses. Because of the extensive travel involved, the cost of MGC's suitability investigations is substantial, totaling over \$1.9 million from inception of the Investigation Division through July of 1995 and costing as much as \$125,000 for a single investigation. According to the Chief of MGC's Investigation Division, most finding of suitability investigations cost between \$5,000 and \$20,000. MGC's investigators typically handle six to twelve investigations at one time and take an average of three to four months to complete an investigation.

While the criminal background component of MGC's individual suitability investigations is adequate, the financial component of its suitability investigations lacks analytical depth, thus exposing the state to the risk that Mississippi's gaming establishments could be controlled by individuals who are unscrupulous in their business dealings.

Criminal Background Investigations--One of the primary objectives of MGC's suitability investigations is to uncover any criminal connections, particularly any connections to organized crime. MGC begins its suitability investigation process by requiring the applicant to complete a detailed application form. Upon completion of the form, MGC collects information from standard data sources such as LEXIS-NEXIS (a computerized legal research database). MGC also forwards a copy of the fingerprints of each applicant to the Federal Bureau of Investigation, where they are matched against the fingerprints contained in the FBI's database for any evidence of a criminal record. During every investigation, two investigators (reportedly for protection, verification, and training purposes) personally interview the applicant and travel to every location where the applicant has lived for the past twenty years, ten years longer than required by law, including all residences in foreign countries. At each location, the investigators check civil and criminal record sources (e.g., circuit and chancery courts, secretary of state, federal courts) and interview local law enforcement officers (especially in police department intelligence divisions), former employers, former spouses, and follow leads obtained through such sources for information on the applicant. MGC investigators believe that intensive on-site interviewing is necessary because most information on organized crime is obtained through personal interviews. MGC also checks available data sources identifying organized crime figures and follows any leads provided by other casinos. MGC's investigators also exchange information on suitability applicants with gambling investigators in other states. MGC investigators rarely find criminal connections because the license applicants, wanting to maximize their chances of obtaining a license to operate in Mississippi, conduct their own investigations of individuals in positions requiring a finding of suitability prior to submitting their names to MGC.

Financial Background Investigations--To analyze the adequacy of MGC's financial background investigations of individuals undergoing suitability determinations, PEER used the financial suitability requirements of the Nevada Gaming Commission as a model. As previously discussed, Mississippi used Nevada's gambling control laws as a model for its own Gaming Control Act. In practice, the Nevada Gaming Commission places a strong emphasis on financial investigation as a key tool in its regulation of the state's gambling industry.

While both the Mississippi Gaming Commission and the Nevada Gaming Commission require the applicant for a finding of suitability to submit basic financial information concerning his or her assets and liabilities (e.g., a statement of assets and liabilities and detail of all bank accounts, accounts receivable, notes receivable, stocks, bonds, business investments, real estate, other assets, notes payable, mortgages payable, other liabilities, and contingent liabilities), Nevada requests more detailed financial information from over a longer period and performs a significantly more in-depth financial analysis of the information than does MGC. One area where MGC is more thorough than the Nevada Gaming Commission is the area of re-licensing. Nevada does not require applicants to be re-licensed, while Mississippi requires applicants to be re-licensed every two years. As part of the re-licensing process, MGC requires the same financial information for the previous year as required during the initial licensing process.

Following are details of a comparison of the two states' requirements for financial background investigations:

- *Nevada requests more detailed financial information than does Mississippi*--The Nevada Gaming Commission requires the applicant to submit the following financial-related documents, which MGC does not request for every investigation: state income tax returns, credit card statements, wire transfer documents, cashier checks, wills, trust agreements, and divorce decrees.
- *Nevada requests financial information for a longer time span than does Mississippi*--The Nevada Gaming Commission requires copies of all bank statements, deposits, and canceled checks (over a pre-determined amount, based on the applicant's net worth) for the five-year period immediately preceding application, while MGC requires the same information for only the previous year. In complying with the Gaming Control Act's requirement that the applicant "be a person whose prior activities, reputation, habits, and associations do not pose a threat to the public interest," MGC's Investigation Division routinely checks the non-financial background of individuals applying for a finding of suitability for twenty years. However, in reviewing an applicant's financial background to determine whether an applicant "is a person of good character, honesty, and integrity" and "has adequate business probity, competence, and experience in gaming or generally," MGC's Investigation Division staff only looks at one year of bank statements.

Just as investigating an applicant's background for criminal activity for only one year is not sufficient, investigating an applicant's bank records for one year is not sufficient. One year of records is an inadequate indicator of financial difficulties and cash flow problems which could impact on an individual's suitability for a controlling position with respect to a Mississippi gaming establishment. Also, the longer the period of financial information requested by the regulator, the more difficult it is for the applicant to hide bank accounts or debt.

- *Nevada conducts a significantly more thorough analysis of financial information than does Mississippi*--The primary focus of the Nevada Gaming Commission's individual financial background investigation is to assess the business probity of the applicant by aggressively investigating all sources of financial information for evidence of both illegal and unethical activities, such as funds being diverted to unreported accounts or debts and unreported assets and liabilities. The primary focus of MGC's individual financial background investigation is to conduct a one-year cash flow analysis in order to determine whether the applicant has sufficient resources to meet his or her debt requirements and is not in financial difficulty, which could make the applicant more susceptible to criminal influences.

A more specific illustration of the differences in the depth of financial analysis performed by the two regulatory agencies follows, with respect to their analysis of brokerage accounts. The Nevada Gaming Commission obtains five years of brokerage statements on the applicant, prepares a schedule of all activity in these accounts, traces the activity to the applicant's tax returns, and interviews the broker of each account. The focus of Nevada's analysis is to determine the source and uses of all funds flowing into an applicant's brokerage accounts in order to identify illegal and unethical activities, such as an applicant attempting to avoid taxes by depositing funds in unreported or offshore accounts. In contrast, MGC only obtains the most recent brokerage statement of an applicant in order to determine if the amount of stocks and bonds reported as assets to MGC by the applicant is reasonably close to the amount shown in the brokerage account. The focus of MGC's "analysis" is to determine whether the applicant lied on the application.

Relationship of MGC Employees' Qualifications to Focus of Investigations--MGC's focus on the non-financial background component of suitability investigations rather than the financial background component is reflective of the expertise of its staff. MGC's expertise lies in conducting criminal background investigations of applicants. The current director of MGC's Investigations Division is retired from the Jackson Police Department with twenty-seven years of service and the majority of the investigators have extensive law enforcement experience, many in criminal investigations. Also, all nineteen investigators are certificated Mississippi law enforcement officers, who receive investigative

training as part of their required course work. Only one of the nineteen investigators has significant financial background or experience. Although the Investigations Division has access to financial expertise in the Compliance Division, it does not compensate for the lack of employees with financial experience and knowledge being assigned to the Investigations Division and being available to work on financial matters or questions full time.

In contrast to MGC, over half of the Nevada Gaming Commission's investigators have financial backgrounds. While Nevada cross-trains its law enforcement and financial investigators, it does not expect the investigators to be the primary investigator on matters outside their area of expertise.

Pre-Licensing Investigations of Companies

With respect to the company applying for a gaming establishment license, the Gaming Control Act requires that the commission not issue a license until it is satisfied that the financing of the operation is adequate and from a suitable source. The act specifically requires any corporation or limited partnership applying for a gaming license to provide information, including:

- the organization, financial structure, and nature of the business to be operated, including the names, personal history and fingerprints of all officers, directors and key employees, and the names, addresses and number of shares held by all stockholders, or in the case of a partnership, the interest of each limited partner;
- the terms and conditions of all outstanding indebtedness;
- balance sheets and profit and loss statements for at least the preceding three years;
- remuneration to persons other than directors and officers exceeding \$30,000 per year;
- bonus and profit-sharing arrangements; and,
- management and service contracts.

MGC's regulations set forth the following additional criteria which the commission is to consider when deciding whether to issue a gaming license to an applicant:

- revenue to be provided by the facility through direct taxation and indirect revenues from tourism, ancillary businesses, creation of new industry, and taxes on employees and patrons;
- whether the entity is "economically viable" and properly financed;

- whether the entity provides for adequate security;
- whether the proposed operation is planned in a manner which promotes efficient, safe and enjoyable use by patrons;
- whether the proposed operation complies with state and local laws governing fire, health, construction, zoning, and similar matters;
- whether the applicant will employ the persons necessary to operate the establishment;
- population that the operation plans to serve;
- character and reputation of all persons identified with the ownership and operation of the establishment;
- whether the operation will maximize economic development;
- whether the operation will be beneficial to Mississippi tourism;
- number and quality of employment opportunities for Mississippians created; and,
- amount and type of shore developments.

MGC has divided its casino licensure decision-making process into two phases, the first phase focusing on site suitability and infrastructure development plans. Commission phase one approval requires that the establishment's plan include a five-hundred-car parking facility in proximity to the casino complex and infrastructure facilities which will amount to at least twenty-five percent of the casino cost. The second phase of the commission's licensure approval process focuses on the suitability of the individuals controlling the company and the company itself to conduct business in Mississippi.

MGC has not adequately investigated the financial background of companies applying to operate gaming establishments in Mississippi, thus exposing the state to the risk that such companies are not financially sound.

As shown in Exhibit 7, page 24, from inception through April 1996, MGC has issued eighty-five gaming licenses. As shown in Appendix A on page 59, the number of casinos which MGC licensed has varied significantly from year to year, from twenty-three in 1994 to only one in 1995. MGC issued the first MGC gaming operation license to Lady Luck of Natchez on March 25, 1992; however, the first Mississippi casino to open was the Isle of Capri Casino in Biloxi on August 1, 1992.

Exhibit 7

Status of Mississippi Gaming Commission License Applications, May 1996

Type of License	Status of License Application				
	<u>Licensed</u>	<u>Denied</u>	<u>Withdrew</u>	<u>No Action</u>	<u>Total</u>
Gaming Operation	46	1	6	38	91
Manufacturer and Distributor	28	1	5	3	37
Manufacturer Only	1	0	0	6	7
Distributor Only	8	0	1	8	17
Progressive Security and Accounting Systems	2	0	0	0	2
Total	85	2	12	55	153

SOURCE: Mississippi Gaming Commission.

Prior to establishment of MGC's Compliance Division, two persons with financial backgrounds in MGC's Investigation Division, who have subsequently transferred to the Compliance Division, performed investigations of the companies applying to operate gaming establishments in Mississippi by reviewing documents received in response to MGC's thirty-six-item license applicant request list (see Appendix E, page 66). Requested financial-related documents include a balance sheet, a listing of sources and uses of funds, and economic projections, as well as the corporation's most recently audited financial statements (or if unavailable, the corporation's most recent financial statements). When asked for documentation of what type of financial analysis these investigators performed on corporate license applicants, MGC provided a copy of MGC's most recent corporate "investigative report." The corporate investigation portion of the report states:

Corporate Report

Due to staff's limited resources and the volume and complexity of the information requested from the applicant, the corporate report is being submitted to the commission in the format as provided by the applicant. This report is presented following the corporate investigative report.

Results of Corporate Investigation

No areas of concern were developed as a result of staff's review of the corporate information provided by the applicant or the investigation of the corporation entity.

Not only did the investigators fail to perform any in-depth financial analysis of the limited financial documents which they did request, but they also failed to

include corporate documents important to a financial review, such as minutes of the board of directors or articles of incorporation.

MGC conducts a financial investigation of a private corporation only if the applicant owns one hundred percent of the corporation or if there is evidence of bank funds flowing between the applicant and the corporation. With one exception (when MGC's Compliance Division performed the investigation of a private corporation), the financial information which MGC requests and procedures which it conducts in a private corporation review are similar to those for MGC's financial reviews of individuals for a finding of suitability (refer to page 20). In contrast to MGC, the Nevada Gaming Commission conducts financial investigations of all private corporations and as with its financial investigations of individuals, conducts a more thorough analysis based on more detailed financial information (e.g., articles of incorporation, board minutes, stock certificate records) collected for a longer period (five years).

With respect to MGC's financial investigations of publicly traded corporations, the recent establishment of the Corporate Securities Section of MGC's Compliance Division should fill the gap in oversight. The Compliance Division is currently conducting its first investigation according to its detailed audit program, modeling the Corporate Securities Section's investigative procedures after those of the Nevada Gaming Commission's Corporate Securities Division. The information which MGC now requires of publicly traded corporations applying for a license, including the documents requested and analytical procedures performed on the information obtained, are virtually identical to Nevada's.

Under its new procedures, MGC's Corporate Securities Section will conduct a financial investigation of the holding company of the corporation seeking to do business in Mississippi for the five-year period immediately preceding the application for licensure. MGC may extend the investigation further if investigators feel such action is warranted.

MGC's Corporate Securities Section plans to include a review of the financial viability of the company under investigation by performing a cash flow analysis, ratio analysis, trend analysis, and results of operations of the previous five years. The section plans to review reference material such as stock and bond rating guides to determine how the financial markets assess the company under review. The section plans to include in its investigation a reference check with the Securities and Exchange Commission to determine if the company under investigation has been under or is currently under investigation for any illegal activities. The section also plans to determine the source and use of corporate funds to determine whether the business associates of the company are reputable. MGC plans to review sources of financing for suitability of source, review economic projections to determine if the projections are reasonable when compared to the actual operations of other licensees, and analyze balance sheets.

The consequences of MGC's failure to conduct adequate corporate financial investigations are unknown, particularly since MGC has not in the past done an

adequate job of monitoring the ongoing financial operations of Mississippi's gaming establishments (refer to discussion beginning on page 43). Negative consequences may have been ameliorated to the extent that corporations operating gaming establishments in Mississippi were investigated by other regulators such as the federal Securities and Exchange Commission, which investigates publicly traded corporations, and/or gambling regulators in other states which conduct intensive corporate financial investigations (e.g., Nevada). However, any such external oversight does not negate the need for intensive scrutiny by MGC of gaming establishments seeking to do business in Mississippi.

Post-Licensing Investigations of Gaming Establishment Employees

In addition to the suitability investigations of individuals which MGC conducts prior to licensure, once a gaming license has been issued and the business begins operations, MGC also checks the background of all casino employees involved in any way with gambling, and in September 1995 began conducting "investigations" of certain "key" casino employees, below the level of the casino manager (e.g., assistant casino manager, directors of slot operations, directors of casino operations, shift managers, directors of cage and credit operations, cage managers, slot managers, security directors, pit bosses, surveillance chiefs, and food service managers). The commission's key employee investigations fall between background checks and findings of suitability in terms of depth, focusing on the most recent five years in the applicant's life. The primary purpose of these checks and investigations is to keep individuals with a criminal history, particularly a history linked to organized crime, out of Mississippi's gambling industry.

MGC's process for post-licensure key employee investigations and background checks contains the following weaknesses:

- While MGC has determined it necessary to conduct more in-depth investigations of key-level casino employees, in practice it will be a long time before the commission can complete the first round of these investigations. As of April 30, 1996, MGC had investigated only .2% of the 4,800 estimated total key employees working in Mississippi casinos.
- MGC routinely issues work permits to gaming employees before the criminal background check on the work permit applicant is complete, resulting in persons with felony convictions and misdemeanor convictions working in Mississippi casinos.

Laws Governing the Issuance of Work Permits by MGC and Key Employee Investigations

MISS. CODE ANN. Section 75-76-131 stipulates that "no person may be employed as a gaming employee unless he is the holder of a work permit issued by the commission." CODE Section 75-76-5 defines "gaming employee" as any person

connected directly with the operation of a gaming establishment licensed to conduct any game, including boxmen, cashiers, change personnel, counting room personnel, dealers, floormen, hosts or other persons empowered to extend credit or complimentary services, keno runners, keno writers, machine mechanics, security personnel, shift or pit bosses, shills, supervisors or managers, and ticket writers. The term also includes employees of manufacturers or distributors of gambling equipment in Mississippi whose duties are directly involved with the manufacture, repair, or distribution of gambling equipment. The term does not include bartenders, cocktail waitresses, or other persons engaged in preparing or serving food or beverages unless acting in some other gambling-related capacity.

The Gaming Control Act sets out numerous pre-conditions to eligibility for a work permit. The purpose of MGC's background checks is to attempt to ensure that all of these pre-conditions are met. Specifically, the Gaming Control Act prohibits MGC's Executive Director from issuing a work permit to any person under the age of twenty-one or to an applicant who has committed, attempted, or conspired to commit a crime which is a felony in Mississippi or an offense in another state or jurisdiction which would be a felony if committed in Mississippi. The section also authorizes MGC's Executive Director to refuse to issue a work permit if the applicant has:

- failed to disclose, misstated, or otherwise attempted to mislead the commission with respect to any material fact contained in the application for the issuance or renewal of a work permit;
- knowingly violated the Gaming Control Act or MGC regulations at a place of previous employment;
- committed, attempted or conspired to commit any crime of moral turpitude, embezzlement, or larceny or any violation of any law pertaining to gambling, or any crime which is inimical to (or contrary to) the declared policy of the state concerning gambling;
- been identified in the published reports of any federal or state legislative or executive body as being a member or associate of organized crime, or as being of notorious and unsavory reputation;
- been placed or remains in the constructive custody of any federal, state or municipal law enforcement authority;
- had a work permit revoked or committed any act which is a ground for the revocation of a work permit;

or for any other reasonable cause.

MISS. CODE ANN. Section 75-76-211 contains MGC's legal authority to perform "key employee" investigations. This section authorizes MGC to require individual "licensing" of any employee of a licensed gambling establishment or of

an establishment applying for a license if the commission feels that such “licensing” will serve the public interest. MGC established the five-year intermediary level “key employee” investigation because it felt that background checks were insufficient in depth to protect the state from unscrupulous mid-level managers operating in Mississippi’s casinos.

MGC Regulations Governing Work Permits, Background Checks, and Key Employee Investigations

MGC’s regulations require gaming licensees to determine that each prospective gaming employee has a valid work permit before employing the applicant. The regulations define gaming employees to include anyone directly or indirectly engaged in the administration or supervision of the gambling operations or physical security activities of the licensee--for example, including all individuals who are compensated in any manner in excess of \$30,000 per year, who have authority to hire or terminate gaming employees, or who may extend to casino patrons complimentary house services.

While MGC’s Executive Director has the authority to deny a work permit for any act “inimical to the declared policy of this state concerning gaming in Mississippi,” the regulations additionally specify that MGC must refuse to issue a work permit to any applicant who was convicted of a misdemeanor for:

- theft during the three years prior to application;
- drug offense during the five years prior to application; or,
- gambling-related offense during the three years prior to application.

Work permits must be renewed every two years.

MGC’s regulations define a “key employee” as “any executive, employee, or agent of a gaming licensee having the power to exercise a significant influence over decisions concerning any part of the operation of a gaming licensee.” The commission may require any key employee to undergo a key employee investigation when it believes that such investigation is in the public interest.

Issuance of Work Permits

MGC routinely issues work permits to gaming employees before their criminal background checks are complete, resulting in employment by Mississippi casinos of a small percentage of persons whose employment is prohibited by state law and MGC regulations--i.e., those with felony convictions and certain misdemeanor convictions.

In order to obtain a permit to work in a Mississippi gaming establishment, the applicant must complete MGC’s standard “Application for Gaming Work

Permit" form, which includes questions concerning aliases and employment history, as well as a series of questions concerning the applicant's criminal history. Prior to issuance of a work permit, an MGC enforcement agent reviews the application for any overt problems and contacts the applicant's former employers. The commission denies some applications based upon the information collected on the application form--e.g., if the applicant reported a felony conviction or denial of a gaming work permit in another jurisdiction. If the information submitted on the application looks acceptable, MGC issues the work permit before obtaining all of the background information from external sources. MGC claims that it has to turn the applications around quickly because the casinos cannot wait long periods to hire needed employees. One dilemma which MGC faces is that there is no immediate source of criminal data available to regulatory agencies such as the Gaming Commission for use in verifying the truthfulness of the criminal history provided by an applicant. The primary tool which MGC uses for verification purposes is the FBI fingerprint check, but as will be discussed later, this source does not produce an immediate response.

The problem with MGC's work permit application procedure is that occasionally, external sources yield information which warrants the revocation of a work permit. In such instances, due process requires MGC to hold a formal administrative hearing, if requested by the permittee. The permittee is allowed to continue working for the casino until the hearing officer has reached final determination on the case.

Since 1994, MGC has conducted 38,104 background checks on Mississippi gaming employee applicants. The table below shows the breakdown of background checks by year:

Year	Number of Background Checks
1994	22,655
1995	11,303
1996 (through 3/96)	<u>4,146</u>
Total	38,104

To determine the magnitude of the problem of individuals whose employment is forbidden by the Gaming Control Act (e.g., persons with felony convictions) working in Mississippi casinos, PEER reviewed MGC work permit revocations for the period of May 1995 through April 1996. Of the sixty-one work permits revoked during this period, MGC revoked fourteen permits for gambling-related violations committed *after* hiring by the casino, and forty-seven for felonies and misdemeanors committed *prior to* hiring and issuance of the work permits. Of the forty-seven falling into the latter category, approximately seventy-five percent were for felony convictions and the majority of crimes committed involved some form of theft, ranging from armed robbery to embezzlement, forgery, and shoplifting. While this number represents less than one half of one percent of total work permits issued in 1995 (i.e., the vast majority of gaming employees are

not convicted felons), the fact remains that *no* convicted felons can legally work as gaming employees in Mississippi casinos.

Particularly disturbing is the length of time that these individuals continued to work in Mississippi casinos before being terminated and the fact that most of them held jobs directly dealing with cash--e.g., slot changers, cashiers. PEER calculated that these individuals worked an average of 352 days, nearly an entire year, before MGC revoked their permits. On the extreme end, one felon convicted of forgery in the amount of \$948 continued to work in Mississippi casinos for 1,147 days (over three years) as a shift manager. Two felons, both convicted of theft, were working in the coin counting room and three other individuals with forgery convictions were working in slot change and cage cashier positions. The fastest revocation took seventy-eight days and involved a convicted drug dealer who was working as assistant to the bartender.

While each case is unique, PEER's review of the files of the more extreme examples yielded the following explanations for the lengthy delays in revoking the work permits of individuals with prohibited felony and misdemeanor convictions:

- MGC's failure to request FBI fingerprint checks on a timely basis. In one extreme case, MGC did not request the standard fingerprint check from the FBI until a year after it issued a work permit to the applicant.;
- the fact that requests for fingerprint checks take the FBI a minimum of six weeks to process and as long as six months if the prints are of such poor quality that they have to be re-taken before they can be read;
- MGC having to follow-up on inconclusive FBI reports--e.g., those showing an arrest, but no conviction, in which case MGC must determine the disposition of the arrest;
- efforts by an MGC enforcement agent to assist the permittee in having a conviction legally expunged so that the person could legally continue working for the casino;
- requests for numerous continuances by attorneys representing permittees; and,
- delays in scheduling requested hearings.

MGC is aware of the problem of persons with felony and certain misdemeanor convictions working in Mississippi casinos. To reduce the time involved in obtaining the results of the FBI fingerprint check, the commission is considering purchasing electronic fingerprinting machines for each of its three field offices which immediately notify the user as to the readability of the prints.

Conducting Key Employee Investigations

MGC has completed key employee investigations of only .2% of Mississippi's key employees. In September 1995, MGC began investigating the backgrounds of casino "key employees" (basically, management below the level of the casino manager) on a casino-by-casino basis as investigators have had time. As of April 1996, MGC had investigated nine key employees in two casinos, .2 percent of the estimated 4,800 key employees currently working in Mississippi casinos. Given the size of the casinos' key employee workforce, the fact that there is constant turnover, and the fact that the Investigation Division is also responsible for performing all suitability investigations, it will be a long time before MGC can make a sizable dent in performing its planned more detailed background investigations of key level employees.

C. Monitoring of Games

The first regulatory objective of the Gaming Control Act, as stated in MISS. CODE ANN. Section 75-76-3, is to ensure that "licensed gaming is conducted honestly and competitively." MGC has assigned responsibility for regulating the games to several divisions. The Deputy Director is responsible for approving new table games and changes to existing table games. The Gaming Lab is responsible for approving new electronic games and establishing the integrity of electronic gaming devices prior to their placement in the casinos. The Enforcement Division's agents are responsible for monitoring the games on-site at the casinos. The Intelligence Division is responsible for investigating illegal games at unlicensed establishments.

As in most other areas of legalized gambling regulation, states vary in their approaches to regulating the games. New Jersey has the most intensive on-site regulation, with enforcement agents providing around-the-clock coverage in the casinos, including monitoring the play of the games from their own surveillance cameras. Mississippi's on-site inspection of play of the games does not have the depth of New Jersey's monitoring processes (refer to discussion *Evaluation of the Adequacy of MGC's Monitoring of Casino Games* on page 33).

Summary of Provisions of the Gaming Control Act Governing Cheating and Protection of the Integrity of the Games

MISS. CODE ANN. Sections 75-76-301 through 313 contain definitions of cheating and other related forms of conduct as well as penalties for this conduct.

Section 75-76-307 makes cheating at any gambling game by any person (owner, employee, or player) unlawful. In summary, the act specifically prohibits:

- altering or misrepresenting the outcome of a game after wagers are made;

- using knowledge not available to other players to make betting decisions;
- possession of devices which would allow a player to predict the outcome of games or help analyze and develop a gaming strategy;
- betting after acquiring knowledge of the game's outcome;
- reducing a bet after acquiring knowledge of a game's outcome;
- manipulating a gaming machine with intent to cheat;
- using or manufacturing slugs or counterfeit tokens;
- claiming amounts greater than those won; and,
- enticing persons to gambling establishments operated in violation of the act.

Section 75-76-311 provides specific penalties for violations of these provisions, including fines and imprisonment.

Also, Section 75-76-99 of the act requires MGC to maintain a list of approved gaming devices and authorizes the commission to adopt regulations relating to gaming devices and their "significant modification." Any gaming establishment which operates or maintains a device other than those approved by MGC is subject to disciplinary action.

Section 75-76-101 requires MGC to approve all chips, tokens, or other instrumentalities (other than legal tender of the United States) used in the play of the games. This section also prohibits participation in a game of a licensed gaming establishment if the person is not physically present.

Section 75-76-35 allows MGC to establish a list of persons who are to be excluded or ejected from any licensed gaming establishment because they pose a threat to the interests of the state or to licensed gaming.

Summary of MGC Regulations Governing the Games

Prior to operating a game other than those listed in the Gaming Control Act under the definition of "gambling game," MGC requires the licensee to obtain approval from MGC. MISS. CODE ANN. Section 75-76-5, subsection (k) defines "gambling game" as:

. . .any banking or percentage game played with cards, with dice or with any mechanical, electromechanical or electronic device or machine for money, property, checks, credit or any representative of value, including, without limiting the generality of the foregoing,

faro, monte, roulette, keno, fan-tan, twenty-one, blackjack, seven-and-a-half, big injun, klondike, craps, poker, chuck-a-luck (dai shu), wheel of fortune, chemin de fer, baccarat, pai gow, beat the banker, panguingui, slot machine, or any other game or device approved by the commission.

The regulations require MGC to issue a certificate to each licensee listing the games authorized for play in the establishment. MGC amends this certificate any time that it grants a licensee permission to change its games.

MGC regulations also require each licensee to display:

- the rules of each gambling game it exposes for play; and,
- payoff schedules or award cards applicable to every licensed game or slot machine.

The regulations prohibit casino employees, including owners and corporate officers, from playing any gambling game in the establishment where they are licensed or employed.

The regulations also address payment of winnings and awarding of non-cash prizes as well as operation of gaming devices. For example, several pages of the regulations are devoted to rules governing operation of progressive slot machines by casinos. A separate section of the regulations sets forth the minimum standards which licensees must follow with respect to surveillance systems. The regulations, for example, require that the surveillance system contain date and time generators which record the date and time of the recorded events on the videotape as well as video printers which can generate, instantaneously upon command, a clear copy or photograph of the images on the videotape. The regulations also require the licensee to maintain surveillance camera recordings for at least ten days.

Evaluation of the Adequacy of MGC's Monitoring of Casino Games

Monitoring of Existing Games

PEER observed the following weaknesses in MGC's regulation of casino games:

- *Lack of specific, game-related objectives*--While MGC has published regulations related to the games, it has not defined certain key, legally mandated objectives, such as establishing what criteria it will use to determine whether a game is being conducted "honestly and competitively" and in accordance with all provisions of the Gaming Control Act;

- *Lack of a planned audit program*--MGC enforcement field operations are driven primarily by industry complaints rather than by a planned audit program for identifying impediments to the conduct of honest and competitive games; and,
- *Lack of adequate training*--MGC enforcement agents have not received adequate training to detect problems with the games.

Failure to Establish Criteria for Judging the Honesty and Competitiveness of the Games

MISS. CODE ANN. Section 75-76-3 charges MGC with the responsibility of ensuring that “licensed gaming is conducted honestly and competitively.” While assurance of honesty and competitiveness should be a key component of MGC’s regulatory efforts with respect to the play of the games, MGC has not established written criteria for use in determining when a game is being played honestly and competitively.

No Planned Audit Program for Identifying Impediments to the Conduct of Honest and Competitive Games

MGC enforcement agents’ time records for May through September 1995 show that agents spent the majority of their time (eighty percent) conducting background checks of work permit applicants (refer to discussion beginning on page 28) and performing administrative duties. Enforcement agents only spent twenty percent of their time in the casinos conducting activities such as coin testing and electronic testing of slot machines, monitoring casino security and surveillance, observing casino game areas, making arrests, responding to incident complaints filed by the casinos, and handling patron complaints. In carrying out these activities, agents do not follow a pre-established audit program planned to ensure uniform, documented evaluations of casino gaming operations.

During the course of its review, PEER accompanied MGC enforcement agents on casino “site inspections.” These inspections (which are best described as “walk-throughs”) were insufficient to detect or deter criminal or corrupt activities related to the games. MGC agents did not verify whether employees were wearing their MGC work permits or those of other employees. MGC agents did not regularly review surveillance tapes or check table game equipment (e.g., cards, dice). MGC employees stated that agents are unable to conduct complete reviews of each casino given the current staffing and administrative workload levels. MGC agents spent the majority of their time in the casinos responding to industry-reported incidents or concerns rather than detecting potential gaming-related violations through their own audit program.

One reason that MGC has not developed specific audit steps (e.g., monitoring the hold percentages of games, observing implementation of approved game rules, and auditing win/loss percentages) designed to detect activities

which undermine the integrity of the games is that it has, since inception, directed most of its resources to casino openings and related activities such as conducting background investigations of companies and individuals prior to licensure and conducting background checks of gaming employees prior to employment by the casino. MGC concedes this point in a discussion of its planned focus contained in its 1995 Annual Report to the Mississippi Legislature:

Following our initial period where opening casinos dominated the Gaming Commission's agenda, our primary focus now is to use our 164 authorized personnel positions in a manner that will best regulate and maintain the legitimacy of Mississippi's gaming industry.

MGC should not have begun to license casinos until it had in place all of its regulatory controls, including an audit program for uniformly and systematically inspecting and documenting each casino's compliance with a comprehensive gaming audit checklist.

Inadequate Training of Enforcement Officers in Detecting Gaming-Related Violations of the Gaming Control Act

MGC's enforcement agent training requirements are insufficient to ensure the expertise necessary to detect problems with casino games. MGC policies and procedures require that agents receive a minimum of eighty hours of in-service training each year, but there are no requirements as to the number of hours which must be spent in training related to the detection of cheating on the games (e.g., play of the games, casino surveillance). With respect to training content, commission policy merely states that "40 of these hours may be conducted at the Law Enforcement Academy or through off-site training. The additional 40 hours may include attending seminars or special schools such as those hosted by the Federal Bureau of Investigation."

Further, the casino industry provides much of what little gaming-related training the agents receive. For October 1, 1993, through July 1, 1995, casino personnel provided twenty-five percent of all training received by MGC enforcement agents. Although the industry possesses expertise, the training of Mississippi's regulators by those they are hired to regulate may hamper their independence.

Also, MGC does not have a formal training monitoring system to ensure that each agent receives the required eighty hours of training annually. As of July 1, 1995, the number of training hours received by individual casino enforcement agents employed by MGC for more than one year ranged from 37 to 528.

Each of MGC's three district Special Agents-in-Charge is responsible for coordinating, planning, and monitoring the training of each enforcement agent in his district. The Agents in Charge allow enforcement agents to claim training

hours in many areas which are not directly related to gaming--e.g., sexual harassment, CPR/first aid, and drug identification. Also, PEER observed a wide variety in the amount and type of training offered in each of the three districts. For example, for the six-month period of July through December 1995, the Northern District planned fifty-six hours of training, the Central District - fifty hours; and the Southern District - only thirty hours. Without consistent training among the district offices, MGC agents in various parts of the state may not be equally trained, which may result in the inconsistent enforcement of gaming laws and regulations statewide.

Approval of New Games

Summary of Approval Process

New Table Games--When MGC's Deputy Director receives a request from a casino for approval of a "new" table game, he first compares the game to currently approved table games to determine whether the game is really new or is a variation of an existing table game (which would not require approval). MGC's Deputy Director stated that he bases his decision on whether to recommend approval of a new table game on "industry standards" as to the reasonableness of the proposed game rules and projected winning and table hold percentages.

Based on the Deputy Director's recommendation, the commission decides whether to approve or disapprove the proposed new table game in concept. If the commission votes to approve the proposed table game in concept, the casino which submitted the new game application must then conduct a field test of the game under the proposed game rules for a minimum of thirty days. During this trial period, MGC enforcement agents monitor the play of the proposed game. Also, each week the casino provides MGC with actual winnings and table hold percentage data, which the commission compares to the winning and table hold percentages projected on the new game application.

Between January 1993 and December 1995, MGC approved five new table games: "Bayou Bouree," "Caribbean Stud," "Casino War," "Sic Bo," and "Let it Ride." MGC approved all of these new table games using the above-described procedure, with the exception of Caribbean Stud, which a former MGC Director approved in January 1993 based upon Nevada's approval of the game.

MGC has denied approval for only one table game, "In Between," because the projected casino hold percentage (estimated at twenty-nine to thirty-two percent) exceeded the maximum casino hold percentage set in MGC regulations at less than twenty percent.

New Electronic Games--MGC refers requests for approval of new electronic games to its Gaming Lab for review. As does MGC's Deputy Director for proposed new table games, MGC's Gaming Lab staff first determines whether the proposed game is a new game or simply a variation of an already approved game. If the

proposed electronic game is new, MGC Gaming Lab staff test the game to verify that it complies with MGC regulations governing minimum standards for gaming devices--e.g., the game must theoretically pay out a mathematically demonstrable percentage of all amounts wagered, which must not be less than eighty percent or greater than one hundred percent for each wager available for play on the device (i.e., authorizes casino hold percentages of up to twenty percent); the gaming device must use a statistically sound random selection process to determine the game outcome of each play of a game. The Gaming Lab makes its recommendation for field testing of the proposed game to MGC's Deputy Director. If the Deputy Director approves of the field testing, the game is tested at the casino for a minimum of thirty days. During this trial period, MGC enforcement agents monitor the play of the proposed game. Also, each week the casino provides MGC with actual winnings and slot hold percentage data, which the commission compares to the winning and hold percentages projected on the application.

During the period of January 1993 through April 1996, MGC only approved one new electronic game, "Flip-It."

Evaluation of the Adequacy of the New Games Approval Process

MGC's new games approval process:

- has not defined the terms "honest and competitive" to use in judging play of the games; and,
- has no written criteria for determining whether to approve proposed new table games.

Failure to Define the Terms "Honest and Competitive" with Respect to the Games

MISS. CODE ANN. Section 75-76-3 charges MGC with the responsibility of ensuring that "licensed gaming is conducted honestly and competitively." While assurance of honesty and competitiveness should be a key component of MGC's new games approval process, MGC has not established written criteria for use in determining whether a proposed game is inherently honest and competitive and how easily the game can be monitored for these attributes while in play in the casinos.

Failure to Establish Written Criteria for Determining Whether to Approve New Table Games

While the MGC regulations contain numerous requirements for electronic gaming devices, the regulations contain no such generic requirements for table games. MGC relies on the knowledge and experience of single individual, the Deputy Director, to make a recommendation on proposed new table games. While

he reportedly bases his decision on his knowledge of unwritten “industry standards,” his failure to commit his decisionmaking criteria to paper results in a new table games approval process which is:

- inherently subjective; and,
- completely dependent on one individual.

Enforcement of Gaming Laws and Regulations

The Gaming Control Act authorizes MGC to investigate activities which may violate the provisions of state law governing legalized gambling and/or MGC regulations, to conduct hearings related thereto, and to levy appropriate sanctions.

Reporting Violations

MGC regulations require an agent who observes a violation of the statutes or regulations governing legalized gambling to file an incident report with the district office. The district office then forwards the report to MGC's central office in Jackson. After reviewing the incident report, MGC central office staff notify the alleged perpetrator(s) to “show cause” why the alleged misconduct is not in violation of the cited statute or regulation, thereby affording the accused due process.

Conducting Hearings

Since the legalization of gambling in Mississippi in 1990, with respect to casino licensees only, MGC has held thirty-five show-cause hearings, involving twenty-seven individuals or casinos, and resulting in \$614,225 in fines and two findings of unsuitability. Since inception, MGC has not used the ultimate sanction of revoking a gambling establishment's operating license for violations of state law or MGC regulations; however, in December 1992, the State Tax Commission, acting in the capacity of the Mississippi Gaming Commission, signed an order suspending the license of Splash Casino for failure to pay fines and correct violations in a timely manner. The Tax Commission removed the order upon Splash Casino's demonstration that sufficient internal controls were in place.

Assessing Fines and Penalties

Appendix F on page 70 lists all show-cause hearings conducted by MGC and the outcomes of these hearings, as of April 1996. For example, MGC held a show-cause hearing for the President Casino on October 20, 1992, for an alleged violation of the provision in the Gaming Control Act which prohibits casinos from

allowing persons under the age of twenty-one to gamble. MGC found the casino negligent, fined it \$1,000, and confiscated the minor's jackpot of \$625 (all MGC fines are deposited with the State Treasury). In another example, MGC staff filed reports alleging numerous internal control violations committed by Splash Casino in Tunica, including, but not limited to: (1) inadequate record keeping prior to and during the period of April - May, 1993; (2) failure to have fourteen slot machines properly communicate with the casino's slot data computer system; and (3) unauthorized breaking of slot machine seals. The Splash Casino incident reports and subsequent hearings resulted in fines totaling \$350,000 and the suspension of the gaming license until the matter was resolved.

Since MGC has become a separate agency, it has implemented a show cause hearing process whereby the applicant may first address the complaints in writing and appear before the Executive Director to demonstrate why the casino is not guilty of the complaints. Should the parties not reach a satisfactory conclusion, the Executive Director may forward the complaint to the commission for an administrative hearing.

The Executive Director has resolved nine of the thirty-five orders to show cause without an administrative hearing. Of these nine, two respondents agreed to comply with regulations prior to a show cause hearing; MGC gave four respondents verbal warnings; two cases were misinterpretations; and MGC dropped one case upon receipt of written notification from the accused. However, PEER found insufficient documentation in six show cause files. MGC failed to provide minutes or notes of preliminary show cause hearings or documentation noting the outcome of the complaint.

Patron Disputes

MISS. CODE ANN. Section 75-76-159 (1972) sets forth procedures for casinos to follow in handling a patron claim for payment of gambling debt not evidenced by a credit instrument which the casino refuses to pay. If the casino and patron are not able to resolve the dispute to the satisfaction of the patron, the law requires that the casino notify MGC's Executive Director of the dispute *immediately* for alleged debts of \$500 or more, and for alleged debts of less than \$500, inform the patron of his or her right to request that MGC's Executive Director conduct an investigation into the alleged debt. The law directs MGC's Executive Director to conduct whatever investigation is deemed necessary, determine whether payment should be made by the casino, and notify the commission, licensee, and the patron of the decision within thirty days of receiving the complaint. A casino's failure to notify MGC's Executive Director or the patron in accordance with his notification responsibilities is grounds for MGC disciplinary action pursuant to its authority found in MISS. CODE ANN. Sections 75-76-103 through 75-76-119 (1972).

Aside from the fact that the law requires notification to MGC relative to patron disputes, notification is important as MGC enforcement agents are frequently able to resolve such disputes to the satisfaction of both the patron and the casino. Further, failure to enforce all provisions of the Gaming Control Act

contributes to a public perception that MGC protects the interest of the gaming industry at the expense of protecting the public's interest.

PEER only had access to patron dispute files created as a result of either the casino or the patron reporting the incident to MGC (i.e., PEER had no way of identifying patron disputes never reported to MGC). PEER was able to analyze the extent of compliance with legally mandated reporting requirements of the seventy-three player dispute files created because either the casino or the patron reported the matter to MGC. MGC maintains these files, which cover the period October 1, 1993, through September 1995, in its Jackson office. One example of a casino action disputed by a patron is a case where the casino would not pay a patron who believed that she had hit the \$100,000 jackpot on a free-pull slot machine, because one of their technicians said that he had just been working on the machine and had forgotten to reset it. PEER found that of the thirty-four cases involving a dispute of \$500 or more, in:

- twenty-six (76%) of the cases, the casinos failed to notify MGC immediately of the dispute, as required by law; and,
- twenty-three (68%) of the cases, the casinos did not inform the patrons of their statutory right to file a player dispute with MGC, as required by law.

In addition to reviewing the patron dispute files maintained by MGC, PEER mailed a questionnaire to each of the seventy-three patrons involved in alleged debt disputes with Mississippi casinos and received eighteen responses. Fourteen of the eighteen survey respondents stated that the casinos had not informed them of their statutory right to request an MGC investigation into the matter.

MGC's player dispute investigation process does not require MGC staff to determine whether the casinos were complying with the law governing reporting of player disputes. In twenty-four of the previously discussed twenty-six cases, enforcement agents did not report a violation of the immediate notification requirement in their investigation case files and none of the agents issued a Notice of Casino Violations report citing the casinos with a statutory violation. PEER did find three cases in which MGC personnel identified and documented a casino violation of the immediate notification provision in the law in a written report; however, MGC did not take disciplinary actions against the casinos involved in these three cases.

Maintaining Exclusion Lists

MISS. CODE ANN. Section 75-76-35 et seq. (1972) authorizes MGC to exclude any person whose presence in any licensed gambling establishment is determined to pose a threat to the interests of the state or to licensed gambling. CODE Section 75-76-35 (3) (1972) and MGC *Regulations* authorize the Executive Director to place a person on the exclusion list pending a hearing if the person has:

- (a) *been convicted of a felony in any jurisdiction, of any crime of moral turpitude or of a crime involving gaming;*
- (b) *violated or conspired to violate the provisions of the Gaming Control Act relating to involvement in gaming without required licenses, or willful evasion of fees or taxes;*
- (c) *a notorious or unsavory reputation which would adversely affect public confidence and trust in gaming; or,*
- (d) *his name on any valid and current exclusion list from another jurisdiction in the United States.*

In order to place an individual on the exclusion list, if requested by the subject of the proposed exclusion, MGC must first hold a hearing for a determination of the facts. If no hearing is requested, MGC can immediately place the individual on the exclusion list.

Since inception, MGC has placed only one individual on its exclusion list. On June 28, 1995, MGC's Executive Director officially notified all licensed Mississippi gambling establishments of this exclusion. The individual in question, formerly employed as a manager at Palace Casino, cheated by altering game rules.

While MGC claims that it honors exclusion lists from other gaming jurisdictions, upon inspection of MGC files and interviews with MGC staff, PEER found no other information relative to individuals excluded in other jurisdictions at MGC offices or from its personnel. PEER contacted both the Nevada Gaming Control Board and the New Jersey Casino Control Commission and determined that respectively, they had excluded 25 and 170 individuals from their gambling establishments, with three names appearing on both lists. While MGC's Director of Intelligence claimed that Nevada had failed to respond to his requests for a copy of their exclusion list on several occasions, PEER obtained copies of Nevada's and New Jersey's lists on the same day requested, as they are maintained as public documents.

By not maintaining a complete, accurate list of persons excluded from gaming establishments in other jurisdictions, MGC unnecessarily exposes the state to the risk that these individuals will commit gaming-related crimes in Mississippi's casinos. This is exactly what happened when an individual who had been placed on both Nevada's and New Jersey's exclusion lists was allowed to gamble in Mississippi and was subsequently convicted of two counts of racketeering and wire fraud as related to a cheating scam in a casino on the Gulf Coast.

D. Ongoing Auditing of Licensee Operations

The purpose of ongoing auditing of licensee operations is to determine whether the licensee complies with applicable laws and regulations, particularly those governing white-collar crime such as money laundering and embezzlement. While the Gaming Control Act specifically prohibits MGC from establishing an “audit” division (refer to discussion on page 14), the act grants to MGC specific authority to “inspect, examine, photocopy, and **audit** [emphasis added] all papers books and records of applicants and licensees. . .respecting the gross income produced by any gaming business. . .and respecting all other matters affecting the enforcement of the policy or any of the provisions of this chapter.”

Also, MISS. CODE ANN. Sections 75-76-45 through 75-76-51 require MGC to perform specific financial oversight functions such as:

- prescribing minimum internal control procedures for licensees;
- requiring periodic financial reports from licensees;
- requiring independent audits of the financial statements of licensees whose annual gross revenues total \$3 million or more; and,
- regulating the reporting of winnings, compensation, and gross revenue.

Procedures Currently Performed by Compliance Division

MGC established its Compliance Division in July 1995. Although the division is not scheduled to be fully operational until July 1996, it has already performed some analytical procedures on licensee records, conducted risk analysis of licensees’ operations, and performed fieldwork at several casinos, including Interim Review engagements (mini-audits) and bankroll verifications (cash flow analysis on a licensee experiencing financial difficulties).

Since his employment in August 1995, MGC’s Compliance Division Director, who is a Certified Public Accountant with eighteen years of experience with the Nevada Gaming Commission, has focused his efforts on: adapting checklists and audit programs used in other states, particularly in Nevada, for Mississippi’s gaming laws and regulations; hiring and training Compliance Division staff; compiling a division handbook; and establishing preliminary records and database information.

*Risks Unaddressed During Establishment of
Mississippi's Gaming Industry*

Neither the State Tax Commission, when it regulated gaming, nor the Mississippi Gaming Commission has performed comprehensive financial and regulatory audits of Mississippi's licensed gaming establishments.

The State Tax Commission, when it had exclusive authority over the regulation of gaming in Mississippi, and subsequently the MGC, failed to establish initially the oversight apparatus necessary to address all financial and regulatory aspects of the gaming industry.

While both the State Tax Commission and MGC followed limited audit steps such as auditing for the collection of gross revenues in the case of the former and observing money being added and removed from table games in the case of the latter, neither followed a comprehensive uniform, written approach to address all minimum internal control standards such as those procedures now set out in the Compliance Division's audit programs and checklists.

More specifically, both MGC and the State Tax Commission failed to perform procedures to address certain risks associated with gaming which include but are not limited to:

Financial stability of licensees-Financial stability of gaming licensees is important to maintain the public trust. Failure of a licensee to meet its obligations adversely affects vendors, patrons, and public confidence.

Hidden ownership-MGC has legal authority to require any owner, even a shareholder with one share, to be found suitable. However, for practical reasons, MGC reviews only reported ownership interests over 5% for suitability. Hidden ownership interests may be associated with individuals or organizations not deemed suitable for association with legalized gaming (e.g., persons linked to organized crime, convicted felons).

Unreported debts-The Gaming Control Act requires licensees to report all loans, leases, and mortgages to MGC. A licensee experiencing financial difficulties may incur additional debt to bolster cash flow and may attempt to hide such information.

Money laundering and embezzlement-Through the performance and monitoring of certain analytical procedures, incidents of money laundering and embezzlement of proceeds may be detected.

Source of funds -The regulations of the MGC require all forms of credit to be reported to the MGC within thirty days of such transaction. If after investigation of the creditor, the MGC finds the transaction to be contrary to the public health or general welfare of the people of Mississippi, the MGC has the authority to order the transaction rescinded within such time and upon such terms and conditions as it may deem appropriate.

The Compliance Division, scheduled to be fully operational beginning July 1996, plans to operate on a two-year audit cycle with the extent of the division's review and substantive tests based on its staff's assessment of the risk analysis and preliminary tests of the licensee's records. The division has developed audit programs and checklists based on those of Nevada and modified for Mississippi's gaming laws and regulations. Currently, the division plans to perform the following steps which should have been operational prior to issuance of the first gaming license in March 1992:

- Assess the financial stability of licensed gaming establishments by conducting analytical procedures on the licensee's financial statements.
- Review licensee records for evidence of hidden ownership interests or unreported debt.
- Perform and monitor analytical procedures designed to detect incidents of money laundering and embezzlement and conduct investigations as required.
- Review transactions in which licensees incur debt to ensure the creditor is reputable and the transaction is not contrary to the public health or general welfare of the people of Mississippi.
- Monitor and review licensee management's response to the annual compliance letters issued by the licensee's independent certified public accountant.
- Assess the qualifications of each licensee's internal audit staff, determine whether the internal audit staff reports to an appropriate level of management, monitor the reports of each licensee's internal audit staff for areas with repeated violations, and monitor licensee management's response to the reports of internal audit.
- For licensees whose parent companies are registered with the Securities and Exchange Commission (SEC), monitor the quarterly and annual reports filed with the SEC for evidence of the company's financial soundness; going concern issues; reporting accuracy; and changes in officers, directors, and ownership structure.

Audit Responsibilities of the Tax Commission and Gaming Commission

Prior to MGC's establishment of its Compliance Division in July 1995, the only state audits of casinos were conducted by State Tax Commission auditors for the specific purpose of ensuring that casinos were properly reporting gross revenues and paying all taxes due to the state and its local subdivisions. While

audit steps conducted pursuant to this objective are necessary, they are by no means sufficient to control the numerous risks associated with legalized gambling. The Tax Commission does not conduct full financial and regulatory audits and the statute does not give it the responsibility of performing such audits.

Even with the imminent implementation of the Compliance Division, both the Tax Commission and Gaming Commission will continue to have responsibilities for regulating the state's legalized gambling industry.

State law does not specifically authorize the State Tax Commission to set internal controls and definitions of revenue for the gaming industry, which deprives the commission of the explicit authority to protect the state's revenue interests in casino income.

Under present law the State Tax Commission is not included in MISS. CODE ANN. Sections 75-76-45 and 75-76-51, which specifically assign to the Gaming Commission the authority to set minimum internal controls for the industry and to establish definitions of gross revenue. The Tax Commission is authorized only to assess and collect revenues and to promulgate rules and regulations to administer such collections. It has no authority to set standards for internal financial controls. Because of the specific grant of power to the Gaming Commission to set internal controls and revenue definitions, the Tax Commission lacks the authority to adopt regulations binding on the industry that would affect determination of a casino's tax liability.

As noted above, the Tax Commission must collect revenues from the licensees. With respect to other state tax levies, the Tax Commission has the specific power to protect the state's interest in collecting revenues by adopting regulations which address such matters as those mentioned above. Examples of this authority include Section 27-7-81, which authorizes regulations which are not inconsistent with the Income Tax chapter and Regulation 201 et. seq. of the State Income Tax Regulations which define gross revenues for entities and individuals who must pay income taxes; and Section 27-65-93, which authorizes the Tax Commission to promulgate regulations for the ascertainment, assessment, and collection of tax imposed by the sales tax law.

Because the Tax Commission does not have the authority to set controls and definitions of gross revenue, the agency must collect taxes without having the clear legal authority to determine whether the firms have actually paid the state what it is due.

The Gaming Control Act is unclear as to whether the Mississippi Gaming Commission has statutory authority to establish an audit function.

The following two sections of the Gaming Control Act relate to the Mississippi Gaming Commission's ability to audit licensees' financial records.

MISS. CODE. ANN. Section 75-76-17 states, in part:

(1) From and after October 1, 1993, there are hereby created, for supervision by the executive director, two (2) divisions which are entitled the Enforcement Division and the Investigation Division. The executive director shall be authorized to create such other divisions as he deems necessary to implement the provisions of this chapter excluding an audit division. [emphasis added]

MISS. CODE ANN. Section 75-76-27 states, in part:

The executive director and his employees may demand access to and inspect, examine, photocopy and audit [emphasis added] all papers, books and records of applicants and licensees. . .respecting the gross income produced by any gaming business. . .and respecting all other matters affecting the enforcement of the policy or any of the provisions of this chapter.

These two sections appear contradictory with respect to the Mississippi Gaming Commission's authority to audit licensees. The Commission's newly formed Compliance Division may be in violation of §75-76-17 because the responsibilities and operations of the division are in essence the same as those of an audit division. The only noticeable difference lies in the naming of the division "Compliance" instead of "Audit." However, an audit function is necessary for the Gaming Commission to protect against the financial risks associated with the casino industry and its possible penetration by organized crime. A formal audit division also may be necessary to the commission's adherence with provisions of §75-76-27.

The State Tax Commission performs audits of casinos to assess and collect gaming taxes but these audits do not represent a comprehensive financial or compliance audit of such casinos. As a result, major risk areas, such as assessing the financial stability of licensed gaming establishments by conducting analytical procedures on the licensee's financial statements and reviewing licensee records for evidence of hidden ownership interests, are not addressed by audits performed by the State Tax Commission.

The uncertainty regarding the Mississippi Gaming Commission's ability to establish an audit function represents a weakness in the Gaming Control Act. In order for Mississippi to have a strong, effective, comprehensive regulatory oversight function, it is imperative that the Mississippi Gaming Commission's audit authority be clarified.

E. Monitoring of the Negative Social Consequences of Legalized Gambling

The Gaming Control Act declares it to be the public policy of the state that legalized gambling must be regulated in order to protect the "public health, safety, morals, good order and general welfare of the inhabitants of the state."

While not specifically mandated by state law, full protection of the general welfare of the state's inhabitants includes ongoing monitoring of the negative social consequences of legalized gambling and development of regulations designed to lessen the negative impact, where feasible.

MGC has the authority to, but does not currently collect, the type of data from Mississippi's casinos which would enable it to conduct ongoing studies of the negative consequences of legalized gambling. As discussed on page 9, one of the most costly negative social consequences of legalized gambling is the effect which it has on increasing the number of compulsive gamblers. MGC should at the very least monitor the incidence of compulsive gambling in Mississippi and determine which casino policies and practices foster compulsive gambling behavior. For example, MGC should look into the effects on compulsive gambling of such casino practices as offering free slot machine pulls to patrons who cash their paychecks in the casino and offering free drinks to patrons while providing convenient access to automated teller machines. As Mr. Goodman observes, gaming policy decisions have been made by legislators relying almost exclusively on data supplied by the gaming industry. A regulatory agency such as MGC must provide the needed balance by conducting its own independent research.

MGC's failure to regulate Mississippi's legalized gambling industry aggressively and failure to monitor the industry's negative social consequences result in a perception shared by many that MGC is "too close to the industry"--i.e., that it seeks to protect and promote the industry which it is supposed to regulate. In its efforts to help the state realize the anticipated economic benefits of legalized gambling, MGC licensed forty-five casinos in less than four years (twenty-three in 1994, alone), without having all of the necessary regulatory infrastructure in place (e.g., the capacity to conduct thorough pre-licensing investigations of companies applying for a gaming license). Additional factors which may foster the perception that the legalized gambling industry has co-opted the agency charged with its regulation include MGC's:

- inclusion in its mission statement of the objective "to work with the industry to promote economic development." One of the members of the Gaming Commission interviewed by PEER noted that a primary objective of MGC is to protect the citizens of Mississippi who are realizing the economic development benefits of gambling by making sure that Mississippi has a good business climate for gambling and providing proper support for the industry; and,
- dispensation of lenient disciplinary action against the casinos--e.g., verbal warnings (rather than stiff fines) for significant violations of the Gaming Control Act (e.g., casinos allowing underage gambling).

Also fostering the perception of MGC being too close to the legalized gambling industry is the wealth of the industry and its perceived ability to buy whatever it wants, including regulators. On this point, several former Mississippi casino regulators have become casino employees; e.g.:

- a former Executive Director of MGC became a casino manager;
- a former Deputy Executive Director of MGC became a casino vice president; and,
- both the staff attorney of the Mississippi Attorney General's Office who wrote most of the opinions on questions concerning the Gaming Control Act in the period immediately following its passage and a former MGC director of enforcement became casino employees.

Mr. Goodman observed this phenomenon in his book *The Luck Business*:

. . .aiding the casino industry in its effort to become the most powerful group in a state's political arena is a revolving-door phenomenon in which the industry scoops up former public officials and regulators and gives them lobbying or executive-level jobs. In some cases, the potential for conflict of interest is overwhelming. In 1992 and 1993, three members of the Mississippi Gaming Commission, including its executive director. . .and director of enforcement. . .resigned to take high-level jobs in the gambling industry.

The commission should recognize that in order to fulfill its statutory mandate to keep Mississippi's casinos as crime- and corruption-free as possible and to protect the "public health, safety, morals, good order and general welfare of the inhabitants of the state," it must diligently execute its regulatory responsibilities.

Part II: Regulation of Charitable Bingo

A. Background

Most charitable gambling in the United States is conducted on behalf of charitable nonprofit organizations. The activity includes bingo, charity game tickets, raffles, casino nights, and other various games of chance. Charitable gambling developed as a means of providing funding for services and programs which add value to the lives of members of the local community and which might otherwise be neglected for lack of funds. In 1994, forty-six of fifty states and the District of Columbia had some form of legalized charity gambling. Mississippi, with \$146,224,423 wagered, ranked seventh in total amounts wagered of the twenty-nine states reporting charitable gambling receipts. MGC collected \$1.2 million from Mississippi's licensed bingo operators in 1994 in license and revenue fees, which are used to support the commission's charitable gaming regulatory efforts.

Summary of Mississippi's Charitable Bingo Law

Mississippi's "Charitable Bingo Law" (MISS. CODE ANN. §97-33-50 through -203) requires MGC to regulate charitable bingo. The law authorizes the commission to issue bingo licenses, examine books and records of licensees, conduct audits and investigations, mandate internal controls for bingo operations, inspect charity bingo facilities and equipment, and assess fines and suspend or revoke bingo licenses.

The Commission's Charitable Gaming Division

To implement regulation of charitable bingo, the commission established the Charitable Gaming Division with six employees in FY 1994. By FY 1996, the division grew to twenty-two employees. The Charitable Gaming Division oversees licensing of charitable gambling organizations, manufacturers, distributors, operators, and commercial lessors and evaluates the suitability of officers, partners, or principals of the applicant entity and bingo supervisors. The division also notifies licensees of the requirements of the Charitable Bingo Law and related commission regulations and determines licensees' compliance with them.

B. Problems with Oversight of Charitable Gambling (Bingo)

The Mississippi Gaming Commission operates a reactive bingo regulatory system which depends on agents' observations and reported violations to determine compliance with bingo laws and regulations rather than a proactive system, which would determine compliance through systematic, detailed inspections.

The Charitable Bingo Law primarily addresses licensing bingo operations, length and frequency of games, qualifications of management personnel, prize limits, compensation, regulation of rental costs and fees, and allowable expenses. The Charitable Gaming Division has interpreted state law consistently during licensee reviews, but it does not employ a consistent, proactive regulatory approach through random reviews, standard penalties, or a standardized patron complaint system.

The Charitable Gaming Division primarily reviews bingo organizations by assigning its agents to observe specific bingo operations. Agents complete site inspection forms, which record their observations. Although the form is not comprehensive, agents observe many violations through this procedure and subsequently recommend fines and penalties for noncompliance. From agent correspondence related to these reported observations, the Charitable Gaming Division's management determines which bingo operations pose the greatest risk and then performs a more comprehensive review of those bingo organizations.

Although this exercise of managerial judgment may identify some high-risk bingo organizations, the Gaming Commission does not assure proper monitoring of a majority of high-risk organizations or the remaining organizations not considered to be high-risk. For example, agents' activity reports for a nine-month period (January 1, 1995, to September 30, 1995) show that:

- bingo enforcement agents did not inspect thirty of the state's 146 bingo organizations;
- on average, bingo enforcement agents visited 52% of the remaining 116 bingo organizations once each month; and,
- the Charitable Gaming Division conducted an in-depth financial record review of one bingo organization per month.

The Gaming Commission's only established policy for monitoring bingo halls is the policy to guide bingo agents' actions (currently under review):

{The} Enforcement Agent is to conduct site inspections throughout the year. Generally, each licensee is inspected once per month unless otherwise directed by the Division Director or Special Enforcement Agent. . . .The initial site inspection will be used by Agents to inform the licensee of the laws and regulation. . . .On each monitoring visit, the Agent will complete the Monitoring Report Cover sheet.

The commission requires an initial inspection for all bingo organizations upon opening and a monthly inspection for each operating organization, with documentation of each of these site visits. This information should be compiled in a manner that allows the Charitable Gaming Division's management to evaluate agents' work.

The Charitable Gaming Division stated several reasons for its failure to monitor all bingo organizations. The division cites limited staff to perform site inspections and lack of personnel with skills to perform the financial and internal control reviews. Currently, the Charitable Gaming Division's management proposes a self-imposed effective monitoring rate of eleven bingo organizations per agent, but at this rate the Charitable Gaming Division could only monitor 110 of the state's bingo organizations. The total number of organizations varies, but has remained in excess of 140 during the last fiscal year. The Gaming Commission has not performed a needs analysis to determine the number of staff required nor has it analyzed the work requirements of enforcement agents' duties in order to recruit qualified staff.

From January 1, 1995, through September 10, 1995, an average of fifty-nine percent of the state's bingo organizations escaped review on a monthly basis. The Charitable Gaming Division only made an in-depth review of seven percent of the bingo operations over the selected nine-month period. With such a low rate of review, the commission cannot gain enough information to know whether the operators violate bingo laws and regulations. Assurance of financial accountability of bingo organizations is almost nonexistent. The Gaming Commission has become reliant on a reactive form of regulation in its monitoring efforts, which target only a small percentage of bingo organizations with repeated problems.

Although state law authorizes charitable nonprofit organizations to operate bingo games, presumably to help provide funds for community services, the Charitable Bingo Law does not establish accountability requirements for the funds generated through these games.

Mississippi's scheme for regulating bingo operators targets the specific performance of bingo operations to ensure fair play of the games. While this is an important aspect of the legalization of bingo games, the law is silent as to accountability of the bingo organization's performance and contributions to the community. This has led to the following critical weaknesses in the commission's oversight policy:

Lack of licensing standards. Other than the requirement of status as a nonprofit organization, Mississippi has no established requirements for obtaining a bingo license, such as previous operation as a charity or demonstration of progress toward the accomplishment of the purpose of the organization. No bingo operation demonstrates its benefits to charitable organizations.

Weaknesses in controls over bingo operators' finances. Mississippi law does not regulate or establish maximum limits on income derived from bingo, maximum payback percentage for total dollars wagered, or income requirements to donate to charity, nor does it require full accountability for use of the charity-bingo-generated funds. The only provision within the law requiring financial accountability for bingo organizations is Section 97-33-52 (2), which requires that licensees donate "all net proceeds" to be "expended only for the purposes for which the organization is created."

Some bingo licensees advertise themselves as sponsoring and donating proceeds to a specific local charity, do not give any money to the charity, but still operate within the law. For example, in FY 1995, one Mississippi bingo licensee earned \$141,010 in gross revenues, but made no distribution to its designated charity. Many representatives of the bingo industry think that the state of Washington has the most structured bingo laws and regulations in the nation. Thirty-one of Mississippi's bingo licensees donated less than the 4.5% minimum required by Washington. Of the eight top-grossing licensees, seven did not make the minimum contribution based on Washington's standards.

Commission's limited authority over bingo. The Gaming Commission's authority is limited to enforcement of the Charitable Bingo Law on licensed bingo operations. Bingo enforcement agents may review expenditures and disbursements of bingo licensees, but do not have the statutory authority to follow the flow of funds generated to verify that they are ultimately used to support charitable activities.

No limits on prizes. State law does not require the Gaming Commission to limit bingo operators' prize payback percentages. Some bingo halls pay back as much as ninety-nine percent of the total dollars wagered while playing bingo games. This leaves one percent of the gross income to pay the expenses for conducting the games and donating the remaining proceeds to the designated charities. An example was a bingo hall which had \$1,062,775 wagered and prizes of \$1,046,354, or a 99% payback. This volume of bingo games provided only \$15,000 in total annual contributions to the charity. Under these conditions, this bingo hall was basically a legalized gambling operation instead of the charitable support operation that it was purported to be.

The public policy behind the Charitable Bingo Law balances legalization of bingo with the setting aside of the net proceeds of the gambling activity to support charities. The weaknesses in enforcement discussed above impair that balance. Without a requirement that a certain percentage of funds be transferred to charity, bingo halls can become miniature casinos established solely to provide entertainment to players—which is not how they represent themselves to the public. An operator can establish a bingo hall as a nonprofit business, and because of the cash nature of the business, operate it in a manner to make a great deal of money. Without oversight of the payments to charities, the commission cannot determine whether payments of bingo operators flow to activities which are not charitable and do not benefit the persons who are the intended

beneficiaries of charitable bingo—legitimate charities which provide services for people in need.

Part III: Recommendations

Casino Gambling

Licensing and Background Investigations

1. MGC should ensure that the necessary regulatory infrastructure is in place to carry out its licensing and background investigation functions adequately, particularly the financial expertise and analytical plan needed to investigate adequately the backgrounds of individuals and private corporations. MGC should obtain and review at least five years of financial background information in order to afford a reasonable basis for conclusions concerning the character, ethics, and business quality of individuals and private corporations. Also, MGC's analysis of the information obtained during the pre-license background investigations should be more in-depth, including thorough analysis of the sources and uses of all funds. MGC should subject private corporations to the same level of financial investigation as individuals.
2. MGC should proceed with the planned work of its Compliance Division to conduct thorough financial pre-licensing investigations of public corporations and ongoing audits of licensees for compliance with gaming laws and regulations.
3. MGC should continue to expedite the background check process by reducing the time involved in all procedures which are under the commission's control--e.g., improving the readability of fingerprints submitted to the FBI.

Also, the Legislature should amend MISS. CODE ANN. Section 75-76-131 to authorize the Mississippi Gaming Commission to issue temporary work permits, which the Executive Director may revoke without pre-revocation notice and hearing. The legislation should grant a post-revocation hearing within fifteen days of the revocation.

See Appendix G, page 73, for recommended legislation.

4. MGC should continue using existing resources to obtain the investigatory services needed to complete a higher percentage of key employee investigations.

Monitoring of the Games

5. MGC should define and establish criteria for monitoring the "honest and competitive" conduct of table games and electronic games.
6. MGC should develop written criteria for approval of new table games.

7. MGC should develop a written audit program for monitoring the play of the games in compliance with gaming laws and regulations.
8. MGC should revise its training requirements for enforcement agents to include a minimum number of required hours of training related specifically to the detection of cheating on games. MGC should not rely on the casinos to provide this training.
9. MGC should obtain and distribute to all Mississippi casinos the names of persons maintained on exclusion lists from other gambling jurisdictions (particularly Nevada and New Jersey).
10. MGC should maintain in its permanent records any motion and order, or any other document, denoting the reasoning and outcome for all show cause hearings as evidenced by the Executive Director.
11. MGC should standardize its fines for violations of the Gaming Control Act and regulations.
12. MGC should include monitoring of casino compliance with legal requirements governing the handling of patron disputes as part of its ongoing casino audit program.
13. The Gaming Commission regulations or statutes should require casinos to file a one-page incident report each time they eject any patron for any reason. The law should require that these reports be made available to law enforcement agencies.

Ongoing Auditing of Licensees

14. The Legislature should amend MISS. CODE ANN. Sections 75-76-45 and -51 to provide that the Mississippi Gaming Commission and the State Tax Commission jointly develop and promulgate for the casinos a single set of minimum internal control standards and rules for defining gross revenue.

Such rules should be the only rules each of the agencies use in determining licensees' gross revenue, and such minimum internal control standards should be the only minimum internal control standards enforceable by the two regulatory agencies. Such rules and standards should become effective January 1, 1998. When any material differences in the interpretation or application of the single set of rules or minimum internal control standards arise, staff of the Mississippi Gaming Commission and the State Tax Commission should meet jointly to develop a joint resolution of the differences in a timely manner.

In the event that the Mississippi Gaming Commission and the State Tax Commission cannot agree on the content or necessity of a proposed rule or minimum internal control standard or subsequent interpretation of adopted

rules and minimum internal control standards, the agencies should submit such differences in writing to the State Auditor for arbitration. The State Auditor may resolve the differences by selecting a proposal of the Mississippi Gaming Commission or the State Tax Commission or by developing a proposal based on the positions of the two agencies. The Mississippi Gaming Commission and the State Tax Commission should be required to adopt in rule form any arbitration decisions developed by the State Auditor.

The Mississippi Gaming Commission and the State Tax Commission should meet annually by April 1 to discuss the need for new rules and minimum internal control standards or revision of existing rules and minimum internal control standards. The two agencies' revisions of the single set of rules and minimum internal control standards should be completed each year by May 15 for initial comment by the licensees. Conflicts between the two agencies should be referred in writing to the State Auditor for resolution as provided for above. When developing the initial set of rules and minimum internal control standards and revising the rules and minimum internal control standards annually, the Mississippi Gaming Commission and the State Tax Commission should comply with provisions of the state's Administrative Procedures Act.

See Appendix G, page 73, for recommended legislation.

15. The Legislature should amend MISS. CODE ANN. § 75-76-17 by deleting the prohibition against the Mississippi Gaming Commission's establishment of an audit division.

See Appendix G, page 73, for recommended legislation.

16. The Legislature should amend MISS. CODE ANN. Sections 75-76-81 and 75-76-87 to require that information collected by either MGC or the State Tax Commission during the course of audits and investigations be made available to the other party.

See Appendix G, page 73, for recommended legislation.

17. The Legislature should require that casinos prepare a duplicate copy of each Currency Transaction Report (Title 31) and file it with the Gaming Commission. The law should require the commission to make copies of the forms available to law enforcement agencies.

See Appendix G, page 73, for recommended legislation.

Monitoring Negative Social Consequences

18. Using existing resources, MGC should conduct an ongoing cost/benefit analysis of Mississippi's legalized gambling industry and report its findings to the Legislature, industry, and the general public. The analysis should

monitor such relevant factors as the percentage of gamblers who are in-state versus out-of-state, the socioeconomic profile of these gamblers, and the incidence and associated costs of casino-related problems such as compulsive gambling and white collar crime. MGC should develop strategies for reducing the incidence of any serious problems identified through its analysis.

19. MGC should eliminate promotion of economic development as a primary objective because it is not required by law and is inconsistent with the commission's role as an industry regulator.

Charitable Bingo

20. MGC should develop a bingo enforcement system governed by a written audit program including steps for conducting systematic, detailed inspections of bingo operations. The commission should also standardize its fines for violations of the Charitable Bingo Law and regulations, as well as its patron complaint system.
21. The Legislature should consider amending the Charitable Bingo Law to require that a certain percentage of proceeds from operation of a licensed bingo establishment be given to charity and to grant MGC the authority to audit the flow of bingo hall revenues to ensure that they are being channeled into legitimate charities.

See Appendix G, page 73, for recommended legislation.

Appendix A
Directory of Mississippi Licensed Casinos, by Original License Date, May 1996

Casino Property	Location	Original License Date	Open Date	Square Feet	Electronic Gaming Devices	Table Games	Employees
<i>Currently Operating</i>							
1 Lady Luck MS, Inc.	Natchez	3/25/92	2/27/93	14,000	565	22	396
2 Casino Magic, Bay St. Louis	Bay St. Louis	4/29/92	9/30/92	39,500	1,134	53	1,171
3 Isle of Capri Casino, Biloxi	Biloxi	5/27/92	8/1/92	32,500	1,076	51	1,364
4 President Casino	Biloxi	7/2/92	8/13/92	38,000	954	51	823
5 Grand Casino, Gulfport	Gulfport	10/14/92	5/14/93	105,000	2,003	96	1,899
6 Grand Casino, Biloxi	Biloxi	11/25/92	1/17/94	100,000	1,991	102	2,296
7 Casino Magic, Biloxi	Biloxi	1/27/93	6/5/93	47,200	1,192	42	932
8 Isle of Capri Casino, Vicksburg	Vicksburg	2/24/93	8/9/93	24,000	774	47	962
9 Copa Casino	Gulfport	8/30/93	9/10/93	26,000	681	30	478
10 Harrah's Vicksburg	Vicksburg	10/21/93	11/15/93	16,000	595	37	612
11 Harrah's Tunica	Robinsonville	10/21/93	11/29/93	27,011	992	34	650
12 Bally's Olympia Casino	Robinsonville	12/3/93	12/18/95	40,000	1,257	55	1,094
13 Lady Luck Biloxi, Inc.	Biloxi	12/3/93	12/13/93	22,000	603	24	517
14 Sam's Town Hotel & Gambling Hall	Robinsonville	12/16/93	5/25/94	96,000	1,818	79	1,745
15 Bayou Caddy's Jubilee Casino	Robinsonville	1/5/94	11/17/95	34,000	840	33	696
16 Ameristar Casino-Vicksburg, Inc.	Vicksburg	1/20/94	2/27/94	44,388	950	49	1,203
17 Las Vegas Casino	Robinsonville	2/17/94	3/14/94	18,800	639	19	658
18 Palace Casino	Biloxi	3/17/94	4/11/94	32,040	729	40	490
19 Treasure Bay Casino	Biloxi	4/21/94	4/28/94	56,000	1,212	57	1,112
20 Fitzgeralds Casino-Tunica	Robinsonville	4/21/94	6/6/94	36,000	1,127	37	771
21 Lady Luck Rhythm & Blues Casino	Lula	5/31/94	6/27/94	25,000	843	31	763
22 Hollywood Casino	Robinsonville	5/31/94	8/8/94	54,000	1,361	57	1,289
23 Rainbow Casino	Vicksburg	6/30/94	7/12/94	20,000	591	25	365
24 Boomtown Casino	Biloxi	6/30/94	7/18/94	33,632	986	42	851
25 Sheraton Casino	Robinsonville	6/30/94	8/1/94	32,000	1,247	53	1,220
26 Circus Circus Casino	Robinsonville	8/18/94	8/29/94	48,000	1,480	53	766
27 Horseshoe Casino and Hotel	Robinsonville	10/13/94	2/13/95	30,000	1,022	49	1,726
28 Bayou Caddy's Jubilation Casino	Lakeshore	10/23/95	12/21/95	27,500	556	11	350
29 Harrah's Tunica Mardi Gras	Robinsonville	3/21/96	4/8/96	55,000	1,153	56	1,093
TOTALS				1,173,571	30,371	1,335	28,292

SOURCE: Mississippi Gaming Commission.

Appendix A
Directory of Mississippi Licensed Casinos, by Original License Date, May 1996

Casino Property	Location	License Date	Open Date	Closed Date	Notes
<i>Closed to Relocate</i>					
1 Lady Luck Tunica, Inc.	Tunica	9/15/93	9/18/93	4/24/94	Moved to Lula and reopened as Lady Luck Rhythm & Blues Casino on June 27, 1994.
2 Bally's Saloon & Gambling Hall	Tunica	12/3/93	12/3/93	2/9/95	Moved boat to Robinsonville, renamed as Bally's Olympia Casino and reopened December 18, 1995
3 Cotton Club Casino	Greenville	12/8/93	12/13/93	10/30/95	Moved boat to Lakeshore and reopened as Bayou Caddy's Jubilation Casino on December 21, 1995.
4 Bayou Caddy's Jubilee	Lakeshore	1/5/94	1/7/94	10/30/95	Moved boat to Greenville and reopened November 17, 1995

Casino Property	Location	License Date	Open Date	Closed Date
<i>Closed Permanently</i>				
1 Splash Casino	Tunica	5/27/92	10/19/92	5/24/95
2 Biloxi Belle Casino	Biloxi	6/24/92	8/28/92	1/3/95
3 President Casino at King's Landing	Tunica	11/18/93	12/6/93	7/8/94
4 Southern Belle Casino	Robinsonville	1/20/94	2/19/94	8/31/94
5 Treasure Bay Casino-Tunica	Robinsonville	4/21/94	5/9/94	5/31/95
6 Gold Shore Casino	Biloxi	5/31/94	6/20/94	5/14/95

Casino Property	Proposed Location	License Date	Notes
<i>Licensed Without Opening</i>			
1 Trump Ocean Club Casino	Gulfport	3/17/94	Gaming license has expired as of March 1996.
2 Old River Development	Tunica	3/17/94	ORD traded casino site for interest in Bally's Olympia Casino. License expired March 1996.
3 Casino One	Biloxi	4/21/94	Casino One sold site to Casino Magic, Biloxi. License has expired.
4 Gold River Casino	Vicksburg	6/30/94	No plans for opening or ground breaking casino property.
5 Lady Luck Vicksburg	Vicksburg	8/18/94	No plans for opening or ground breaking casino property.
6 Imperial Palace of Mississippi	Biloxi	9/2/94	Imperial Palace Casino is scheduled to open December 1996.
7 Grand Casino, Tunica	Tunica	5/16/96	Grand Casino Tunica is scheduled to open June 1996.

SOURCE: Mississippi Gaming Commission.

Appendix B
GROSS GAMING REVENUES BY MONTH

<u>Month</u>	<u>Year</u>	<u>Gross Revenues</u>	<u>Gross Revenues By Year</u>
August	1992	\$10,616,710.10	
September	1992	\$18,455,071.10	
October	1992	\$26,987,123.62	
November	1992	\$32,427,489.77	
December	1992	\$33,321,575.70	
January	1993	\$40,118,994.77	
February	1993	\$42,595,656.72	
March	1993	\$51,243,878.09	
April	1993	\$52,241,280.15	
May	1993	\$58,752,131.66	
June	1993	\$61,396,051.85	
Total for Fiscal Year 1993			\$428,155,963.53
July	1993	\$74,695,230.42	
August	1993	\$78,017,867.75	
September	1993	\$77,061,720.61	
October	1993	\$80,490,318.35	
November	1993	\$82,836,509.43	
December	1993	\$90,206,070.60	
January	1994	\$99,966,667.72	
February	1994	\$106,378,357.90	
March	1994	\$120,170,532.92	
April	1994	\$121,083,732.60	
May	1994	\$124,800,614.89	
June	1994	\$119,865,400.97	
Total for Fiscal Year 1994			\$1,175,573,024.16
July	1994	\$141,911,833.99	
August	1994	\$128,948,172.16	
September	1994	\$128,340,178.81	
October	1994	\$126,728,863.51	
November	1994	\$122,411,002.46	
December	1994	\$122,159,287.90	
January	1995	\$133,493,521.63	
February	1995	\$129,229,322.39	
March	1995	\$143,205,405.57	
April	1995	\$145,745,997.72	
May	1995	\$144,734,554.19	
June	1995	\$138,829,560.31	
Total for Fiscal Year 1995			\$1,605,737,700.64
July	1995	\$168,608,765.44	
August	1995	\$144,483,743.12	
September	1995	\$146,392,676.45	
October	1995	\$142,576,970.26	
November	1995	\$141,153,227.67	
December	1995	\$145,475,083.26	
January	1996	\$141,307,670.46	
February	1996	\$145,686,253.67	
Total for Fiscal Year 1996 To Date			\$1,175,684,390.33
GRAND TOTAL			\$4,385,151,078.66
Total for the Latest 12 month Period			\$1,748,199,908.12

SOURCE: State Tax Commission.

Appendix B (continued)

Ed Buelow, Jr., Chairman
and Commissioner of Revenue

Harvey Johnson, Jr.
Associate Commissioner

Lisa W. Hall, CPA
Associate Commissioner



MISSISSIPPI

STATE TAX COMMISSION

Miscellaneous Tax Division
Post Office Box 1033
Jackson, Mississippi 39215
Telephone: 601-359-1137
Fax: 601-359-1033

MARCH 18, 1996

CASINO GROSS GAMING REVENUES

	<i>Gulf Coast Counties</i>	<i>Mississippi River Counties</i>	<i>Totals</i>
January 1994	\$53,322,302.81	\$46,644,364.91	\$ 99,966,667.72
February 1994	58,170,877.18	48,207,480.72	106,378,357.90
March 1994	60,329,742.81	59,840,790.11	120,170,532.92
April 1994	64,221,626.70	56,862,105.90	121,083,732.60
May 1994	66,784,833.35	58,015,781.54	124,800,614.89
June 1994	62,332,691.62	57,532,709.35	119,865,400.97
July 1994	72,102,661.68	69,809,172.31	141,911,833.99
August 1994	60,317,077.43	68,631,094.73	128,948,172.16
September 1994	61,470,651.01	66,869,527.80	128,340,178.81
October 1994	58,208,055.46	68,520,808.05	126,728,863.51
November 1994	56,904,454.66	65,536,547.80	122,441,002.46
December 1994	53,161,725.90	68,997,562.00	122,159,287.90
January 1995	57,169,532.06	76,323,989.57	133,493,521.63
February 1995	56,467,578.82	72,761,743.57	129,229,322.39
March 1995	62,368,506.62	80,836,898.95	143,205,405.57
April 1995	61,404,213.27	84,341,784.45	145,745,997.72
May 1995	59,062,692.92	85,671,861.27	144,734,554.19
June 1995	58,613,777.34	80,215,782.97	138,829,560.31
July 1995	70,565,494.28	98,043,271.16	168,608,765.44
August 1995	59,724,279.79	84,759,463.33	144,483,743.12
September 1995	60,160,592.99	86,232,083.46	146,392,676.45
October 1995	55,334,961.20	87,242,009.06	142,576,970.26
November 1995	58,044,360.84	83,108,866.83	141,153,227.67
December 1995	57,100,563.49	88,374,519.77	145,475,083.26
January 1996	57,101,214.77	84,206,455.69	141,307,670.46
February 1996	61,581,709.33	84,104,544.34	145,686,253.67

NOTE: All numbers are subject to amendment due to adjustments made for prior periods.

Appendix C

Description of the Legalized Casino Gambling Industries in Mississippi, Nevada, and New Jersey 1995

	Mississippi	Nevada	New Jersey
Number of:			
Casinos	29	416	12
State Regulatory Employees	116	395	696
Sq. Feet of Gambling Space	1,173,571	5,427,187	890,081
Electronic Gambling Devices	30,371	161,178	30,167
Gambling Tables	1,335	5,809	1,310
Revenues:			
Total Gross Casino Revenues	\$1,812,520,234	\$7,152,873,000	\$3,728,481,013
Total Gambling Tax Revenues	\$189,289,451	\$520,344,034	\$288,800,000
State Gambling Tax Rate	8.00%	7.25%	8.00%

SOURCE: PEER analysis.

Appendix D
MISSISSIPPI STATE TAX COMMISSION
MISCELLANEOUS TAX DIVISION

03/04/96

POST OFFICE BOX 1033
 JACKSON, MS 39215

TELEPHONE: (601)359-1137
 FAX: (601)359-1033

TAX REVENUES FROM GAMING

COLLECTION MONTH	GENERAL FUND TRANSFER	* BOND SINKING FUND	TRANSFER TO LOCAL GOVERNMENTS	TOTALS
JULY 1992	\$ 16,250.00		\$ 320,650.00	\$ 336,900.00
AUGUST 1992	17,000.00		0.00	17,000.00
SEPTEMBER 1992	802,020.21		428,864.35	1,230,884.56
OCTOBER 1992	1,645,921.74		732,229.37	2,378,151.11
NOVEMBER 1992	2,234,347.80		779,582.89	3,013,930.69
DECEMBER 1992	2,614,382.00		1,219,343.44	3,833,725.44
JANUARY 1993	4,514,749.03		1,226,993.92	5,741,742.95
FEBRUARY 1993	3,293,422.19		941,509.68	4,234,931.87
MARCH 1993	4,430,433.82		1,208,090.65	5,638,524.47
APRIL 1993	4,548,389.42		1,250,196.23	5,798,585.65
MAY 1993	4,040,083.66		1,153,085.52	5,193,169.18
JUNE 1993	5,158,922.43		1,835,160.75	6,994,083.18
FY 1993 TOTALS	\$ 33,315,922.30		\$ 11,095,706.80	\$ 44,411,629.10
JULY 1993	\$ 5,387,756.37		\$ 1,725,097.79	\$ 7,112,854.16
AUGUST 1993	6,947,875.41		2,252,528.67	9,200,404.08
SEPTEMBER 1993	6,259,057.12		2,050,384.78	8,309,441.90
OCTOBER 1993	5,956,358.58		2,235,892.28	8,192,250.86
NOVEMBER 1993	7,374,004.11		2,665,177.08	10,039,181.19
DECEMBER 1993	6,711,989.38		2,242,447.12	8,954,436.50
JANUARY 1994	9,169,091.32		3,225,052.97	12,394,144.29
FEBRUARY 1994	8,098,327.54		2,725,505.63	10,823,833.17
MARCH 1994	9,118,825.55		3,106,241.51	12,225,067.06
APRIL 1994	10,349,900.39		3,680,063.33	14,029,963.72
MAY 1994	9,890,278.19		3,706,909.19	13,597,187.38
JUNE 1994	9,770,307.24		4,120,724.34	13,891,031.58
FY 1994 TOTALS	\$ 95,033,771.20		\$ 33,736,024.69	\$ 128,769,795.89
JULY 1994	\$ 9,831,593.95		\$ 4,646,320.51	\$ 14,477,914.46
AUGUST 1994	12,829,612.00		5,881,168.55	18,710,780.55
SEPTEMBER 1994	9,800,834.71		4,632,006.51	14,432,841.22
OCTOBER 1994	11,243,531.52		5,341,808.70	16,585,340.22
NOVEMBER 1994	9,162,935.22		4,445,226.06	13,608,161.28
DECEMBER 1994	8,640,493.51		3,917,606.95	12,558,100.46
JANUARY 1995	12,416,835.14		6,032,009.27	18,448,844.41
FEBRUARY 1995	8,989,590.71		4,092,397.84	13,081,988.55
MARCH 1995	11,351,043.17		5,345,522.28	16,696,565.45
APRIL 1995	10,503,087.18		4,756,155.86	15,259,243.04
MAY 1995	13,288,701.22		6,308,774.29	19,597,475.51
JUNE 1995	10,717,966.68		5,114,229.58	15,832,196.26
FY 1995 TOTALS	\$ 128,776,225.01		\$ 60,513,226.40	\$ 189,289,451.41
JULY 1995	\$ 9,809,079.66	\$ 2,259,282.40	\$ 5,732,070.59	\$ 17,800,432.65
AUGUST 1995	10,476,461.45	3,377,416.48	6,507,652.54	20,361,530.47
SEPTEMBER 1995	8,335,039.74	2,692,194.26	5,135,067.16	16,162,301.16
OCTOBER 1995	9,827,977.46	3,116,638.42	6,230,376.13	19,174,992.01
NOVEMBER 1995	8,516,725.30	2,491,909.62	5,155,322.58	16,163,957.50
DECEMBER 1995	7,556,341.50	2,438,294.77	4,733,748.64	14,728,384.91
JANUARY 1996	9,932,045.55	3,342,580.34	6,712,056.38	19,986,682.27
FEBRUARY 1996	7,855,067.25	2,450,281.75	4,823,116.05	15,128,465.05
FY 1996 TOTALS	\$ 72,308,737.91	\$ 22,168,598.04	\$ 45,029,410.07	\$ 139,506,746.02
GRAND TOTALS	\$ 329,434,656.42	\$ 22,168,598.04	\$ 150,374,367.96	\$ 501,977,622.42

* GAMING TAXES DEDICATED TO RETIRING THE BONDS ISSUED FOR CONSTRUCTION AND/OR RECONSTRUCTION OF VARIOUS HIGHWAYS, PER HB 1302, 1994 LEGISLATURE.

Appendix D (continued)
Summary of License Fees and Taxes Imposed on Mississippi Casinos

Application Fee: \$5,000
Annual Relicense Fee: \$5,000

Table Game Fees:*

Number of Games	Game Fee	
	Base Fee	Additional Fees**
One	\$50	--
Two	\$100	--
Three	\$200	--
Four	\$375	--
Five	\$875	--
Six or seven	\$1,500	--
Eight to ten	\$3,000	--
Eleven to sixteen	\$3,000	\$500
Seventeen to twenty-six	\$8,000	\$4,800
seven to thirty-five	\$56,000	\$2,800
five	\$81,200	\$100

Gross Revenue Fees:

Gross Revenues	State Tax***	Local Tax****	Total Tax Rate
First \$50,000	4.00%	0.40%	4.40%
Next \$84,000	6.00%	0.60%	6.60%
All Revenue over \$134,000	8.00%	0.80%	8.80%

* Paid annually, based on the number of games (all games except slot machines and stud or draw poker); local jurisdictions may impose their own game fees.

** Additional fees are incurred as tables are added to the casino for play. For example, if Casino A has 18 table games, it must pay the base fee (\$8,000) and an additional fee per table (\$4,800) for a total of \$12,800.

*** The 8% is allocated 75% to the state general fund and 25% to a sinking bond fund for construction of highways and highway improvements in counties with casinos.

**** In addition to the .8% of gross revenue tax authorized by the Gaming Control Act, the Legislature has enacted local and private legislation for most counties and cities with gaming to authorize a maximum additional local revenue tax of 3.2%.

SOURCE: PEER analysis.

Appendix E
Applicant Checklist for Gaming Companies

F. ...low, Jr., Chairman
Commissioner of Revenue

William W. Tamm, CPA
Commissioner

Harvey Johnson, Jr.
Commissioner



Chuck Patton
Acting Executive Director

MISSISSIPPI GAMING COMMISSION

Post Office Box 23577
Jackson, Mississippi 39225-3577
(601) 359-5700

September 28, 1993

Dear Mr.

The Mississippi Gaming Commission Regulations require that complete information regarding the proposed operations be submitted to the Commission. It is the responsibility of the applicant to ensure that the Commission has the required information and that the information is accurate and current. The required information must be submitted in writing (original and four copies) and in a timely fashion. All items and information must be submitted in binder form with table of contents and tabs. The processing of your application is dependent upon availability of the information and any subsequent verifications that may be needed.

The information required by the Regulations includes, but is not limited to, the following summarized items:

1. Submit verification that the proposed operation has been inspected and approved by all appropriate authorities.
2. Provide a wire chart to reflect the total corporate structure including a listing of all officers and directors and explain in detail the role of each entity.
3. Disclose all financing including nature, source and amount.
4. Disclose the proposed uses of all available funds prior to opening and the amount of funds available after opening for the actual operation of the establishment.
5. Submit economic projections for the first three (3) years of operation including the basis for the projections.

Appendix E (continued)

6. Submit complete information concerning the ownership of the premises to be used for the proposed operation including copies of all agreements, leases etc.
7. Submit actual vessel blueprints including layouts of each deck stating the projected use of each area.
8. State whether the vessel has been or will be certified by the United States Coast Guard.
9. State the proposed route to be taken for:
 - A) Cruises
 - B) Emergency evacuation of the vessel

Identifying the body of water and including any relevant Army Corps of Engineers, Mississippi Department of Environmental Quality and the Department of Wildlife, Fisheries and Parks data on that body of water.

10. Disclose the total estimated cost of construction or renovation of the proposed vessel, dock and shore facilities, distinguishing between known costs and projections of the following:
 - A) Facility design expense
 - B) Land acquisition costs
 - C) Site preparation costs
 - D) Construction cost or renovation cost
 - E) Equipment acquisition cost
 - F) Cost of interim financing
 - G) Organization, administrative and legal expenses
 - H) Projected permanent financing costs
11. Set forth the construction schedule proposed for the facility including estimated date of project commencement and completion and whether the construction contract includes a performance bond.
12. Disclose the source of funds for the construction of the facility.

Appendix E (continued)

13. State the number of miles from the nearest population center and describe briefly the transportation facilities serving that population's center.
14. Describe the casino size and configuration of slot machines and table games including a layout of the gaming facility.
15. Describe the on-shore facilities and type of construction. Submit at least one copy of the architect's plans or renderings showing detail of any proposed construction or existing structure to be used.
16. State the availability of fire protection and the adequacy of law enforcement on the establishment both at the docking facilities and along the proposed excursion route.
17. Indicate the parking lot capacity and describe the construction and type of parking facilities to be used.
18. Describe the arrangements for food and drink concessions, indicating the names and addresses of concessionaires and the terms of the concession contracts.
19. Indicate the type and number of slot machines and video games of chance to be used; indicate the proposed manufacturers and distributors of this equipment.
20. Describe the physical location, size and floor plan of the section of the gaming establishment reserved for patrons under 21 years of age. Provide plans for activities and staffing of this section.
21. Indicate the days and periods of time that the gaming areas will be in operation.
22. Describe the proposed management of the facility, including management personnel, function, duties and salary.
23. Include any and all known feasibility studies made available to the applicant which have been done on the type of gaming in the particular locale where the applicant intends to conduct gaming.
24. Describe procurement policies that emphasize the utilization of Mississippi employees, resources, goods and services in the operation of the gaming establishment.

Appendix E (continued)

25. Provide information showing that permanently moored establishments meet the fire safety standards of the Mississippi Fire Prevention code, Section 45-11-101 and additional requirements for places of amusement as listed in Sections 45-11-21 through 45-11-55 of the Mississippi Code.
26. Submit a surveillance system plan no later than 90 days prior to the start of the gaming operation including a casino floor plan that shows the placement of all surveillance equipment in relation to the locations required to be covered, and a detailed description of the casino surveillance system and its equipment.

In addition to the above requirements by regulation, the following items are also required.

27. Submit a current balance sheet for the entity applying for the gaming license and its holding companies, including notes to the balance sheet.
28. Submit credit and collection policies and procedures including application and tracking forms.
29. Submit projected staffing requirements per department including a description of training programs to be utilized.
30. Describe the operation's marketing strategy.
31. Summarize and submit all litigation relative to the entity applying for the gaming license.
32. Submit calculations for determining gaming bankroll requirements.
33. Submit average projected hold percentages and average win per unit figures per denomination of slot machine, table game type, keno game etc.
34. Submit the house rules governing gaming operations.
35. Submit dealer's rules relative to procedures and requirements.
36. Declare receipt and understanding of Mississippi State Tax Commission schedule of fees and Regulations for Gaming Establishments relative to internal control procedures.

Appendix F

Mississippi Gaming Commission Casino Show Cause Hearings, Since Inception to May 1996

<u>Date*</u>	<u>Casino</u>	<u>Charges</u>	<u>Fines and Disciplinary Action</u>	
10/20/92	President Casino, Biloxi	Permitting underage gaming	\$1,000	Fine.
	Patron A		\$625	Jackpot forfeiture.
10/20/92	Casino A	No complaint against casino.		
	Employee A	Employee gaming at employer's casino.	\$50	Fine.
	Employee B	Employee gaming at employer's casino.	\$50	Fine.
11/4/92	Splash Casino, Tunica	Failure to accurately report daily balances, failure to withhold taxes from winnings, failure to pay taxes before adding new games, improper access to count rooms, unauthorized slot machine drops, and other violations	\$100,000	License suspension until resolved.
6/25/93	Splash Casino, Tunica	Unauthorized breaking of slot machine seals, failure to have fourteen slot machines to communicate with computer system, inadequate recordkeeping, and failure to cooperate with commission staff.	\$250,000	Fine.
9/23/93	Lady Luck, Natchez	Unpermitted safety agent, hard count door open, and other control violations		Resolved; verbal warning.
12/29/93	Lady Luck, Tunica	Failure to maintain surveillance tapes, operating 41 unauthorized slot machines and 8 unapproved table games.	\$100,000	Administrative assessment.
	Employee A (Casino Manager)	Casino Manager, named in complaint.		
2/14/94	Sigma Game, Inc.	Failure to file information and application in a timely manner.	\$75,000	Fine.
	Employee A	Failure to file information and application in a timely manner.	\$5,000	Fine.
	Employee B	Failure to file information and application in a timely manner.	\$5,000	Fine.
7/29/94	Sam's Town Casino	Operating unsecured and unverified electronic gaming devices.		Resolved; verbal warning.

SOURCE: PEER analysis.

Appendix F

Mississippi Gaming Commission Casino Show Cause Hearings, Since Inception to May 1996

<u>Date*</u>	<u>Casino</u>	<u>Charges</u>	<u>Fines and Disciplinary Action</u>	
2/3/95	Palace Casino, Biloxi	Underage gaming, failure to discover possible cheating device, failure to report employee cheating incident, unauthorized removal of slot machine keys, unsecured change bank, theft of gaming chips, failure to notify MGC; and numerous other violations		Resolved; verbal warning.
	Employee A	Altering table game rules for the benefit of another.		Revoke finding of suitability; placed on the exclusion list.
2/6/95	Bayou Caddy Jubilee Casino, Lakeshore	Improper gaming during casino closure, failure to maintain adequate surveillance, and failure to report activities and violations.	\$25,000	Fine.
	Employee A	Directed surveillance to divert video coverage from some gaming areas.		PENDING; Employee A pled guilty to federal money laundering charges (8/22/95). However, MGC has failed to notify regarding revocation of suitability.
	Bayou Caddy Jubilee Casino, Lakeshore	Failure to pay fine in a timely manner. All fines are required to be paid within 30 days of a settlement.		Resolved; fine paid without additional costs.
2/14/95	Lady Luck, Biloxi	Failure to monitor and record hard count adequately, consistently generate date and time on surveillance tapes, failure to mark and maintain tapes, failure to properly record pit-fill transactions, etc.	\$25,000	Fine.
2/25/95	Sheraton Casino, Tunica	Failure to report violations to MGC, failure to document surveillance tapes and incidents adequately, etc.		Resolved; verbal warning.
3/30/95	Cotton Club Casino, Greenville	Failure to stock main cage adequately, unauthorized drops, unauthorized personnel conducting counts, failure to document unauthorized drop, and inadequate surveillance of drops.	\$25,000	Action settled without pursuing individuals named in suit.
	Employee A	General Manager, named in complaint.		Hearing found in favor of accused.

SOURCE: PEER analysis.

Appendix F

Mississippi Gaming Commission Casino Show Cause Hearings, Since Inception to May 1996

<u>Date*</u>	<u>Casino</u>	<u>Charges</u>	<u>Fines and Disciplinary Action</u>
	Employee B	Casino Shift Manager, named in complaint.	Hearing found in favor of accused.
	Employee C	Casino Manager, named in complaint.	\$2,500 Settlement: \$2,500 fine. Resolved; MGC dropped action.
	Employee D	Cage Manager, named in complaint.	
4/26/95	Murl Householder, Sales and Rental	Conducting union activity without registering with MGC	MGC dropped action; Legal staff advised MGC did not have jurisdiction to pursue.
5/11/95	Harrah's Casino, Vicksburg	Failure to notify MGC of power outage, failure to maintain surveillance, unauthorized storage of hard count, failure to connect surveillance to uninterruptable power source, etc.	Resolved; verbal warning.
6/2/95	P & S Leasing, Inc.	Failure to file application for foreign gaming.	Resolved; foreign gaming regulations apply only to casinos, not manufacturers or distributors.
7/31/95	Treasure Bay Casino	Failure to comply with Hurricane Preparedness Policy	Resolved; Casino has complied with the policy.
7/31/95	Casino B	Failure to comply with Hurricane Preparedness Policy	PENDING.
8/4/95	Copa Casino, Gulfport	Failure to comply with Hurricane Preparedness Policy	Resolved; Casino has complied with the policy.
4/25/96	Distributor A	Failure to report indictment relative to violations of stockholders.	PENDING.
	Employee A	Indicted for securities fraud and perjury.	PENDING.
4/30/96	Casino C	Failure to monitor access to keys, failure to follow approved internal controls.	PENDING.
	Employee A	Failure to provide information upon request, thereby interfering with an ongoing investigation of the Gaming Commission.	PENDING.
TOTAL FINES AND ASSESSMENTS LEVIED:			\$614,225

SOURCE: PEER analysis.

Appendix G

Proposed Legislation Regarding the Gaming Commission

MISSISSIPPI LEGISLATURE

REGULAR SESSION, 1997

BY:

BILL

AN ACT TO AMEND SECTION 75-76-17, MISSISSIPPI CODE OF 1972, TO DELETE LANGUAGE BARRING THE MISSISSIPPI GAMING COMMISSION FROM ESTABLISHING AN AUDIT DIVISION; TO AMEND SECTIONS 75-76-45, 75-76-47, AND 75-76-51, MISSISSIPPI CODE OF 1972 TO PROVIDE FOR THE ISSUANCE OF A SINGLE SET OF MINIMUM INTERNAL CONTROL PROCEDURES AND REGULATIONS GOVERNING THE DEFINITION OF GROSS REVENUE BY THE MISSISSIPPI GAMING COMMISSION AND THE STATE TAX COMMISSION, TO REQUIRE THAT DISPUTES OR DIFFERENCES BETWEEN THE TWO AGENCIES REGARDING THE SUBSTANCE OR NEED FOR A PROCEDURE OR REGULATION BE ARBITRATED BY THE STATE AUDITOR, TO REQUIRE THAT ALL SUBMISSIONS OF SUCH PROCEDURES AND REGULATIONS BE IN ACCORDANCE WITH THE ADMINISTRATIVE PROCEDURES ACT, AND TO REQUIRE THAT LICENSEES PROVIDE TO THE GAMING COMMISSION COPIES OF ALL CURRENCY TRANSACTIONS REPORTS WHICH THEY PROVIDE TO THE INTERNAL REVENUE SERVICE; TO AMEND SECTIONS 75-76-87 TO REQUIRE THE SHARING OF CERTAIN INFORMATION BETWEEN THE TAX COMMISSION AND THE GAMING COMMISSION; TO AMEND SECTION 75-76-131, MISSISSIPPI CODE OF 1972, TO AUTHORIZE THE MISSISSIPPI GAMING COMMISSION TO ISSUE TEMPORARY WORK PERMITS TO APPLICANTS WHICH MAY BE REVOKED WITHOUT PRIOR HEARING, TO ALLOW FOR POST-REVOCATION REVIEW OF AGENCY DECISIONS TO REVOKE SUCH PERMITS; TO AUTHORIZE THE GAMING COMMISSION TO SET MINIMUM ANNUAL CHARITABLE CONTRIBUTION PERCENTAGES FOR CHARITABLE BINGO LICENSEES, AND TO AUTHORIZE THE GAMING COMMISSION TO AUDIT THE RECORDS OF ENTITIES TO WHICH CHARITABLE BINGO LICENSEES GIVE, SELL, OR TRANSFER MONEY OR OTHER THINGS OF VALUE, AND FOR RELATED PURPOSES.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MISSISSIPPI:

Section 1. Section 75-76-17, Mississippi Code of 1972, is amended as follows:

§ 75-76-17. Enforcement Division and Investigation Division created; authority of executive director to create additional divisions; division directors.

(1) From and after October 1, 1993, there are hereby created, for supervision by the executive director, two (2) divisions which are entitled the Enforcement Division and the Investigation Division. The executive director shall be authorized to create such other divisions as he deems necessary to implement the provisions of this chapter, ~~excluding an audit division.~~

(2) The executive director shall employ division directors that possess training and experience in the fields of investigation, law enforcement, law, or gaming. *← auditing*

SOURCES: Laws, 1990 Ex Sess, ch. 45, § 9, eff from and after passage (approved June 29, 1990).

Section 2. Section 75-76-45, Mississippi Code of 1972, is amended as follows:

§ 75-76-45. Minimum procedures for licensees to adopt to exercise control over internal fiscal affairs of licensees.

amending (1) The commission shall prescribe minimum procedures for adoption by each licensee to exercise effective control over the internal fiscal affairs of the licensee, which shall include but are not limited to provisions for:

- (a) The safeguarding of assets and revenues, especially the recording of cash and evidences of indebtedness; and
- (b) The provision of reliable records, accounts and reports of transactions, operations and events, including reports to the commission and the executive director.

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SOURCES: Laws, 1990 Ex Sess, ch. 45, § 23, eff from and after passage (approved June 29, 1990).

- (2) Such procedures shall be the only minimum internal control procedures enforceable by the two regulatory agencies. Such procedures shall become effective from and after January 1, 1998. When any material differences in the interpretation or application of the single set of minimum internal control procedures shall arise, staff of the Mississippi Gaming Commission and the State Tax Commission shall be required to meet jointly to develop a joint resolution of the differences in a timely manner.
- (3) In the event that the Mississippi Gaming Commission and the State Tax Commission cannot agree on the content or necessity of a minimum internal control standard or subsequent interpretation of adopted minimum internal control procedures, the agencies shall be required to submit such differences in writing to the State Auditor for arbitration. The State Auditor may resolve the differences by selecting a proposal of the Mississippi Gaming Commission or the State Tax Commission or by developing a proposal based on the positions of the two agencies. The Mississippi Gaming Commission and the State Tax Commission shall be required to adopt in rule form any arbitration decisions developed by the State Auditor.
- (4) The Mississippi Gaming Commission and the State Tax Commission shall meet annually by April 1 to discuss the need for new minimum internal control procedures or revision of existing minimum internal control procedures. The two agencies' revisions of the single set of minimum internal control procedures shall be completed each year by May 15 for initial comment by the licensees. Conflicts between the two agencies shall be referred in writing to the State Auditor for resolution as provided for above.

Section 3. Section 75-76-47, Mississippi Code of 1972, is amended as follows:

§ 75-76-47. Financial reports required from licensees.

(1) The commission shall by regulation require periodic financial reports from each licensee, and:

- (a) Specify standard forms for reporting financial condition, results of operations and other relevant financial information.
- (b) Formulate a uniform code of accounts and accounting classifications to assure consistency, comparability and effective disclosure of financial information.
- (c) Prescribe the intervals at which such information shall be furnished. For this purpose the commission may classify licensees by size of operation.

SOURCES: Laws, 1990 Ex Sess, ch. 45, § 24, eff from and after passage (approved June 29, 1990).

(2) The Commission shall require each licensee to provide it with duplicate copies of all Currency Transaction Reports which the licensees provide to the Internal Revenue Service, and shall make these reports available for inspection by law enforcement officers of the state and federal governments.

Section 4. Section 75-76-51, Mississippi Code of 1972, is amended as follows:

§ 75-76-51. Commission to adopt regulations prescribing manner of computing and reporting winnings, compensation and gross revenues.

Gaming (1) The commission shall adopt regulations which prescribe the manner in which winnings, compensation from games and gaming devices, and gross revenue must be computed and reported by the licensee.

SOURCES: Laws, 1990 Ex Sess, ch. 45, § 26, eff from and after passage (approved June 29, 1990).

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- (2) Such regulations shall be the only regulations each of the agencies shall use in determining licensees' gross revenue. Such regulations shall become effective from and after January 1, 1998. When any material differences in the interpretation or application of the single set of regulations shall arise, staff of the Mississippi Gaming Commission and the State Tax Commission shall be required to meet jointly to develop a joint resolution of the differences in a timely manner.
- (3) In the event that the Mississippi Gaming Commission and the State Tax Commission cannot agree on the content or necessity of a proposed rule, or subsequent interpretation of adopted regulations, the agencies shall be required to submit such differences in writing to the State Auditor for arbitration. The State Auditor may resolve the differences by selecting a proposal of the Mississippi Gaming Commission or the State Tax Commission or by developing a proposal based on the positions of the two agencies. The Mississippi Gaming Commission and the State Tax Commission shall be required to adopt in rule form any arbitration decisions developed by the State Auditor.
- (4) The Mississippi Gaming Commission and the State Tax Commission shall meet annually by April 1 to discuss the need for new regulations or revision of existing regulations. The two agencies' revisions of the single set of regulations shall be completed each year by May 15 for initial comment by the licensees. Conflicts between the two agencies shall be referred in writing to the State Auditor for resolution as provided for above.

Section 5. Section 75-76-87, Mississippi Code of 1972, is amended as follows:

§ 75-76-87. Confidentiality of applications, returns and information; exceptions.

(1) Applications, returns and information contained therein filed or furnished under this chapter shall be confidential, and except in accordance with proper judicial order or as otherwise authorized by this chapter, it shall be unlawful for members of the State Tax Commission, the Mississippi Gaming Commission or members of the Central Data Processing Authority, or any former employee thereof to divulge or make known in any manner the amount of income or any particulars set forth or disclosed on any application, report or return required.

The term "proper judicial order" as used in this chapter shall not include subpoenas or subpoenas duces tecum but shall include only those orders entered by a court of record in this state after furnishing notice and a hearing to the taxpayer and the State Tax Commission. The court shall not authorize the furnishing of such information unless it is satisfied that the information is needed to pursue pending litigation wherein the return itself is in issue, or the judge is satisfied that the need for furnishing the information outweighs the rights of the taxpayer to have such information secreted.

(2) Such information contained on the application, returns or reports from the licensee or the Mississippi Gaming Commission may be furnished to: (a) members and employees of the State Tax Commission and the income tax department thereof, for the purpose of auditing, comparing and correcting returns; (b) the Attorney General, or any other attorney representing the state in any action in respect to the amount of tax under the provisions of this chapter; (c) the Mississippi Gaming Commission; or (d) the revenue department of the other states or the federal government when said states of federal government grants a like comity to Mississippi.

(3) The State Auditor and the employees of his office shall have the right to examine only such tax returns as are necessary for auditing the State Tax Commission, or the Mississippi Gaming Commission and the same prohibitions against disclosure which apply to the State Tax Commission shall apply to the State Auditor and his office.

(4) Nothing in this section shall prohibit the Chairman of the State Tax Commission from making available information necessary to recover taxes, fees, fines or damages owing the state pursuant to the authority granted in Section 27-75-16.

SOURCES: Laws, 1990 Ex Sess, ch. 45, § 44, eff from and after passage (approved June 29, 1990).

(5) The Tax Commission shall make available to the Mississippi Gaming Commission records of all reports or returns from licensees to assist the Mississippi Gaming Commission in conducting investigations of licensees.

and shall provide such information to the Tax Commission when it requests such information.

Section 6. Section 75-76-131, Mississippi Code of 1972, is amended as follows:

§ 75-76-131. Executive Director to maintain records on all gaming employees; work permits for gaming employees; denial; appeals; confidentiality of records; expiration of permit; notice.

(1) The executive director shall:

(a) Ascertain and keep himself informed of the identity, prior activities and present location of all gaming employees in the State of Mississippi; and

(b) Maintain confidential records of such information.

(2) No person may be employed as a gaming employee unless he is the holder of a work permit issued by the commission.

(3) A work permit issued to a gaming employee must have clearly imprinted thereon a statement that it is valid for gaming purposes only.

(4) Application for a work permit is to be made to the executive director and may be granted or denied for any cause deemed reasonable by the commission. Whenever the executive director denies such an application, he shall include in the notice of the denial a statement of the facts upon which he relied in denying the application.

(5) Any person whose application for a work permit has been denied by the executive director may, not later than sixty (60) days after receiving notice of the denial or objection, apply to the commission for a hearing before a hearing examiner. A failure of a person whose application has been denied to apply for a hearing within sixty (60) days or his failure to appear at a hearing conducted pursuant to this section shall be deemed to be an admission that the denial or objection is well founded and precludes administrative or judicial review. At the hearing, the hearing examiner appointed by the commission shall take any testimony deemed necessary. After the hearing the hearing examiner shall within thirty (30) days after the date of the hearing announce his decision sustaining or reversing the denial of the work permit or the objection to the issuance of a work permit. The executive director may refuse to issue a work permit if the applicant has:

- (a) Failed to disclose, misstated or otherwise attempted to mislead the commission with respect to any material fact contained in the application for the issuance or renewal of a work permit;
- (b) Knowingly failed to comply with the provisions of this chapter or the regulations of the commission at a place of previous employment;
- (c) Committed, attempted or conspired to commit any crime of moral turpitude, embezzlement or larceny or any violation of any law pertaining to gaming, or any crime which is inimical to the declared policy of this state concerning gaming;
- (d) Been identified in the published reports of any federal or state legislative or executive body as being a member or associate of organized crime, or as being of notorious and unsavory reputation;
- (e) Been placed and remains in the constructive custody of any federal, state or municipal law enforcement authority;
- (f) Had a work permit revoked or committed any act which is a ground for the revocation of a work permit or would have been a ground for revoking his work permit if he had then held a work permit; or
- (g) For any other reasonable cause.

The executive director shall refuse to issue a work permit if the applicant has committed, attempted or conspired to commit a crime which is a felony in this state or an offense in another state or jurisdiction which would be a felony if committed in this state.

(6) Any applicant aggrieved by the decision of the hearing examiner may, within fifteen (15) days after the announcement of the decision, apply in writing to the commission for review of the decision. Review is limited to the record of the proceedings before the hearing examiner. The commission may sustain or reverse the hearing examiner's decision. The commission may decline to review the hearing examiner's decision, in which case the hearing examiner's decision becomes the final decision of the commission. The decision of the commission is subject to judicial review.

(7) All records acquired or compiled by the commission relating to any application made pursuant to this section and all lists of persons to whom work permits have been issued or denied and all records of the names or identity of persons engaged in the gaming industry in this state are confidential and must not be disclosed except in the proper administration of this chapter or to an authorized law enforcement agency. Any record of the commission which shows that the applicant has been convicted of a crime in another state must show whether the crime was a misdemeanor, gross misdemeanor, felony or other class of crime as classified by the state in which the crime was committed. In a disclosure of the conviction, reference to the classification of the crime must be based on the classification in the state where it was committed.

(8) A work permit expires unless renewed within ten (10) days after a change of place of employment or if the holder thereof is not employed as a gaming employee within the jurisdiction of the issuing authority for more than ninety (90) days.

(9) Notice of any objection to or denial of a work permit by the executive director as provided pursuant to this section is sufficient if it is mailed to the applicant's last known address as indicated on the application for a work permit. The date of mailing may be proven by a certificate signed by the executive director or his designee that specifies the time the notice was mailed. The notice is presumed to have been received by the applicant five (5) days after it is deposited with the United States Postal Service with the postage thereon prepaid.

SOURCES: Laws, 1990 Ex Sess, ch. 45, § 66, eff from and after passage (approved June 29, 1990).

- (10) The Executive Director, upon good cause shown by the applicant for a permanent work permit, may issue a temporary work permit, valid for a period not to exceed eight (8) months. The holder of the temporary work permit does not obtain a vested right in such permit. The executive director may revoke such temporary work permit without the opportunity for a pre-revocation hearing for any cause described in Section 75-76-137(2). Notice of revocation of a temporary work permit shall be accompanied by notice of denial of a permanent work permit. The holder of a temporary work permit must surrender the permit immediately upon notice of revocation.
- (11) Any holder of a temporary work permit who is aggrieved by any action of the Executive Director pursuant to the authority granted him in Sub-Section 10 of this section, shall be entitled to a post-revocation hearing. Such hearing shall be set no later than 15 days after notice of revocation has been made under sub-section 10, and shall be conducted in the same manner as are hearings to revoke permanent work permits.

Section 7. The following shall be codified as Section 97-33-111, Mississippi Code of 1972:

(1) The Commission shall be responsible for determining an appropriate annual minimum percentage of net proceeds licensees shall contribute to charities, and shall promulgate a rule requiring that each licensee annually make to charities contributions in an amount no less than this amount.

(2) The Commission shall also have the authority to audit and inspect the records of all entities to which licensees give, sell, or otherwise transfer money or other things of value to determine compliance with the charitable purposes of this the Charitable Bingo Law.

Section 8. This act shall take effect and be in force from and after July 1, 1997.

Agency Response

W. W. Gresham, Jr.
Chairman

Captain Robert C. Engram
Commissioner

Victor P. Smith
Commissioner



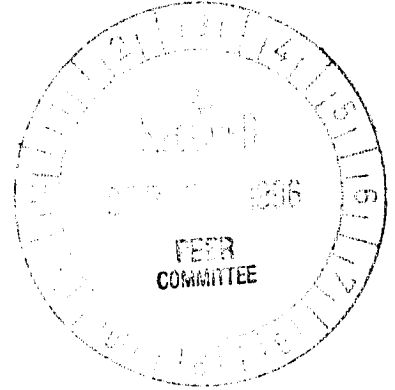
Paul A. Harvey
Major General USAF (RET)
Executive Director

MISSISSIPPI GAMING COMMISSION

Post Office Box 23577
Jackson, Mississippi 39225-3577
(601) 351-2800

September 3, 1996

Senator William Canon, Chairman
PEER Committee
Post Office Box 1204
Jackson, MS 39215-1204



Dear Senator Canon:

PEER Committee Staff, on August 20, 1996, allowed us to review the Committee's Review of the Adequacy of the Gaming Commission's Regulation of Legalized Gambling in Mississippi dated August 13, 1996, including twenty-one (21) recommendations.

The purpose of this letter is to provide the PEER Committee with our responses to the recommendations, which are attached.

We are deeply concerned, however, about inferences throughout the report that the Mississippi Gaming Commission fails to aggressively regulate Mississippi's legalized gambling industry and is "too close to the industry." To support the inferences, the PEER Report includes the following:

1. Statements by one individual, Robert Goodman.
2. A 1992 quote made by a "known La Cosa Nostra associate and underboss" that "in Mississippi there's no regulations, there's no laws, there's no nothing, you can do anything you want to do."
3. An argument that the Gaming Commission fails to aggressively fine violators of the Gaming Control Act and our regulations.
4. The fact that the Gaming Commission supports economic development by casinos.
5. The Gaming Commission's failure to conduct ongoing studies of the negative consequences of legalized gambling.

Senator William Canon, Chairman
September 3, 1996
Page Two

6. The fact that several former Mississippi Tax Commission casino regulators have become casino employees.

We believe Mr. Goodman's research has been widely discredited, and offer the attachment beginning on page #8 to substantiate his lack of credibility.

The investigation that resulted in the "known La Cosa Nostra associate and underboss" remarks was completed with a conviction of those who participated in the blackjack scam at the President Casino. An updated quote would reflect a different opinion if obtained today.

The Mississippi Gaming Commission has developed a measured approach to the disciplinary process that has resulted, with one exception, in no repeat violations by casinos. We believe this speaks for itself in the adequacy of our approach. The one repeat violation involved Splash Casino, wherein the approach was to suspend the license and levy the maximum fine allowed under the law.

Comments in the report regarding the Commission's emphasis on economic development, as it relates to being "too cozy" with the industry, are particularly disturbing. We estimate that the infrastructure regulation has, to date, cost the Mississippi gaming industry in excess of \$800 million. Much evidence exists that economic development was a prime objective in the passage of the Gaming Control Act. We, as a Commission, have taken those actions that we feel will allow the State of Mississippi and its citizens the ability to reap the maximum benefit from the passage of the Gaming Control Act, and do not believe that this action results in a "cozy" relationship with casinos. In fact, this regulation has been a source of continued animosity between the Commission and non-complying casinos.

We do find it perplexing that the PEER report on the one hand criticizes the Commission for urging economic development without specific legislative authority, while urging that we conduct ongoing studies of the negative consequences of gaming, with no legislative authority. Given that lack of authority, and, more importantly, the lack of resources, experience and trained personnel with which to attack the problem, and given the fact that the Mississippi Council on Compulsive Gambling has received public funding for the purpose of working on solutions and assisting individuals affected by compulsive gambling, we feel that the best approach is to allow the Council to conduct its business, and to provide what assistance we can, when requested.

Finally, we agree that under the conditions that existed prior to October, 1993, when the Mississippi Gaming Commission became an independent agency, several prominent employees left the Commission to work for the Gaming Industry. It was for this reason that a regulation was promulgated requiring licensees to request permission of the Commission before offering positions to employees. This has resulted in only two situations where employees have gone to work for the

Senator William Canon, Chairman

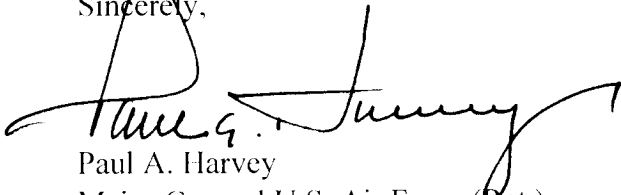
September 3, 1996

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industry since October 1993, and in both cases we feel that the needs of the industry, the employees and the Commission were carefully considered and all benefited from the move.

In summary, we believe the statement that we are "too close to the industry" was made without justification, and we strongly resent the implication that this agency is unprepared or unwilling to fulfill it's obligations under the Gaming Control Act. The inference is a disservice to the dedicated men and women that have made the Mississippi Gaming Commission a nationally recognized model regulatory agency.

Sincerely,

A handwritten signature in black ink, appearing to read "Paul A. Harvey". The signature is fluid and cursive, with a large initial "P" and "H".

Paul A. Harvey

Major General U.S. Air Force (Ret.)

Executive Director

MISSISSIPPI GAMING COMMISSION

PAH:cws

Attachments

cc: W. W. Gresham, Chairman
Captain Robert Engram, Commissioner
Victor Smith, Commissioner

Response to Recommendation #1

The Compliance Division's role in the financial investigative process of applicants; including but not limited to sole proprietorships, partnerships and privately held corporations will be an ongoing process. The Compliance Division's staff will assist the Investigation Division when needed.

An investigative work program has been developed to assist the investigators/auditors during the investigation. These investigative procedures will be similar to an audit of an applicant and will cover a five year period for new applicants and a two year period for re-licensing. We recognize this to be a tremendous undertaking that will require legislative support for additional staff.

Response to Recommendation #2

The "planned" work of the Compliance Division relative to prelicensing investigations of public companies and on ongoing audits of licensed gaming facilities is currently in full operation. We acknowledge that "neither the State Tax Commission, when it regulated gaming, nor the Mississippi Gaming Commission" performed comprehensive financial and regulatory audits of Mississippi licensed gaming establishments prior to the creation of the Compliance Division. The Commission feels confident that the present and future efforts of this Division will bridge the audit deficiencies that existed prior to its creation.

Response to Recommendations #3 and #4

The Work Permit background checks process has been expedited this fiscal year by the implementation of electronic fingerprint-capture equipment along with computer generated photo-identification capabilities. This equipment and software will substantially reduce the time between point-of-application and licensure for work permit holders, and will virtually eliminate rejections by the FBI. The cost savings alone are estimated to be \$86,641.00.

We concur and are using every available resource to obtain the investigatory services needed to complete a higher percentage of key employee investigations. In addition to contacting other gaming jurisdictions and law enforcement agencies, our Investigators are skilled and proficient in the use of Lexis-Nexis, Equifax, National Crime Information Center (NCIC) and Regional Organized Crime Information Center (ROCIC).

Based on the report submitted by PEER, the only area cited concerning the Investigative Division where there appeared to be a deficiency in the investigation of suitability, is the lack of resources in reviewing and verifying the financial data required to be submitted to the Commission. We admit to being somewhat deficient in this area, but as with any new agency and the budget process that must be adhered to, certain constraints were beyond our control. However, with diligence demonstrated by the MGC in attempting to secure compliance officers for the agency, we have been able to put in place a Compliance Division that is, and will in the future, address any potential problems and issues in this area.

The lack of sufficient staff with financial expertise is the reason we relied on the well accepted practice of reciprocity as heavily as we did. In October 1993, we immediately established rapport with New Jersey, Nevada, and Colorado Gaming Commissions in particular, and with other gaming jurisdictions in general.

The use of reciprocity and the relationship established with other gaming jurisdictions enabled us to investigate over 500 applicants within the short period of time as stated in the PEER report, and to allow appropriate applicants to be found suitable or unsuitable, whatever the case may be, with complete confidence.

Response to Recommendation #5

The defined and established criteria for monitoring the "honest and competitive" conduct of the table games is contained in the rules of each game, which are approved by the Mississippi Gaming Commission. The basis for approval of electronic games is defined in the statute.

Response to Recommendation #6

We agree that written criteria for approval of new table games should be developed. This will be completed by September 30, 1996.

Response to Recommendation #7

The MGC Enforcement Division, along with the Compliance Division, is developing and will implement a series of audit programs dealing with the monitoring and examination of table and wheel games by December 31, 1996.

Response to Recommendation #8

MGC Enforcement Agents Training requirements include training specifically related to the detection of cheating on games. The In-Service requirements include: Security and Surveillance; Scams and Cheats; Accounting and Internal Controls, Administrative Organization and Structure, Table Games Management, Cage and Credit Collections, Slots, Card Room, and Currency Transaction Reporting.

University of Nevada Las Vegas and other gaming jurisdictions assist in conducting this training for MGC. Each Gaming Enforcement Agent has been certified by UNLV in Gaming Regulations through a forty hour class conducted at the MGC Jackson office. Games Training was conducted by MGC staff three times in 1996 in Jackson, Biloxi and Tunica. An eight hour class in Cheating Techniques, Rules of Casino Tables Games and How to Play the Games was also conducted by Fred Sayre, a contract employee, on October 26, 1995.

Response to Recommendation #9

PEER has recommended that the Mississippi Gaming Commission should maintain exclusion lists from all gaming jurisdictions and should distribute copies of these lists to all casinos.

It is the policy of the MGC that we should continue to maintain all available exclusion lists and make these lists available to casinos upon request. The lists should be distributed and maintained in each MGC field office.

The MGC feels that it would be far too expensive and time consuming to copy and distribute these lists to all casinos. Upon checking with Nevada, we learned that they do not distribute the list to all casinos. They do make the list available upon request. New Jersey's list consists of four volumes.

If MGC tries to place each person listed on another jurisdictions exclusion list on Mississippi's exclusion list it would be necessary, by law, to contact each individual and offer them a hearing before they can be placed on the MGC exclusion list. The hearings would be very expensive, time consuming and labor intensive.

MGC agents work with local, state and federal law enforcement agencies, other gaming jurisdictions, and with casino surveillance and security to keep criminals and undesirable persons from our casinos. MGC efforts have resulted in numerous arrests of criminals and have also resulted in persons being prohibited from patronizing Mississippi casinos.

Mississippi currently has only one person on the exclusionary list which resulted from an incident that occurred at the Palace Casino in Biloxi. Additional persons will be added to the list as needed.

MGC will continue to work diligently to keep the criminal element out of the gaming industry in any capacity.

Response to Recommendation #10

Motions, orders, and other written documentation are maintained in the permanent records of the Commission. Case numbers are assigned to all investigative files. A special designation will be implemented for matters that are the subject of a show cause hearing utilized for disciplinary complaints.

Response to Recommendation #11

While a standardized fines schedule for violations would appear, on the surface, to be desirable, we have found that the variations in fact patterns of violations have created the need for an extremely large range of penalties. We, of course, strive to maintain consistency in the application of penalties in accordance with each fact pattern and, in the future, we intend to begin institutionalizing penalties as specific categories become more evident.

Response to Recommendation #12

The Enforcement Division's Standard Operating Procedure Manual addresses this topic. Included in an October 18, 1995 memo to the manual, Enforcement Agents are directed to ensure full compliance with section 75-76-159(1)(A) of the Gaming Control Act dealing with immediate notification by licensees of any dispute in excess of \$500.00.

Response to Recommendation #13

Each casino Surveillance and Security Department currently identifies and documents all incidents occurring on their property, including persons ejected. This information has always been available to any appropriate law enforcement agency.

Response to Recommendations #14, #15 and #16

The issue of which state agency should be responsible for regulating the gaming industry is not a new topic. The history of gaming in Nevada covers this subject quite well and should be considered in recommending any future legislation.

In Nevada, the State Tax Commission was first responsible for regulating the gaming industry but following significant growth in the industry the Nevada legislature supported the Governor's opinion that an independent agency with one responsibility should regulate gaming in Nevada. Accordingly, the Nevada Gaming Control Board (NGCB) was created by the legislature in 1955. This newly formed agency was first established within the State Tax Commission for regulating the gaming industry. As the NGCB developed the expertise to regulate the industry, this agency became independent of the State Tax Commission. The Nevada Legislators recognized the changes in the industry and the need of an agency with the exclusive oversight and control of the gaming industry. This model of gaming regulatory empowerment is the one selected by the Mississippi legislators with regards to the Mississippi gaming industry. Consequently, the Mississippi Gaming Commission (MGC) was established and authorized by the legislators, to have exclusive regulatory responsibility over the industry (see 75-76-45).

In an effort to understand and compare the state of Mississippi with other gaming jurisdictions, the issue of "agency responsibility" was investigated by our staff following our recent meeting held with your agency. Our findings determined that virtually every state had adopted legislation which created and empowered one state agency with exclusive authority to regulate the gaming industry on all gaming matters.

The MGC recognized that "Neither the State Tax Commission, when it regulated gaming, nor the Mississippi Gaming Commission . . . performed sufficient comprehensive financial and regulatory audits of Mississippi gaming establishments." Furthermore, the MGC agrees with your assessment of the State Tax Commission's regulatory oversight detailed in your report and highlighted below.

“The State Tax Commission, when it had exclusive authority over the regulation of gaming, failed to establish initially the oversight apparatus necessary to address all financial and regulatory aspects of the gaming industry.”

These were the primary reasons that the Commission requested and was granted legislative authority to create the Compliance Division.

It is not our intention to understate the necessity of audits performed to determine the proper reporting of revenue and the payment of taxes to the state and its local subdivisions. Such procedures are also performed as a part of the audits of the Nevada Gaming Control Board's Audit Division, which is the model the MGC used in creating the Compliance Division. Further, the minimum internal control procedures adopted by the MGC and the audit procedures performed by the Compliance Divisions are, among other things, designed to ensure that gross gaming revenue is properly recorded in the accounting records. These accounting records are the basis for which the taxes are assessed and paid.

The original authors of the Mississippi Gaming Code specifically assigned to the MGC the authority to set or establish internal controls for the industry, to establish the definition of gross gaming revenues and to protect the state interest in all gaming matters. This specific authority empowered the MGC to regulate the gaming industry and all related matters.

The newly formed Compliance Division of the MGC was created under the current Mississippi legislation for the expressed purpose of achieving a level of industry control that would ensure that the states interest is protected for all gaming matters, including but not limited to revising gaming regulations, implementing new minimum internal control standards, and issuing policy statements on certain issues relating to gross gaming revenue computations. Many of these policy statements are based on Nevada case law and opinions of the Nevada State Attorney General.

Miss. Code Ann. 75-76-81 specifically requires that “Any records or other documents submitted by the licensee, or on his behalf, to the Mississippi Gaming Commission or Executive Director shall be made available to the Chairman of the State Tax Commission or his authorized agent upon written request.” Accordingly, there is no need to amend the Miss. Code Ann. Sections to require that information collected by the MGC are made available to the State Tax Commission. However, such amendments should be made that would grant the MGC authorized access to any and all audit working papers, tax payer files, correspondence files, etc. collected by the State Tax Commission that are necessary to ensure that the state's interest is protected in all matters relating to gaming.

To adopt any future legislation which would grant any other state agency the statutory authority to implement gaming regulation binding on the industry would usurp the underlying purpose granted by the Mississippi Legislature (i.e., exclusive authority for the MGC) to regulate the industry and protect the state's interest in all gaming matters. To divide this authority would be inconsistent with virtually every gaming jurisdiction in the United States and would legislate a waste of taxpayers dollars and create an overlapping of responsibility and industry oversight by two agencies in an

“The State Tax Commission, when it had exclusive authority over the regulation of gaming, failed to establish initially the oversight apparatus necessary to address all financial and regulatory aspects of the gaming industry.”

These were the primary reasons that the Commission requested and was granted legislative authority to create the Compliance Division.

It is not our intention to understate the necessity of audits performed to determine the proper reporting of revenue and the payment of taxes to the state and its local subdivisions. Such procedures are also performed as a part of the audits of the Nevada Gaming Control Board's Audit Division, which is the model the MGC used in creating the Compliance Division. Further, the minimum internal control procedures adopted by the MGC and the audit procedures performed by the Compliance Divisions are, among other things, designed to ensure that gross gaming revenue is properly recorded in the accounting records. These accounting records are the basis for which the taxes are assessed and paid.

The original authors of the Mississippi Gaming Code specifically assigned to the MGC the authority to set or establish internal controls for the industry, to establish the definition of gross gaming revenues and to protect the state interest in all gaming matters. This specific authority empowered the MGC to regulate the gaming industry and all related matters.

The newly formed Compliance Division of the MGC was created under the current Mississippi legislation for the expressed purpose of achieving a level of industry control that would ensure that the states interest is protected for all gaming matters, including but not limited to revising gaming regulations, implementing new minimum internal control standards, and issuing policy statements on certain issues relating to gross gaming revenue computations. Many of these policy statements are based on Nevada case law and opinions of the Nevada State Attorney General.

Miss. Code Ann. 75-76-81 specifically requires that “Any records or other documents submitted by the licensee, or on his behalf, to the Mississippi Gaming Commission or Executive Director shall be made available to the Chairman of the State Tax Commission or his authorized agent upon written request.” Accordingly, there is no need to amend the Miss. Code Ann. Sections to require that information collected by the MGC are made available to the State Tax Commission. However, such amendments should be made that would grant the MGC authorized access to any and all audit working papers, tax payer files, correspondence files, etc. collected by the State Tax Commission that are necessary to ensure that the state's interest is protected in all matters relating to gaming.

To adopt any future legislation which would grant any other state agency the statutory authority to implement gaming regulation binding on the industry would usurp the underlying purpose granted by the Mississippi Legislature (i.e., exclusive authority for the MGC) to regulate the industry and protect the state's interest in all gaming matters. To divide this authority would be inconsistent with virtually every gaming jurisdiction in the United States and would legislate a waste of taxpayers dollars and create an overlapping of responsibility and industry oversight by two agencies in an

attempt to protect the state's interest in all gaming matters. Further, it would be presumptuous to suggest future legislation that contradicts the clear and distinct authority and oversight responsibility which the legislature had originally assigned to the Mississippi Gaming Commission and reaffirmed through recent legislation that authorized the creation of the Compliance Division. In fact, should the statutes be revised, we recommend that the MGC be assigned total responsibility for the calculation and collection of all gaming revenues for the State of Mississippi. This would be consistent with every other major gaming jurisdiction in the United State and could be accomplished with no additional MGC personnel.

Response to Recommendation #17

The Compliance Division of the Mississippi Gaming Commission as part of its ongoing audit cycle, will perform audit procedures relative to Title 31 and monitor whether casinos in our jurisdiction are in compliance with the federal statutes pertaining to currency transactions. This was one of the Commission's objectives in creating the Compliance Division in July 1995. As early as November 1995, meetings were held with Revenue Agents from the Jackson office of the Internal Revenue Service to discuss our planned audit procedures, scope of our engagements as well as the sharing of information. Limited audit procedures are currently being performed with each "review" engagement to determine the licensee compliance with Title 31. Also, as a part of all "audit" engagements, we will perform detailed testing of currency transaction reports to verify correctness, completeness, and compliance with all areas relative to Title 31.

As part of our ongoing currency transaction monitoring process we are requesting that each casino forward copies of all currency transaction reports to the Compliance Division within fifteen (15) days from the date of the transaction. The Compliance Division will also establish a trouble log that would identify any forms not properly completed. These exceptions will be brought to the attention of the licensee so that corrective action can be taken. Any instances of noncompliance will be forwarded to the Internal Revenue Service for their review. Copies of these reports will be made available to our Enforcement and Intelligence Divisions to assist other law enforcement agencies in any criminal investigations relating to money laundering, drug related activity or any other criminal related activity.

The Compliance Division has recently drafted regulations that mirror Title 31 and contains provisions relative to prohibited transactions as addressed in Nevada's regulation for currency transactions (Nevada is currently the only state exempted from Title 31). This will allow the Mississippi Gaming Commission to have a regulatory structure in place to be able to audit currency transactions. After approximately two (2) years, it is our intention to request an exemption from Title 31 and to substitute our currency transaction regulation to audit currency transactions in Mississippi casinos in place of the federal statutes.

Response to Recommendations #18 and #19

We believe our responses to these recommendations are adequately documented in our cover letter.

Response to Recommendations #20 and #21

Section 5.1 of our Operating Procedures Manual, adopted November 1, 1995, details the procedures to be followed by enforcement agents in maintaining a consistent monitoring policy. Each inspection made by the enforcement agent is for a specific purpose and is reported on a prescribed form.

Section 6.1 of our Operating Procedures Manual, details fines and penalties which may be levied on different types of licensees, as well as different classes of offenses. A range in the amount of the penalty is allowed, depending on severity and frequency of the offense.

Section 7.1 of our Operating Procedures Manual, outlines a specific and consistent procedure for handling patrons complaints from the assigning of a case number to final recommendation by the enforcement agent. Procedures for all three of the potential problems mentioned in Recommendation 20 have been described in detail in the Operating Manual.

We welcome the opportunity to work this issue with the appropriate committee(s) in the Legislature to achieve our common objectives consistent with what's in the best interest of our state.



"Because they've seen that the American public doesn't want moral views crammed down its throat, they've changed their tactics and are trying to attack the gaming industry with economic statistics."

Frank Fahrenkopf
American Gaming Association president



"Of the 14 economic impact studies which we examined as part of the U.S. Gambling Study, 10 were found to be either 'unbalanced' or 'mostly unbalanced' in objectively describing the real public and private benefits and costs to a community or state."

Robert Goodman
Author/professor

Faulty figures?

Gambling's effects hard to get a numerical hand on

By Rex Buntain

LAS VEGAS SUN

The battleground that lies between opponents and proponents of gaming has been littered with a veritable war of words.

Bill Eadington, a professor of economics and director of the Institute for the Study of Gambling and Commercial Gaming at the University of Nevada-Reno, says groups that want to stop the spread of gaming are distributing inaccurate information.

But, he adds, both sides of the argument are guilty.

Eadington said he remains objective about gaming, but believes unsubstantiated claims and figures are harmful.

"A lot of methodological issues are being ignored by people whose job it is to attack gaming. And proponents of gaming could be accused of the same thing," he said. "It probably is time to take a good, conscientious look at gaming and what it means to a community and a state and what are the impacts we can expect, and that hasn't been done."

Some of the claims by gaming opponents that Eadington says

have no basis in fact include:

- Fifty-five percent of all gaming revenue comes from compulsive gamblers.

- Forty percent of all white-collar crime in the United States is attributable to gaming.

- The annual cost to society for every compulsive gambler would be between \$15,000 and \$50,000.

- Estimates that if casinos were allowed to spread throughout the U.S., the social costs in lost productivity, the legal system and

SEE FIGURES, 9D

Figures

CONTINUED FROM 7D

law enforcement would exceed \$200 billion.

A couple of those figures Eadington attributed to Earl Grinols, a professor of economics at the University of Illinois, who has written several papers about the impact of gambling on society.

"The analysis needed to determine these things has never been done," Eadington says, adding that the danger is that people take such figures at face value.

For instance, he says the \$200 billion estimate in lost productivity was cited in a 1994 Florida Office of Planning and Budgeting report.

"I'm sure he believes he has a basis of fact (for the number), but I can't see it and I've read everything he's written about it," Eadington says.

Grinols, however, says he doesn't make up numbers. "I get them from primary sources, including the gaming industry," he said in a telephone interview from his office in Champaign, Ill. He adds that defenders of gaming challenge everything and produce little research of their own.

"That's a false charge. I'm not aware of any group that knowingly uses false information to oppose gaming," Grinols says, comparing the gaming industry to the tobacco industry.

"People who speak for the industry have a mission to defend everything that's going on. But no one disputes the fact that (gaming) does create pathological and problem gamblers and drives up social costs."

Frank Fahrenkopf, president of the American Gaming Association, strongly disagrees. He says Grinols, professor and author Robert Goodman and the Rev. Tom Gray, who heads the Coalition Against Legalized Gambling, distort and fabricate statistics to fit their needs.

"In many ways the moralists have changed their approach," Fahrenkopf says. "Because they've seen that the American public doesn't want moral views crammed down its throat, they've changed their tactics and are trying to attack the gaming industry with economic statistics."

Goodman, professor of environmental design and planning at Hampshire College in Amherst, Mass., and author of the recently published book, "The Luck Business," was director in 1992 of the United States Gambling Study, from which his book draws heavily.

While Goodman says this week that he does not oppose gaming, his book, which carries the subtitle "The Devastating Consequences and Broken Promises of America's Gambling Explosion," suggests otherwise.

Goodman says he's found studies conducted by the gaming industry to be biased and that they exaggerate the benefits of gaming. He says the gaming industry should be providing resources, toll-free numbers, counseling and placing warning signs in casinos about the danger of gambling.

Some of the statistics surrounding gaming cited in Goodman's book include:

- According to the U.S. Gambling Study, combined costs produced by the behavior of problem gamblers were estimated at \$13,200 per problem gambler per year in 1993 dollars.

- Gambling problems in New Jersey resulted in \$514 million in annual bankruptcy costs.

- Pathological gamblers were responsible for an estimated \$1.3 billion in insurance-related fraud cases each year.

- According to a 1992 Minnesota state planning agency report, 60 percent of all pathological gamblers engage in crime to support their habit.

- According to the American Insurance Institute, 40 percent of all white-collar crime had its roots in gambling.

"My research is not written from a perspective of someone who's opposed to gambling," Goodman said.

Fahrenkopf chuckles at Goodman's suggestion. For instance, he says, exhaustive research conducted by Joseph Kelly, an associate professor of business at SUNY College in Buffalo, N.Y., determined that the American Insurance Institute never existed. And, Fahrenkopf says, Goodman has been quoted at length by anti-gaming politicians such as Sen. Paul Simon D-Ill.

Nelly wrote about a hearing called "The National Impact of Casino Gambling Proliferation" held before the House of Representatives' Small Business Committee: "While experts may view the impact of gaming differently, they should, at the very least, base their conclusions on verifiable data. At this hearing, the academicians and politicians repeated misinformation which is based on reports of dubious validity."

But Goodman levels the same charges at the gaming industry. "Of the 14 economic impact studies which we examined as part of the U.S. Gambling Study," he writes in his book, "10 were found to be either 'unbalanced' or 'mostly unbalanced' in objectively describing the real public and private benefits and costs to a community or state. Of the remaining four, we considered three to be 'mostly balanced' and only one to be a 'truly balanced' study of economic impacts."

Fahrenkopf admits the gaming industry has been slow in advancing its "side of the story. That's why the industry and the American Gaming Association is going to go out and develop our own statistical analysis and studies."

No matter what the statistics, Grinols says not recognizing that pathological gambling increases with the introduction of casinos is akin to saying smoking cigarettes does not cause health problems.

"I think the country was doing just fine before 1975 when anybody who wanted to gamble could go to Las Vegas to do it," Grinols says.

Eadington tried to sum up the whole argument between the two factions by saying, "Communities will probably derive some economic advantages from gaming and also find they have some new problems borne of the casinos."

New light on old casino ghosts

WASHINGTON, D.C.—On Sept. 21, 1994, Rep. John J. LaFalce (D-New York) chaired a House of Representatives Small Business Committee hearing called "The National Impact of Casino Gambling Proliferation." One of LaFalce's purposes was to use the committee "to introduce legislation to establish a second Commission on the Review of National Policy toward Gambling," with the ultimate result of enacting national gaming regulations.

Four of his five witnesses were extremely negative toward gaming, including two academicians—Prof. Robert Goodman (author, the U.S. Gambling Study) and Prof. Earl Grinols (professor of economics at the University of Illinois). According to States News Service, based here, this "panel, stacked with gaming critics, dealt a damning assessment" of casino proliferation.

While experts may view the impact of gaming differently, they should, at the very least, base their conclusions on verifiable data. At this hearing, the academicians and politicians repeated misinformation which is based on reports of dubious validity.

Three examples of misinformation include:

1. The American Insurance Institute statistic that 40% of white-collar crime is connected with compulsive gambling.
2. The statistic that restaurant business within a 30-mile radius of

an Indian casino has dropped 20% to 50%.

3. The notion casinos are responsible for the increase in crime in Atlantic City.

As to the first example, the prepared statement of Rep. LaFalce that "the American Insurance Institute estimates as much as 40% of all white-collar crime is committed by individuals who have serious gambling problems" was obtained from prof. Goodman's often cited *Legalized Gambling as a Strategy for Economic Development*, (March, 1994).

On p. 59, Goodman lists as his source for the American Insurance Institute statistic *High Stakes Gambling in Minnesota* (March, 1992), which states on p. 19: "The American Insurance Institute estimates gambling today is the root of at least 40% of all white-collar crime." The study, however, lists no source for the American Insurance Institute statistic.

One might wonder how the American Insurance Institute study could be cited both as authority for "as much as 40% of all white-collar crime" and "at least 40% of all white-collar crime."

Exhaustive efforts to contact the American Insurance Institute were fruitless. In fact, this author, assisted by a college reference librarian, has been unable to uncover any information about this entity. Neither the American Insurance Association, nor the Insurance Institute of America, was able to

While experts may view the impact of gaming differently, they should base their conclusions on verifiable data. At this hearing politicians repeated misinformation.

provide any information about the American Insurance Institute.

A direct inquiry to a co-author of the *High Stakes Gambling in Minnesota* study for the source of the American Insurance Institute statistic led to a referral to a 1987 article by Prof. Henry Lesieur, a nationally recognized expert on compulsive gaming.

There was nothing, however, in Lesieur's article about the American Insurance Institute statistic, and Prof. Lesieur informed me he has utilized neither the 40% statistic nor any data from the American Insurance Institute.

Other gaming experts suggested I contact Thomas Cummings, president of the Massachusetts Council on Compulsive Gambling. He informed this writer one would have a better chance of winning the New York Lottery than succeed in finding the source of the 40% figure.

Misstated statistic taken as fact

Nevertheless, misstated data assumes a life of its own. This statistic of the Institute has been cited as authority in the *Palm Beach Post* (Oct. 13, 1994), the *Minneapolis Star Tribune* (Sept. 18, 1994), *The Christian Science Monitor* (May 23, 1994), *St. Louis Post-Dispatch* (June 6, 1993, Feb. 28, 1993, and Dec. 9, 1990), and many other newspapers.

Ultimately, I was able to trace the statistic back to a March 1987 advertisement of the Tennessee Baptist Convention, which stated: "American Insurance Institute figures that 40% of white-collar

crime has some connection with gambling debts." After that, the trail grows cold.

Does the 40% statistic make sense? According to prof. Gilbert Geis, professor emeritus in criminal justice at the University of California, Irvine, this statistic is "utter nonsense." Geis, co-author of *White Collar Crime*, which many regard as a definitive text on that topic, states white-collar crime includes computer fraud, anti-trust activity, and other areas with minimal connection to compulsive gambling.

The second example of misinformation at the hearing was prof. Grinols' comment that "Minnesota restaurant business within a 30-mile radius of casinos with food service was reported to fall by 20% to 50%." This was taken directly from Goodman's *Legalized Gambling* (p. 54). Goodman's source was an article by Scott Allmendinger called "Can't Compete With Free" *Restaurant Business*, Nov. 20, 1992, p. 8.) When asked, *Restaurant Business* referred me to the Minnesota Restaurant Hotel and Resort Association.

They kindly sent me a study based on their survey, indicating most respondents believed Indian gaming had a negative impact on their businesses. The 20%-50% statistic was not in the survey but was the result of an informal telephone poll by the trade association.

This informal poll, however, has been cited by the media as a valid statistical study. Newspapers such as the *Minneapolis Star Tribune* (Sept. 18, 1994) quoted the

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Response to Robert Goodman's "Legalized Gambling as a Strategy for Economic Development"

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The proliferation of various forms of legal wagering across the United States has doubtless been accompanied by varying degrees of social and economic impacts. Although a handful of academic researchers have investigated the broad implications of gaming's increasing social acceptability, the definitive study of the social and economic impacts of lotteries, pari-mutuel wagering, bingo, charitable gaming, tribal gaming, and commercial casino gaming remains unwritten.

Robert Goodman's "Legalized Gambling as a Strategy for Economic Development" -- despite the flurry of media attention that accompanied its release -- cannot be considered a definitive study of the casino entertainment industry by any stretch of the imagination. This paper points out the many errors of omission and commission in the Goodman study. Although the study has all the trappings of objective, scholarly analysis, it is in fact an anti-gambling tract dotted with poorly-reasoned economics and sociology and a selective reading of history.

General Comments

The report's author bills himself as Director of the "United States Gambling Study." This designation is misleading for two reasons:

- First, "United States" is misleading because Goodman pays **scant attention to most of the states where casino gaming has actually been implemented**. For example, Goodman interviewed "over fifty public officials, business and media people" to gather primary data for his report. These 55 interviewees provided perspectives from a very small list of states. Forty-seven interviews came from five states (Oregon - 16; Minnesota - 13; Massachusetts - 8; Connecticut - 5; and Iowa - 6). Collectively, these five states account for about 18,000 direct casino jobs, or less than 7 percent of total casino jobs in the United States.

Goodman interviewed just one individual from Nevada, one individual from Mississippi, two individuals from Illinois, and no one from either New Jersey or Louisiana. It's odd that given Goodman's stated "primary concern" (p. 5) was "to assess the economic, social and legal consequences that occur when governments try to use gambling as a way to improve their economies," **he overlooked the most appropriate persons and places for perspectives on the actual impacts of casino gaming on host communities.**

- Second, "Study" is misleading because Goodman's report, which press reports say was the result of a "two-year" analysis of gambling, presents **precious little real, empirical data** -- virtually no primary data gathered by the project team and very little secondary data gathered by others. Rather, Goodman spends two hundred-plus pages mostly reproducing anecdotal data reported previously by others, mostly writers for newspapers and magazines. The Goodman "Study" clearly is **not up to par with the body of academic or professional research on the U.S. gambling industry** to which those inside the industry are accustomed.

Introduction to "Legalized Gambling"

Objectivity

Goodman claims that his research "is intended to give communities and policy makers a more informed and objective basis for making their decisions" about gambling as an economic development strategy (p. 5). What Goodman should have said is that he perceives that much of the information available to communities is biased in favor of gambling's proponents, and that his report will give communities and policy makers a more informed and objective basis for decision-making only in the sense that it is **biased against gambling** and therefore provides some sort of counter-balance.

The author's general strategy is to not mention or dismiss as insignificant or illusory any positive impacts that various forms of gambling might have in terms of economic development. **Negative impacts**, no matter if they are speculative, immeasurable, isolated, or arguable, **capture the bulk of Goodman's attention**. Goodman's line of thinking seems to be, "if a negative effect is remotely possible, it must be real, significant, and must always exist as a consequence of legal gambling, consistent across all forms of gambling, sites, and time."

Goodman attempts to malign legal wagering by calling it a "once officially criminal activity." An objective analyst might have pointed out that games of chance have been around for at least 4000 years, and that lotteries played an important and legal role in the development of the United States. In fact, "criminals" such as George Washington, Benjamin Franklin, and Thomas Jefferson sponsored private lotteries to fund the development of the American colonies.

Gambling as a Monolithic Industry

Goodman acknowledges that "In our research, we discovered that not all forms of gambling lead to the same social and economic consequences (p. 5)." But his report completely obscures these distinctions. In this study, **all forms of legalized gambling are discussed as one entity**, when in fact the dynamics and characteristics of casino entertainment and lotteries differ significantly, especially in terms of accessibility, reasons for consumer participation, and the role of government as promoter.

For example, on page 8, Goodman writes: "Studies indicate that poor and working people spend a disproportionate part of their incomes on gambling." The distinction between casino gaming and lotteries ought to be made here (by the way, what does Goodman mean by "working people"?). This same overgeneralization infuses the entire report.

Revenue Versus Handle

Goodman's attempt to compare total gambling "expenditures" with various categories of retail spending in Minnesota is misleading (p. 7). What he ought to be comparing with retail spending is not total wagering (which he calls "expenditures") but rather gambling revenues, which are customer losses. Goodman seems **unaware of the distinction between handle and win**. Goodman cites a total wager of \$2.5 billion in Minnesota in 1990, when in 1992 -- after Indian gaming had flowered in the state during 1991 and 1992 -- total revenues for legal gambling in Minnesota were just \$666 million (Source: Minnesota Planning, 1993).

Shifting Role of Government

On page 8, the author announces that "In the process of going into the gambling business, governments have also become more gambling dependent and have **shifted from being gambling regulators** to being the leading promoters of gambling in the country." If Goodman wants to make this assertion, he is obliged to list the states with either casino gaming, pari-mutuel wagering, or lotteries that have forsaken their regulatory responsibilities over these activities.

According to Goodman, "Government involvement in expanding legalized gambling may at first seem an encouraging indication that political leaders are taking a more active role in helping their local economies. But compared with the involvement in gambling, the commitment to help other kinds of economic growth is minuscule (p. 14)." Particularly with respect to casino gaming, **an objective analyst would have reached an entirely opposite conclusion.**

Nothing besides casino gaming can create so many jobs so quickly and generate so much revenue with so little investment required by government. Today's competitive economy often finds one set of elected officials squaring off against another set of elected officials in a bidding war to entice prospective capital investment. Companies in most industries that dangle potential capital investment in front of elected officials surely enjoy watching the parades of tax breaks, infrastructure improvements, and other subsidies that elected officials orchestrate for them. But the tables are turned for the casino gaming business: in many locations, government officials have required prospective casino operators to bid for the privilege to operate local casinos. This process has yielded excellent results in cities like Kansas City, Missouri; Vicksburg, Mississippi; Windsor, Ontario; and New Orleans, Louisiana. There is every reason to expect that the process can yield positive results in other North American towns and cities.

It's true that tax rates on pari-mutuel wagering have declined in several states over the past decade. Perhaps this is what Goodman refers to as "subsidies" for "non-lottery gambling ventures (p. 10)." An objective analyst would distinguish casino gaming from pari-mutuel wagering here, because casino gaming has not been awarded such "subsidies."

Problem Gambling

On pages 8-9, Goodman asserts that "There is also a direct increase in the numbers of people with pathological gambling problems as a result of increases in legalization." **There is no empirical evidence that shows that this assumed causal relationship actually exists.** As the Massachusetts Senate recently put it, **"Problem gamblers gamble regardless of the legal statues of a venue."** (Source: Report of the Senate Committee on Post Audit and Oversight entitled "Toward Gambling Regulation: Part II: Problem Gambling, and Regulatory Matters," March 1994).

Opponents of legalized gaming, such as Goodman, often claim that increasing numbers of persons nationwide are becoming addicted to gambling. Until very recently, there was little empirical data available that could confirm or deny that assertion. **New data has been published that directly contradicts this assertion.**

The studies that show somewhere in the neighborhood of 2% to 6% of the adult population has ever reported gambling-related problems during their lifetimes are "snapshots" of individual states; that is,

no data has been available for any one state at more than one point in time, thereby permitting a determination of whether the problem is growing worse, getting better, or staying about the same.

Finally, some "longitudinal" data have been published. The table below compares current and lifetime prevalence rates of problem and pathological gambling (problem gambling is defined by researchers as a less damaging affliction than true pathological gambling) assessed in surveys of South Dakota residents in 1991 and 1993:

Prevalence	1991	1993
Current Pathological	0.6%	0.5%
Current Problem	0.8%	0.7%
Lifetime Pathological	1.0%	0.9%
Lifetime Problem	1.8%	1.4%

The data show a decrease in the rates of both current problem/pathological gambling and lifetime problem/pathological gambling over time in South Dakota. Accounting for measuring error, the author of the South Dakota studies concludes that "the size of the decrease is not statistically significant. This suggests that **the prevalence of problem and pathological gambling in South Dakota has remained stable.** (emphasis added)" (Source: "Gambling and Problem Gambling in South Dakota," Prepared by Rachel A. Volberg and Randall M. Steufen (March 1994), Published by the University of South Dakota, Business Research Bureau).

It's noteworthy that problem gambling prevalence has remained stable in South Dakota despite an increasing and particularly high concentration of video lottery machines (one machine per 75 adults). Says Goodman, "According to psychological experts" (unnamed, of course), these machines are "among the most addictive forms of gambling available (p. 102)."

Goodman's Key Findings

1. We disagree with Goodman's position that the expansion of legalized gaming results from the efforts of gaming industry companies and public officials. **Favorable attitudes toward casinos as an acceptable form of entertainment are evident**, particularly when one considers the legalization results from various public referenda (see discussion below). **If not for the high level of consumer demand, the industry would not exist.** Statistical evidence supported by the Yankelovich Monitor Study of consumer behavior tells us that when the availability exists, people will participate in casino entertainment.
2. We agree that there has been a lack of objective knowledge and research about the impacts of gambling, but this has begun to improve markedly. It is true that **the majority of available research has been performed by or for the industry; however, much of the research (particularly with respect to Promus) has been conducted and validated by third-party experts** such as the WEFA Group, Yankelovich, and Home Testing Institute to ensure objectivity.

The data does not show "the shifting of large amounts of consumer spending to state sponsored gambling," as Goodman suggests. A study recently conducted by the WEFA Group

on the effects of casino gaming on consumer spending rejects the so-called "substitution effect," and in fact, finds that the total consumer income "pie" grows over time following the introduction of casino entertainment. Casinos, like any other job-creating industry, contribute to that growth. While a consumer spending adjustment may occur in the short term, as with any other new entertainment product, continued decline in certain expenditures is more likely a result of changing consumer tastes. For example, even with the popularity of videotape rentals, movie theater attendance has remained stable.

An extended analysis of Goodman's conclusion that casinos bring crime is presented below.

3. We find Goodman's sorting of economic impact analyses into ill-defined categories such as **"Unbalanced"** and **"Mostly Unbalanced"** a most unscientific exercise. Six of the fourteen impact analyses that Goodman judges estimate the impacts of projects that to date have not been built. In analyzing the other eight studies, Goodman makes no effort to compare predicted effects with actual effects. Rather, Goodman only looks at the extent to which the analyses dwell on supposed negative impacts of gambling. **If a report dwells on these impacts, it is classified as "Balanced."** If not, Goodman reasons, it must be biased. We question whether the negative impacts that Goodman presumes to exist actually exist. Goodman's own research does not convince us of their existence.
4. Studies by experts in the field of gambling behavior show that between 2 percent and 6 percent of Americans *have ever* reported symptoms of problem gambling. Between 1 percent and 3 percent report *current* problem gambling. It should be noted that **problem gambling exists in states whether or not the state has particular forms of legalized gambling.** Texas, for example, has only a fledgling pari-mutuel industry and a recently-introduced lottery, yet research conducted before the lottery began operating already showed that a small percentage of Texans had experienced gambling problems.

Problem gambling has never been proven to be an "effect" resulting from the "cause" of legalized gambling. We recognize that problem gambling is a serious problem among a small segment of the population. The key point is the casino industry's recognition of the problem and casino companies' responsibilities in improving awareness of the problem.

The statement that gaming revenues come disproportionately from lower income residents is not true in the case of casinos, where the typical patron is white-collar, well-educated and has a higher-than-average household income.

5. States do constantly search for higher lottery revenues by producing new games and marketing strategies to support sagging lottery sales.

In casinos, there is, as demonstrated in the market, **a shift toward more slot machines. This is driven by customer demand.** Casino operators will of course make available those gaming experiences that customers most enjoy. We agree that states should not become so dependent upon casino taxes that they need to develop additional forms of gambling regardless of customer demand.

6. We agree that as is the case in any other industry, **market forces will cause some poor operators out of business** and will create competition among certain gaming options with the most customer-driven and entertaining options ultimately surviving. As in any free market environment, those competitors that are customer-driven and provide high value will survive.

Every example of casino legislation written across the country demonstrates that **more competing casino jurisdictions does not lead to less regulation**. In fact, most new jurisdictions are more regulated than the original Nevada model. We operate in more regulated jurisdictions than any other company. The author appears unfamiliar with casino regulatory requirements.

7. The author's comments about states being in the gambling promotion business apply to lotteries, not to casinos.

WEFA research on the substitution effect shows that **casino entertainment**, like many other new products, **may in fact draw some consumer spending in the short term away from other types of leisure spending**, a "normal expression of changing tastes" in a market-driven economy, but this takes place in an expanded overall economic pie created by the impact of casino jobs and purchasing. In fact, in Joliet, Illinois, one of the few riverboat casino markets with enough history to study empirically, **other consumer spending has increased in the downtown area since the two riverboat casinos opened there**. We do not understand the blanket statement that governments will move toward inducing more people to gamble more money. People play in a casino as an entertainment choice, not at the coercion of government.

8. We agree with the analysis that **competing gaming concerns tend to defend their own customer base** and that people become loyal to their casino employers. Would any other industry or groups of individuals behave differently?
9. We agree that not all tribal casino initiatives have gone smoothly and that not all tribes agree on the benefits of casinos. In this environment, casinos should only be created when there is a clear consensus and realistic expectation about the goals, objectives, and benefits of the new entertainment option. We also agree that relationships between tribal casinos, states, and the federal government need clarification.

The Study's Recommendations

Promus agrees with many of the recommendations, particularly the warnings about municipalities becoming too dependent on gaming revenues, relaxing regulation, losing sight of social responsibility, local saturation and government's role as a promoter. These issues, however, are not news to Promus and are issues for which the company has taken an aggressive leadership role in addressing in the context of its own development and consultation roles.

Comments on Other Sections of "Legalized Gambling"

pp.23-24

Goodman cites Connecticut and New Jersey as illustrative of "the elusive quest for government revenues through legalized gambling." He says that Connecticut approved a lottery as a way of avoiding a state income tax, but that the legislature went ahead and approved a state income tax anyway. Goodman fails to emphasize that two decades had passed between enactment of a lottery and the state income tax. **The fact that the lottery played a role in preventing state income tax assessments for twenty years is not mentioned.**

Regarding New Jersey, Goodman cites horse racing as having produced 10 percent of the state's general fund revenues in the mid-1950's, and the combined lottery/casinos/racing industries now producing about 6 percent of general fund revenues. We are left to infer that gaming's importance to

the state's budget is on the decline. Goodman fails to mention that the state's total budget in 1955 was \$235.4 million, compared to the current (1994) budget of \$15.5 billion. Goodman does not seem to understand the pressures now on state governments to find new sources of revenue, particularly sources of "voluntary taxation" like the various forms of legal gambling.

p. 25

Goodman states that "More than 16 years ago, New Jersey residents became the last group to vote in favor of high-stakes gambling, when they approved casinos for Atlantic City. The methods used in all of the new ventures since Atlantic City were laws passed by legislators and the interpretation of existing laws." **Statements like these call into question how closely Goodman has been following the development of the casino gaming industry.** Prior to the report's publication, the entire state of Missouri approved "high-stakes" casino gaming in November 1992, and local referenda have been approved in more than a dozen communities along the Missouri and Mississippi rivers. In Mississippi, voters in nine counties along the Mississippi River and along the Gulf Coast have approved "high-stakes" casino gaming in referenda. In Indiana, voters in five counties and three municipalities have approved "high-stakes" casino gaming in local referenda. And subsequent to the report's publication, Iowa voters in all eight counties where voters were asked whether to eliminate the state's wager and loss limits on riverboat casinos overwhelmingly approved eliminating the limits.

p. 25

Goodman reports that "Indian gaming on the reservation has stimulated non-Indian ventures regardless of voters' opinion of whether they want more casino gaming or not." We challenge Mr. Goodman to name a single state that has legalized commercial casino gaming after Indians in that state negotiated a Class III compact. As of this writing, no state has done so.

p. 25

Goodman claims that proposed casino gambling developments "have grown out of a sense of resignation and desperation." One wonders **what social scientific measuring device** Goodman has employed to get an accurate assessment of resignation and desperation, other than selective quotes from various newspaper articles.

p. 36

Goodman reports the findings of a Gallup Poll on video poker as "a more significant measure of public attitudes toward government's role in promoting gambling" than casino referenda. Goodman fails to point out that the majority of states that have enacted lotteries have done so via either a referendum or a public initiative process. The positive results of these referenda are perhaps the best measures of said attitudes.

p. 39 ff.

Goodman's study concludes that "we found that many government officials and media people had **no firm ideas about the broad economic development effects** that legalization of particular gambling ventures would or have had on their locales." One would think that Goodman's study, given its title of "Legalized Gambling as a Strategy for Economic Development" and subtitle of "United States Gambling Study" would make an effort to provide some of these "firm ideas." Goodman's study disappoints.

Goodman fails to supply even the most basic empirical data -- data that in many cases is routinely compiled by state regulators or state casino owner associations -- on economic effects of casino gaming. He neglects to supply information on the amount of state and local tax revenue that casino gaming generates in the many states in which it is legal; the number of jobs that it generates; payrolls associated with these jobs; numbers of indirect and induced jobs; amounts of capital investment; and increases in local tourism. If Goodman is unaware of these data, doesn't that call into question the completeness of the study? And if Goodman is aware of these data but decided against reporting them, doesn't that call into question the study's objectivity?

Instead of supplying empirical data, he presents unquestioningly the opinions of a select few who claim that casino companies provide misleading information about the public benefits that casino gaming will bring. Wouldn't an objective analyst test whether these opinions have any basis in fact by providing data pre- (projected) and post- (actual) casino development for any of a number of recent casino projects? Again, Goodman's study disappoints. One has to question Goodman's commitment to objective social science.

Here's what Goodman might have found, if he had taken the time to look, about whether the casino industry had "lived up to its promises" in Atlantic City, the industry's supposed "bad example":

- Proponents of casino gaming in 1976 promised \$57 million in annual non-gaming tax revenue for the city, county and state governments. As of 1991, the industry was paying over \$130 million in city, county, and state taxes.
- Proponents of casino gaming promised \$31 million annually in benefits for senior citizens and the disabled. Today, the industry is providing in excess of \$250 million.
- In 1976, gaming proponents promised over \$700 million in new capital investment in the Atlantic City economy. So far, the industry has invested over \$5 billion.

p. 44

Goodman states that "riverboat communities are in a weak bargaining position in negotiating with developers, since owners can easily move their boats to another community." Meanwhile, the city "often pays for off-site improvements, such as street widening and building parking areas."

Goodman implies that the standard relationship between riverboat operators and host communities features broken promises, blackmail, fear, and abandonment. Nothing could be further from the truth, which Goodman might have learned if he had taken the time to speak with community officials in Illinois towns like Joliet, Galena, Metropolis, Rock Island, and Aurora; in Iowa cities like Davenport and Clinton; or in Mississippi towns like Tunica, Vicksburg, Biloxi, or Gulfport.

Goodman confuses the exception to the rule with the rule. There are approximately 40 riverboat casinos currently operating in five states. To date, a total of three boats in the three years that riverboat casinos have been operating have ever "abandoned" their host communities. Two boats moved from Iowa to Biloxi, Mississippi in July 1992 (one of these boats recently moved to Vicksburg, where it opened as the *Isle of Capri - Vicksburg*). A third boat departed Iowa in April 1993 and is slated to open in St. Charles, Missouri this year.

The departure of the Iowa boats may be attributed to several factors:

- The operators who left were inexperienced in the casino business. The boats that stayed, particularly Davenport's *President*, are operated by experienced casino managers and seem to be turning a profit.
- The legalization of Illinois riverboat casinos nearer to population centers meant that Illinois casinos could easily capture much of the business that had been crossing the river and going to Iowa.
- Iowa's gaming statute put Iowa boats at a competitive disadvantage compared with Illinois boats. Until recently, the Iowa statute established a \$5 maximum wager and a \$200 per customer loss limit. Bet and loss limits excluded some customers who could afford to bet (or lose) more than the statutory limits. Since Illinois boats didn't have these limits, they captured this segment of the market.

It's entirely likely that some other new gaming enterprises will fail -- particularly in jurisdictions that allow unlimited numbers of operators. After all, gaming is like any other business in which strong competitors drive weaker competitors out of the market. To prevent other cities from being negatively affected by the failure of a local casino, Promus recommends that cities deal only with experienced gaming companies that have a track record of successful casino operation in several jurisdictions. We also recommend that cities require would-be casino operators to pay for necessary infrastructure improvements, structure leases to ensure the full payback of public funds expended to accommodate casinos, and/or require casino operators to post bonds or other guarantees that cover rent that would be forfeited if casinos cease operation before their leases expire. And we recommend that gaming legislation be cognizant of market demand and local needs, and place reasonable limits on the number of gaming licenses that may be issued in any single jurisdiction or regional market.

The vast majority of local communities with riverboats have followed these recommendations and take pride in both the casinos that they host as well as the deals that they have negotiated with casino companies. Riverboat casinos have proven to be excellent corporate citizens in their local communities.

If Iowa's experience with riverboat casino operators was so negative, how would Goodman explain the results of elections held in May 1994 in Iowa, in which voters were asked whether to eliminate the wager and loss limits? **Communities which once had riverboats but lost them voted overwhelmingly to eliminate the limits** (68 percent to 32 percent in Des Moines County; 80 percent to 20 percent in Dubuque County; and 68 percent to 32 percent in Lee County), **effectively welcoming back to town riverboat-related economic development.** The results were equally impressive in counties that currently have riverboat casinos: in Clinton County, voters approved lifting the limits by an 85 percent to 15 percent margin; in Scott County, voters approved lifting the limits by an 80 percent to 20 percent margin; and in Woodbury County, voters approved lifting the limits by a 61 percent to 39 percent margin. To put it simply, communities that have experienced casino gaming like the gaming industry.

Additional evidence that riverboat casinos are good corporate citizens comes from the Mississippi Gulf Coast. The University of Southern Mississippi's 1994 Gaming Industry Impact Survey shows that a majority of those polled in each of three Gulf Coast Counties believe that casino gaming has made the Coast a "much better" or "somewhat better" place to live. This is interesting in its own right, and runs counter to what Goodman would lead the reader to believe. More interesting, however, is the finding that **satisfaction levels are higher in the two Gulf Coast counties with casinos than in the county without casinos.** Goodman would have the reader believe that familiarity with gaming breeds contempt, but the data show exactly the opposite.

p. 50

Goodman is correct when he says that "Cities which attract large numbers of visitors to their gambling ventures can expect higher costs for such services as police, health inspectors, emergency medical teams, and for upgrading transportation facilities, water and sewer systems." But substitute the word "malls" for "gambling ventures," and the statement holds just as true. **Goodman should acknowledge that all economic development – gaming and non-gaming – requires physical and social infrastructure improvements.** Nowhere does he demonstrate that these costs have ever exceeded the amount of tax revenues brought to communities by casino gaming.

p. 52

Perhaps the reader ought thank Goodman for failing to present and interpret more empirical data than he actually does, for he mishandles the paucity of empirical data which he chooses to present. For example, Goodman cites Michael K. Madden et al.'s South Dakota research as "one of the most useful economic impact studies we found" regarding the existence of any gaming-related substitution effect. Goodman (surprisingly) acknowledges that **"the study indicated no appreciable statewide decline in the post gaming period 'taxable retail sales' overall."** He goes on to say that the study "did show significant declines for selected activities such as clothing stores, recreation services, business services, auto dealers and service stations." Goodman misleads on several points here:

- He neglects to mention the authors' conclusion that for the recreation services sector, it is "likely that businesses within this classification have experienced **offsetting increases** in business sales volume due to video lottery play." (p.35)
- He is wrong in concluding that the business services sector showed "significant declines." Rather, **growth** in business services **occurred at a slower rate.** Perhaps Goodman can explain the relationship between gaming spending and spending on business services. Madden et al. were at a loss: "Given the type of businesses included within this classification, it is not obvious how any gaming impact could reach this sector."
- Similarly, auto dealers and service stations experienced **"some reduction in the rate of growth of taxable sales"** (p. 35), not the "significant declines" that Goodman claims.

Goodman also fails to report Madden et al.'s finding of **increased business volume in eating and drinking establishments:** "It is apparent that sales of the goods and services provided by these businesses are stimulated by video lottery customers." (p. 34)

Goodman's thesis that new casinos will necessarily siphon business out of existing retail establishments or bars and restaurants is not supported by an analysis of any of the new casino jurisdictions in the United States. In these locations, the data tend to show that existing local businesses either hold their own or perform better after the advent of new riverboat, land-based, and Indian casinos. Some examples:

- In Will County, Illinois (suburban Chicago), expansion of retail trade trailed the state of Illinois for three of the four years prior to the introduction of casino gaming in Joliet. In the first full year of gaming operations, retail trade grew at 8.9 percent in Will County, while retail sales in the state fell by 2.0 percent.

- In Deadwood, South Dakota, total retail trade grew 16.8 percent in the two years after the introduction of low-stakes gaming. This is more than double the rate of growth statewide. An analysis of statewide taxable retail sales conducted by the University of South Dakota failed to show an appreciable decline after casino gaming was implemented.
- The Minnesota Planning Agency reported in May 1993 that revenues of bars and restaurants in counties with Indian casinos grew by 10.7 percent between 1989 and 1991, compared to 5.4 percent for non-casino counties. Moreover, these figures understate the positive effects of casinos, because they do not include revenues of bars and restaurants in casinos themselves.
- Retail sales along the Mississippi Gulf Coast were up 15 percent during 1993. And retail sales in northwest Mississippi (where the Tunica County riverboat casinos are located) were up 13 percent.

These benefits to other businesses exist both because of new tourism and because casinos increase employment opportunities and incomes in local communities. This expands the pool of income available for consumer purchases. Casinos would have these positive effects even if they attracted no new tourist dollars to the local economy.

Critics of casino entertainment sometimes claim that because gaming doesn't involve the manufacture of a product, or, as some put it, "there's nobody employed making anything," casinos necessarily divert money from other parts of the economy. Such statements display a misunderstanding of how incomes are created in free market economies, and the increasing importance of service industries in general and the entertainment and leisure sectors in particular to the nation's post-industrial economy.

The view that casino gaming permanently substitutes for other expenditures distorts historical experience. In free market economies, providing new outlets for consumer spending creates new incomes. It doesn't make any difference what the "product" is, or whether there's even a tangible "product" at all. Satisfying consumer demand creates new spending and creates new jobs and increases overall incomes. **The history of the American economy shows that disposable income grows over time -- and that the economy grows precisely because businesses are successful in supplying what consumers want to buy, whether it's microwave ovens, mini-vans, hula hoops, tickets to the movies or an NBA game, or the chance of a winning blackjack hand.**

Not only is the whole economic pie expanding, but the entertainment and recreation sectors are where consumers are choosing to spend their discretionary income. **As disposable income increases, consumers tend to spend a greater proportion of their incomes on discretionary purchases such as entertainment. Since 1991, consumers have increased spending on entertainment and recreation by 13 percent, adjusted for inflation -- more than twice the growth rate of overall consumer spending.** Casino gaming clearly satisfies some of the recreational needs of a broad segment of the U.S. public -- and for that reason, it's good for local and state economies.

Most of the adherents to the "substitution effect" theory point to evidence from Atlantic City to bolster their cases, but rarely note that **Atlantic City businesses were in decline long before casino gaming was legalized** in the mid-1970s, and that casino gaming *per se* is hardly the root cause of the Atlantic City business communities' woes. We would also point out that Atlantic City's casino legislation requires casinos to be self-contained "fortresses." The unintended effect is to discourage casino customers from venturing out of their hotels and patronizing other local businesses during their Atlantic City visits.

It's true that a substitution effect can exist over a short period of time (such as a year or less), as consumers reallocate budget dollars from one kind of spending to another. But even for products where substitution has most likely occurred, the effects often fade over time. This is a normal reflection of the product life cycle.

Even when intuition would lead one to believe that substitution will occur, it often does not. One of the best examples is the impact of videotape movie rentals. Despite the booming movie rental industry, attendance at movie theaters has remained stable for the past two decades, and the motion picture industry as a whole has thrived. And movie rentals have had no appreciable effect on other forms of entertainment, like attendance at ball games and concerts.

p. 53

According to Goodman, "Some economists assume that about 8 percent of consumer dollars will be lost to gambling from existing entertainment activities." This statement begs the following questions:

- Which economists assume this?
- If only "some" economists assume this, what do the others assume? No effect? An expanding economic pie?
- On what evidence is this assumption based?
- Over what time period does this effect take place? A year? Five years? A decade?

Instead of investigating these questions, Goodman moves on to his next broadside against the gambling industry.

p. 54

Goodman attributes a decline in the number of restaurants in Atlantic City from 1977 to 1987 to low-priced food services which casinos provide in their facilities "as a way of enticing players to stay on the premises." Goodman fails to point out that New Jersey's casino legislation virtually **requires casinos to be self-contained fortresses** that encourage customers to stay inside, and not explore the surrounding community. As for low prices, **competition** has forced food prices down, not any conscious "enticement" effort by the Atlantic City casinos. Would Goodman prefer that casinos collude in order to keep prices up?

Goodman's discussion of Atlantic City shows how selectively he reports data on casino gaming's real economic impacts. According to an analysis of the impact of gaming on the local and regional economy conducted in 1992 by the Atlantic County Division of Economic Development:

- The casino industry in Atlantic City directly employs over 40,000 people;
- Whereas per capita income in Atlantic County was 4 percent less than the national average in 1960, it was 35 percent higher than the national average in 1989;
- The casino industry directly created more than \$3 billion in expenditures in South Jersey in 1989;
- The total direct and indirect impact of the casino industry on the economy of South Jersey is estimated to be approximately \$6.2 billion in expenditures, 69,376 full-time jobs, and more than \$2 billion in household wages, salaries, and benefits.
- The casino industry paid approximately 65 percent of all Atlantic City property taxes and 29 percent of Atlantic County property taxes, in addition to the more than \$222 million the industry paid to the state via the tax on adjusted gross casino receipts.

Goodman fails to report any of this information. Is this information relevant for a report entitled "Legalized Gambling as a Strategy for Economic Development"? If so, why is it left unreported?

p. 54

Goodman reports a magazine article's claim that "in Minnesota, restaurant business within a 30-mile radius of casinos with food service fell by 20 percent to 50 percent." However, in May 1993, the Minnesota Planning Agency reported that **"Revenues of bars and restaurants in casino counties grew by 10.7 percent between 1989 and 1991, compared to 5.4 percent for non-casino counties. These figures do not include bars and restaurants in casinos."** (Source: Minnesota Gambling, 1993).

p. 57

As Goodman admits, the assumption of a connection between the presence of casinos and an increase in street crime is driven in large part by the experience of Atlantic City, where in the first decade following the introduction of casino gaming there was an apparent sharp increase in reported crime. The numbers of reported crimes did increase in Atlantic City when 30 million visitors a year descended on it after casinos were legalized. **But when the number of tourists is accounted for, the crime rate in the Atlantic City metropolitan area is not significantly different from other non-casino metropolitan areas that entertain a significant number of tourists and other visitors.** And the crime rate in the Atlantic City metropolitan area (expressed as the number of crimes per 100,000 visitor-adjusted population) is lower than the crime rate in many major tourist destinations. The table below demonstrates:

Crime Rates for Selected Metropolitan Areas, 1992

Metro Area	Annual Visitors (000s)	Average Length of Stay (Days)	Visitor-Adjusted Population (000s)	Visitor-Adjusted Property Crime Rate	Visitor-Adjusted Violent Crime Rate	Visitor-Adjusted Total Crime Rate
Atlanta	17000	3.4	3259	6652	895	7547
Atlantic City	30705	1.5	448	5974	602	6576
Austin	11000	2.1	943	7096	488	7584
Chicago	27500	2.0	7692	5252	1221	6473
Dallas	22000	2.4	2830	6952	1067	8019
Houston	19432	1.5	3534	5802	989	6791
Las Vegas	21887	3.3	1134	4688	595	5284
Nashville	8000	3.2	1085	5457	974	6431
Orlando	13200	5.3	1469	5772	940	6712
San Antonio	15000	2.7	1488	8176	604	8780
San Francisco	13431	4.2	1788	5545	1010	6555

If casinos do indeed cause crime, then surely crime rates in Atlantic City and Las Vegas would reflect this fact. But they do not.

Then again, very few cities considering casino gaming are interested in becoming "another Atlantic City" or "another Las Vegas." In those cities, casinos dominate the local economy. So perhaps crime rates in Atlantic City and Las Vegas aren't appropriate benchmarks for comparison. What's happened to crime rates in cities in Iowa, Illinois, and Mississippi that currently host riverboat casinos?

Public statements made by chiefs of police and other community officials in new riverboat gaming jurisdictions indicate that **riverboat casino gaming has, for the most part, brought about reductions in crime**, partly because riverboat gaming has vitalized decaying and crime-ridden areas and partly because it has brought considerable economic development. According to a survey conducted in Autumn 1993 by the Southern Indiana Chamber of Commerce, 19 communities which have hosted riverboat casinos have observed no serious problems with property crimes. While traffic-related citations increased because of the increase in traffic volume from the new tourist attractions, not a single community reported significant increases in overall levels of crime, while several communities reported decreases in overall crime.

Goodman's analysis of the relationship between casino gaming and crime **studiously avoids the wealth of qualitative and quantitative evidence that casino gaming does not cause crime**. This evidence does not come from studies sponsored by the casino industry; it comes from unbiased academic researchers, chambers of commerce, and government study commissions. Most recently, a Massachusetts Senate committee investigating the relationship between casinos and crime analyzed data compiled by law enforcement agencies across the country "in an attempt to ascertain the effect that gaming had on crime in the casino facility's greater surrounding community." The committee's conclusions:

- "The data do not support the conventional wisdom that there is a demonstrated link between casino establishments and crime."
- "The data indicate that few statistical patterns or discernable crime trends could be related directly to the introduction of casino gaming into a municipality."
- "The committee believes that there is no statistical evidence proving that the legalization and implementation of gaming in a community will cause an increase in the crime rate of the host municipality, or its greater surrounding area. Some communities experienced a decrease in incidence of crime and crime rates after implementing legalized casino gaming." (Report of the Senate Committee on Post Audit and Oversight, January 1994).

Perhaps if Goodman had taken the time to chat with one of many police chiefs in communities that have a riverboat casino during the course of his two-year investigation, he might have gained the insight that "Casinos cause crime" is simply a myth perpetuated by people who oppose gaming on moral or other grounds. Instead, he disguises this myth as fact.

p. 59

Goodman asserts that "A major cost of increased legalized gambling results from the additional numbers of people who become addicted or problem gamblers." But there is **no longitudinal evidence that suggests that there is an increase in the number of "addicted or problem gamblers" any time there is an incremental change in the availability of legal gambling.** Goodman presents no evidence to support his assertion.

As a Massachusetts Senate committee investigating problem gambling recently put it, "Problem gamblers gamble regardless of the legal status of a venue." And there are no data "showing that gaming venues 'cause' problem gambling." (Report of the Senate Committee on Post Audit and Oversight, March 1994). **It's not a question of whether legalized gambling brings the behavior; the behavior finds an outlet for itself.**

Studies show that a very small percentage of the American public can be classified as "problem gamblers." But the fact that only a small minority of the population may have a gambling problem is little consolation to an individual who suffers from the problem. The seriousness of the problem for the afflicted demands action from every entity involved in legal wagering -- including government lottery officials, pari-mutuel operators, lottery retailers, and casino companies.

Socially responsible casino companies pay attention to problem gambling because it is the right thing to do. It also makes good business sense. Casinos make money by entertaining people, by making sure they have a really good time. Responsible casino companies have no desire to take advantage of persons with a psychological disorder or problem. There are steps that casino companies can and should take in order to deal with problem gambling, such as educating customers and casino employees on how to recognize the signs of problem gambling and where to go for help.

pp. 61-64

Problem gamblers do impose costs on society. But we are struck by Goodman's turning of somersaults in trying to come up with a formula that accurately measures these costs in light of his failure even to list the publicly-available, valid, and reliable data on casino jobs, tax revenue, and capital investment.

We would point out that Goodman's cost estimate is **based on a single sample of pathological gamblers in treatment during 1981.** The representativeness of this sample is highly suspect. After conducting a two-year study of the gambling industry, Goodman should be cognizant of one of the major advances in understanding problem gambling contributed by prevalence research over the last decade: problem and pathological gamblers in the general population do not fit the profile of the subset of problem gamblers -- middle-class white males in their forties and fifties -- in treatment programs. They are much more likely to be women, to be non-white, and to have less education than clients entering treatment programs. Therefore, Goodman's figures are of dubious relevance in estimating the true costs of pathological gambling.

We would also point out that Goodman appears unfamiliar with the body of research showing that the **instrument (the South Oaks Gambling Screen, or SOGS) used to assess prevalence rates of problem gambling in statewide surveys may significantly overestimate the number of persons who actually suffer from a gambling-related disorder.**

The reason that this is a problem relates to how SOGS was "validated." Although SOGS was intended as a measure for use in general population prevalence studies, its ability to discriminate problem gamblers from non-problem gamblers was assessed in a clinical setting, not assessed in a study of the general population. The "efficiency" of SOGS in the clinical setting was 93 percent. That is, 93 percent of the individuals whose SOGS scores said they were problem gamblers actually were problem gamblers. But the base rate of problem gamblers in the clinical setting was much higher than the base rate of problem gamblers in the general population. This means that using SOGS in the general population will result in a high rate of false positives.

How many false positives? At least two studies that have attempted an answer to this question. One study indicates that SOGS' efficiency in the general population is only 22 percent. In other words, surveys using SOGS will **overestimate the number of problem gamblers by a factor of five.**

Another study (conducted by the academician/consultant who does virtually all of the statewide prevalence studies using SOGS) found that SOGS' efficiency was 40 percent: **only 40 percent of people "predicted" by SOGS to be problem gamblers "actually" were problem gamblers.**

(Sources: Mark Dickerson, "A Preliminary Exploration of a Two-Stage Methodology in the Assessment of the Extent and Degree of Gambling Related Problems in the Australian Population," in William Eadington and Judy Cornelius (eds.), Gambling Behavior and Problem Gambling, pp. 347-363, 1993; M. Abbott and Rachel Volberg, Gambling and Problem Gambling in New Zealand, 1992.)

A dispassionate attempt to document the social cost of problem gambling should take into account the known existence of false positives in problem gambling epidemiological studies. Again, Goodman either is unaware of this body of research, or he conveniently ignores it.

pp. 68-87

Goodman's "analysis of economic impact studies" finds that, in general, "claims of economic benefits were exaggerated, while costs were understated." By this point, the critical reader should be calling into question Goodman's qualifications for sorting economic impact studies into **ill-defined categories** of "Unbalanced," "Mostly Unbalanced," "Mostly Balanced," or "Balanced." As loose as Goodman has played with the facts thus far, and as selective as he has been in presenting all sides of an issue, **can we trust him to be an impartial judge of an economic impact analysis' objectivity?**

p. 91-94

Goodman states that "Researchers now call gambling the fastest growing teen age addiction." (p. 91) **We are unaware of any longitudinal research on teen age gambling that would verify this conclusion.**

Only a handful of studies have attempted to document the breadth and scope of wagering behavior in young people. And although no comprehensive national studies have yet been conducted, the evidence is overwhelming that wagering behavior is a quite common feature in the social lives of adolescents and young adults in the United States. Moreover, surveys of similarly-aged populations in Canada and England report rates of gambling similar to rates reported in studies of youth gambling in the U.S.

Five recent independent surveys of fourteen high schools located in Connecticut, New Jersey, and California showed early onset of gambling for money. A third of those surveyed reported gambling for money before age 11, and over 80 percent reported gambling for money by age 15. More than

half of the young people surveyed reported gambling for money in the previous year. The five games most frequently reported by these high school students were:

- cards with family and friends (reported by 45 percent of those surveyed);
- the state lottery (43 percent);
- betting on their own games of skill, such as pool, bowling, and golf (34 percent);
- betting on the outcomes of other sporting events (30 percent); and
- bingo (22 percent). (Source: Durand F. Jacobs, "A Review of Juvenile Gambling in the United States," in *Gambling Behavior and Problem Gambling* (pp. 431-441), Institute for the Study of Gambling and Commercial Gaming, Reno, 1993).

Obviously, most gambling by minors does not take place in a casino. Nevertheless, this is an issue of importance to casino companies.

Another line of research focuses on wagering behavior among U.S. college students, rather than on underage gaming per se -- presumably, at least a quarter of American college students are 21 or older, and can legally wager in casinos and on lotteries. In the largest study of its kind, six colleges and universities in five states (New York, New Jersey, Nevada, Oklahoma, and Texas), selected because their home states offer widely varying amounts of legal wagering, participated in a 1987-88 investigation of gambling among college students. Eight-five percent of the students surveyed had gambled, and 23 percent gambled once a week or more. Overall, the forms of wagering most popular among these students were:

- poker/slot machines;
- card games;
- casino games;
- numbers or lotteries;
- games of skill; and
- bingo.

As might be expected, the popularity of each type of gambling varied by state. New Jersey and Nevada students reported the highest rates of casino and poker/slot machine play, while New York and New Jersey students reported the most lottery and numbers play. Texas and Oklahoma students reported the most bingo play.

Fifteen percent of the college students surveyed reported some problems in connection with gambling, such as interference with social relationships, jobs, and school. Parental problem gambling, parental overeating, and parental drug use were found to be positively associated with problem gambling in college students. **The presence or absence of legal casino gaming in a state was not associated with rates of pathological gambling.** (Source: Henry Lesieur et al., "Gambling and Pathological Gambling Among University Students," in *Gambling Behavior and Problem Gambling* (pp. 473-492), Institute for the Study of Gambling and Commercial Gaming, Reno, 1993).

Findings of the pervasiveness of wagering by young people and the relatively high rates of self-reported problems with gambling have caused widely varying levels of alarm in the academic and therapeutic communities. For example, there are those who argue that it may be time for American society to "re-examine the long range consequences of its love affair with legalized gambling." Others explain that wagering behavior might be another way that young people "sow wild oats." Wagering behavior is just one category of "experimental" behavior which, given its prevalence, can be viewed as relatively normal. The enduring popularity of marble shooting and baseball card

flipping is seen by some as an indicator that even young children participate in risk taking / gambling-like behavior.

Regardless of whether underage gaming is "normal," there are very compelling reasons to treat underage gaming in casinos as a serious problem:

- Underage gaming is, by definition, illegal.
- The illegality of underage gaming has consequences for underage gamers.
- The illegality of underage gaming has consequences for casino companies.
- Underage gaming may be a public health risk.

Goodman attributes (p. 93) the stopping from entering or rejection of 29,000 underage people from Atlantic City's casinos per month to "the lure of gambling (that) is so strong." One might also attribute these numbers to the **successful programs implemented by Atlantic City casinos to prevent underage gambling**. In Atlantic City, the number of minors having to be prevented from entering casinos by casino personnel has dropped 38 percent since 1988. The number of minors having to be escorted from casinos has dropped 48 percent. (Source: New Jersey Casino Control Commission, 1993).

pp. 94-99

Goodman is correct that lotteries are a regressive form of taxation. He admits that "most of the available research on this subject is found in studies of state lotteries rather than casinos." However, he believes that "it becomes possible to extrapolate some of the research on lotteries for purposes of analyzing current trends of who plays and who pays" in casinos.

Goodman's logic here is severely flawed. He fails to appreciate the **two very different entertainment experiences that casinos and lotteries provide their customers**. People who go to casinos do so for social interaction and fun, not to get rich.

This distinction means that lotteries and casinos serve two different markets. Our market research shows conclusively that typical casino patrons are white-collar, well-educated, and with an above average household income. Goodman presents compelling evidence that the casino market is not the same market that is responsible for the bulk of state lottery sales.

pp. 100-106

Despite Goodman's inclusion of alarmist quotes about VLT's such as "We will soon have slot machines and near slots, owned and operated by state governments in every Mom & Pop store in the nation," recent history would indicate that **VLTs aren't proliferating at a particularly rapid pace**. As of September 1992, there were six states in which VLT machines operated. Today, there are still only six states. Only one state (South Dakota) permits VLTs in locations other than bars or race tracks. Not a single state has adopted the South Dakota model since its VLT system became operational in 1989.

pp. 119-126

On one hand, Goodman has already sounded the alarm about how the spread of legalized gambling will create legions of gambling addicts. On the other hand, and in these pages, he warns that "the growth of competing gambling ventures is leading to market saturation, putting some ventures in danger of collapse." If the total gambling market in the U.S. is perilously close to saturation, what cause is there to worry about the future spread of gambling and its presumed negative social effects?

pp. 127-132

Goodman's prime example of the casino industry's lobbying for "more lax regulations" is the successful effort to permit 24-hour gambling at Atlantic City casinos. The repeal of this regulation is akin to the repeal of blue laws during the twentieth century which prevented people from buying products like household cleansers on Sunday. It has nothing to do with any sacrificing the integrity of the games being conducted or their operators, which are the two major concerns of casino gaming regulations.

Goodman appears unaware that the modern casino gaming industry in the U.S. is dominated by publicly-traded corporations answerable to the Securities and Exchange Commission as well as to individual stockholders. These companies have a particularly strong interest in developing tight accounting controls and other security measures. Anything threatening their operations' integrity and their reputations could bring down the wrath of both the stock market and federal securities examiners. Because it is in the common interest of these companies to demand the strictest standards of probity from themselves and from their competitors, the industry as a whole strongly supports regulatory regimes that enhance the integrity of casino operations.

That casino gaming is no longer a mysterious, dangerous business may disappoint those who still cling to the unsavory stereotypes that Hollywood perpetuates. Today, most of the country's casino gaming companies are structurally indistinguishable from the rest of corporate America, staffed by accountants, attorneys, marketing professionals, and human resources specialists, all ultimately answerable to thousands of stockholders. **The continuing proliferation and growing public acceptance of casino gaming across the United States is testimony to casino entertainment's status as one of the most strictly regulated industries in the country.**

Goodman bemoans the fact that "a public redevelopment agency will spend \$70 million on a corridor beautification project" in Atlantic City, citing this spending as an example of the casino industry's success in diverting public funds for its private benefit. What Goodman fails to point out that the "public redevelopment agency" providing the funding is the **Casino Reinvestment Development Authority (CRDA)**, an agency established by New Jersey's casino statute. Under New Jersey law, casinos must invest part of their **gross casino revenues** in development projects in New Jersey through the CRDA. **Through this program, Atlantic City has received more than \$600 million for new housing and other improvement projects.** This fact likewise escapes Goodman's attention. The goal of the particular redevelopment project that Goodman describes is not to benefit any gaming licensee, but rather to create a safe and attractive connection between the Atlantic City Boardwalk and the city's new convention center.

p. 133

Goodman provides ample documentation that states have moved into the lottery promotion business. **But by lumping in casino gaming with lotteries, he overstates the extent of state involvement in gambling "advertising and promotions."** Federal regulations on casino advertising are very restrictive. Casinos are not even permitted to depict their casino floors on television advertising. States do not advertise or arrange promotions for the casino gaming industry. **The state does not subsidize casino gaming.**

pp. 143-148

We would agree that the earmarking of lottery or casino revenue to specific government programs can be problematic. We would point out, however, that revenue from various forms of gambling activities is not the only type of revenue that state governments earmark. We would also point out that it is difficult to blame either the casino industry or lotteries for how legislators and other public officials choose to spend tax revenues generated by casino or lottery operation.

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