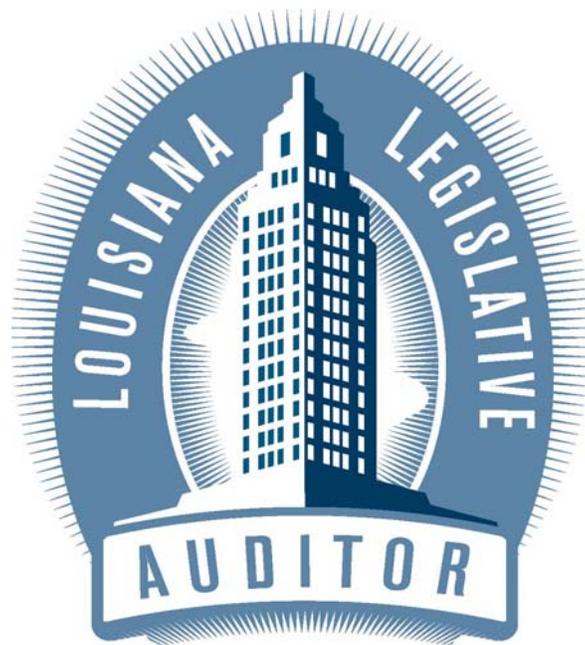


DEPARTMENT OF PUBLIC SAFETY
GAMING ENFORCEMENT DIVISION



PERFORMANCE AUDIT
ISSUED DECEMBER 9, 2009

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LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

December 9, 2009

The Honorable Joel T. Chaisson, II,
President of the Senate
The Honorable Jim Tucker,
Speaker of the House of Representatives

Dear Senator Chaisson and Representative Tucker:

This report provides the results of our performance audit of the Louisiana State Police's (LSP) Gaming Enforcement Division within the Department of Public Safety. This audit was requested by LSP Colonel Mike Edmonson to determine if improvements could be made in the area of gaming regulation. The audit was conducted under the provisions of Title 24 of the Louisiana Revised Statutes of 1950, as amended.

The report contains our findings, conclusions and recommendations. LSP has already begun to address many of the issues identified in the report. Appendix A contains LSP's response and the Louisiana Gaming Control Board's response. I hope this report will benefit you in your legislative decision-making process.

We would like to express our appreciation to the management and staff of LSP for their assistance during this audit. They were helpful and cooperative throughout the audit.

Sincerely,

Daryl G. Purpera, CPA, CFE
Temporary Legislative Auditor

DGP/sr

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Office of Legislative Auditor

Daryl G. Purpera, CPA, CFE, Temporary Legislative Auditor

Department of Public Safety -
Gaming Enforcement Division



December 2009

Audit Control # 40080011

Objectives and Overall Results

We conducted a performance audit of the Gaming Enforcement Division within the Office of State Police (LSP). This audit was requested by Colonel Mike Edmonson. Colonel Edmonson wanted us to identify areas where LSP could improve its management of gaming regulation. LSP agreed with all of our recommendations and has already begun to address many of the issues identified in the report. We appreciate the professionalism and cooperation of the LSP management and staff throughout this performance audit.

Our objectives and the overall results of our audit are summarized below.

Objective 1: Has LSP effectively managed its gaming regulatory activities?

Results: Overall, we found that LSP should improve its management of gaming in certain areas. These areas are as follows:

- **Resource limitations resulted in some activities not being performed.** According to LSP, the reason these activities were not conducted was that management determined these activities were low risk and it did not have sufficient personnel to conduct them. Specifically, we found that the following activities were not performed:
 - Thirteen percent of video poker licensees have not had a compliance inspection. According to LSP, most of these are device owners who do not receive compliance inspections. The Technical Division is supposed to conduct warehouse inspections of device owners, but the division has not done these inspections in two years.
 - Regulations require that LSP perform communications tests of slot machines. However, LSP was only able to perform 8% of this testing in FY 2008. The casinos or the casino's contractor performed the remaining 92% of testing.
 - Auditors previously conducted annual inspections of truck stops to verify fuel sale reports. However, auditors currently inspect these entities when they have resources available.

Although LSP has lost positions, some of its authorized positions have never been used in gaming. In FY 2008, the legislature authorized 277 positions to the Gaming Enforcement Division; however, the division only has 208 of these full-time positions in gaming. The remainder are organizationally located in other divisions but are funded with gaming revenue. According to DPS, these employees support the mission of gaming but also perform other duties as well. *Specific recommendations related to these issues are found on pages 12-14.*

- **Inspections conducted by troopers, auditors, and technicians appear duplicative in some areas.** We found that different sections within the Gaming Enforcement Division appeared to be conducting the same types of inspections for casinos. One reason for this potential duplication of effort is that LSP management has not developed a division-wide plan to guide inspection processes for all sections that conduct inspections. *Specific recommendations related to these issues are found on pages 14-16.*
- **LSP should develop additional controls to ensure all inspection and enforcement activities are conducted in a consistent manner.** While LSP has developed some procedures, it has not developed formal procedures for all of its regulatory activities and has not updated its penalty schedules. In addition, regional supervisors were not always reviewing inspection and enforcement activities and there was no supervised review of regional activities at headquarters. Consistency in regulation was cited by stakeholders and industry as one of the most prevalent issues at LSP.

Because of these issues, LSP conducted casino inspections differently among regions. For example, some regions were conducting follow-up inspections and using standardized checklists while others were not. Certain enforcement activities were also conducted inconsistently. Some licensees received warning letters or other actions instead of penalties even though these actions were listed on the penalty schedule. In addition, some licensees were issued penalties for violations that did not have penalties on the penalty schedule because LSP had not updated the penalty schedules. *Specific recommendations related to these issues are found on pages 16-18.*

- **LSP does not require that key management positions have both prior gaming and supervisory experience.** Although DPS requires some supervisory experience for promotions to key management positions, it does not require experience in the specific areas they are managing. This practice may result in having inexperienced personnel in leadership

positions who are responsible for managing and overseeing programs in which they have limited knowledge. *Specific recommendations related to these issues are found on page 19.*

- **LSP has not established a formal training program for employees within the Gaming Division.** Although LSP has provided some training over the years to its employees, there is no formal training required and provided on a routine basis. Formal training specific to gaming would help ensure that employees perform their duties consistently and effectively. *Specific recommendations related to this issue are found on pages 19-20.*
- **LSP has not effectively used data to evaluate performance and manage gaming regulatory functions.** We found problems with the system(s) that LSP uses to collect and maintain data. In addition, we identified reliability problems with the data that it does collect and maintain. Finally, LSP has not captured certain data in an electronic format which may have helped them manage more effectively. These problems have affected LSP management's ability to evaluate performance, identify problems, and plan for improvement. *Specific recommendations related to these issues are found on pages 20-22.*
- **Better use of technology could promote efficiency in the licensing process.** Currently, required licensing application documents are not imaged for ease of processing. Also, reports and other documents are hand delivered to the Attorney General's (AG) Office or to the Louisiana Gaming Control Board for their approval. In addition, paper documents are compiled into physical files and kept in numerous file rooms. Because of these conditions, we had difficulty locating and accessing files throughout the audit. *Specific recommendations related to this issue are found on pages 22-23.*

Objective 2: What other issues came to our attention during the audit that may affect LSP's regulation of gaming?

Results: While conducting fieldwork to answer our first objective, we identified several issues that could affect LSP's management of gaming. These issues are as follows:

- **Gaming statutes are outdated and may cause confusion.** Licensing laws are still separated under entities that have been abolished and contain numerous outdated references. *Specific recommendations related to this issue are found on pages 23-24.*
- **Video poker penalties do not have variable prescriptive periods like casino penalties do.** All video poker violations have a one-year prescriptive period. This requirement means that when assessing penalties for second and third offenses, LSP can only increase penalties if the same

violation occurred within one year. Establishing variable prescriptive periods for video poker violations would make them consistent with how casino violations are addressed. In addition, variable periods would be a stronger deterrent against noncompliance. *Specific recommendations related to this issue are found on page 24.*

- **Turnover may affect LSP’s ability to regulate effectively.** Although LSP has not done any formal studies of turnover, personnel data shows that about half of the troopers leave the division within two years. Although some turnover is unavoidable, retaining employees is important for consistent and effective regulation as well as continuity of management. Decreasing turnover within gaming is especially important since key management positions do not require any previous experience in gaming. *Specific recommendations related to this issue are found on page 24.*
- **Using non-commissioned personnel instead of troopers may reduce both costs and turnover.** The plan replaces troopers with investigative specialists who would be responsible for conducting low level background investigations and other tasks that do not require police expertise. LSP estimates that this plan will save \$1.2 million. However, as of March 2009, the plan has not yet been approved.

Objective 3: How much revenue does the state collect from gaming and how does Louisiana compare to other states?

Results: In FY 2008, the state received over \$886 million from all forms of gaming. Most of this revenue came from riverboat casinos and video poker establishments. Gaming revenue funds a variety of activities, such as teacher pay raises, boll weevil eradication, compensation for district attorneys, compulsive gaming programs, and park beautification. Gaming revenue is also allocated to a variety of entities and funds, including LSP, the Department of Justice, various racing associations, and the Rehabilitation for the Blind and Visually Impaired Fund.

According to data from the American Gaming Association, Louisiana has more types of gaming than any other state. Louisiana ranks 4th of 12 states in terms of casino tax revenues collected and 3rd of five states for video poker tax revenues. *See pages 25-28 for more detail relating to revenue.*

Audit Initiation, Scope and Methodology

This audit was conducted at the request of LSP Colonel Mike Edmonson. He requested that we review the management of gaming regulatory processes to determine if any improvements at LSP were necessary. The audit focused primarily on the licensing, inspection, and enforcement functions. The audit period generally covered FY 2006 to FY 2009.

In response to this request, we developed objectives and performed the following steps:

- Researched state law, the administrative code, executive budget documents, and other internal documents to understand the department's legal authority, responsibilities, mission, goals, and objectives
- Interviewed various staff and key personnel related to licensing, inspections, and enforcement regarding their role in the regulatory process
- Accompanied LSP personnel on site visits and inspections to various gaming entities, including casinos, racetracks, and video poker establishments
- Interviewed external stakeholders such as casino personnel and industry organizations (Louisiana Casino Association and LAMOA) to obtain their input on the quality of the department's regulation
- Obtained and analyzed data from the Louisiana Integrated Gaming History Tracking System (LIGHTS), Case Management system, and Significant Action Report (SAR) system
- Evaluated the reliability and validity of data from the above systems
- Obtained and reviewed information on best practices regulation and management from other states
- Obtained and reviewed Louisiana's gaming revenue information, including revenue information from other states
- Interviewed officials and reviewed laws and regulations for the Office of Charitable Gaming, the Horse Racing Commission, the Louisiana Lottery, and the Alcohol and Tobacco Control Board to determine if these agencies had similar regulatory functions as LSP; however, did not perform detailed audit work on the performance of these agencies

We conducted this performance audit under the provisions of Title 24 of the Louisiana Revised Statutes of 1950, as amended. We also followed generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our audit findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

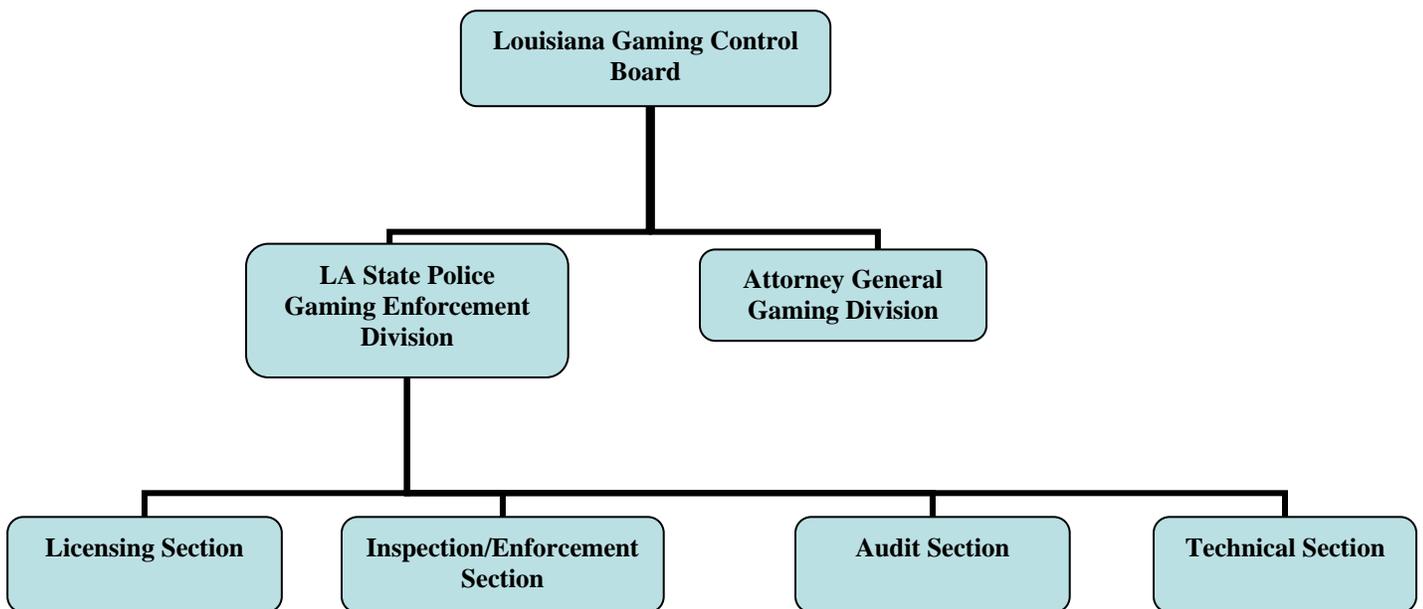
Overview of Gaming Enforcement Division

Organization. In 1996, the Louisiana Gaming Control Board (LGCB) was created to serve as the single regulatory entity over casinos and video poker establishments. The Gaming Enforcement Division (division) within LSP supports the board through its licensing, inspection, and enforcement activities. The division also works in conjunction with the Attorney General’s Office to regulate gaming in the state.

Exhibit 1 provides an overview of this organizational structure.

Exhibit 1

Organizational Structure of Gaming Regulation



Source: Prepared by legislative auditor’s staff using information from 2008 HB 1 and budget documents.

Purpose and Functions. The primary mission of the division is to proactively regulate and control statutorily authorized gaming entities in conjunction with the LGCB. Also, the division is to regulate and enforce criminal laws that promote the public’s health, safety, and welfare by safeguarding the people of this state against corrupt and dishonest practices.

The division carries out these and other functions through its four sections. These sections and their primary duties are summarized in Exhibit 2.

Exhibit 2 Functions by Section	
Section	Functions
Gaming Licensing	<ul style="list-style-type: none"> • Responsible for the intake and processing of all license and permit applications • Conducts investigations on the background and suitability of applicants • Primary liaison with the LGCB and the AG’s Office
Gaming Inspection/Enforcement	<ul style="list-style-type: none"> • Performs regulatory and compliance inspections to ensure compliance with laws and regulations • Enforces all laws pertaining to illegal forms of gambling, including bookmaking, dog fighting and underground casinos • Conducts gaming related criminal investigations
Gaming Audit	<ul style="list-style-type: none"> • Conducts audits and other financial analysis to ensure gaming revenue is accurately reported • Conducts corporate securities background investigations
Gaming Technical	<ul style="list-style-type: none"> • Tracks and monitors electronic gaming devices (slot machines and video poker machines) and approves machine software • Conducts device inspections • Oversees central computer system for video poker
Source: Prepared by legislative auditor’s staff using data from LSP.	

Entities Regulated by the Division. LSP’s Gaming Enforcement Division is responsible for licensing and regulating over 32,000 gaming entities. These include riverboats, casino employees, gaming manufacturers and suppliers, and video poker establishments. Exhibit 3 shows the entities LSP licenses and the number of current approved licensees as of December 2008.

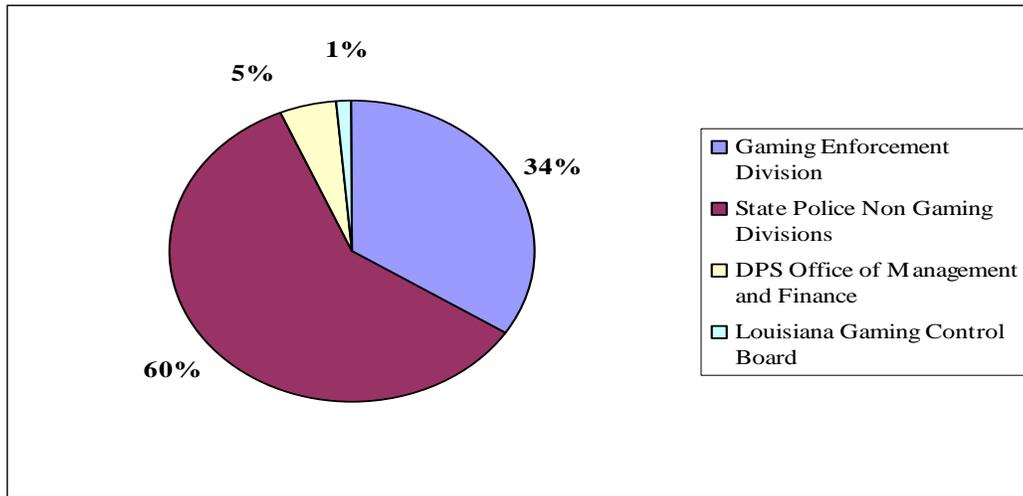
Exhibit 3 Approved Licenses by Type As of December 2008	
License Type	Number of Active Licensees, as of December 2008
Casinos	
Riverboat	15
Land-based Casino	1
Racetrack Casinos (“Slots at the Track”)	4
Casino Individuals (Owners, Officers, Directors)	450
Key Employee	217
Non-Key Casino Employee	11,695
Manufacturer of Electronic Gaming Devices (Business)	15
Manufacturer Other than Electronic Gaming Devices (Business)	23
Gaming Supplier (Business)	22

Exhibit 3 Approved Licenses by Type As of December 2008	
License Type	Number of Active Licensees, as of December 2008
Non-Gaming Supplier (Business)	503
Supplier and Manufacturer (Individual)	4,868
Video Poker	
Type 1 Bar	1,230
Type 2 Restaurant	802
Type 3 Hotel	9
Type 4 OTB/Racetrack	12
Type 5 Truck Stop	171
Type 6 Device Owners	283
Type 7 Service Entity	6
Type 8 Distributor	3
Video Poker Employee Permit	12,623
Total Licensees and Permittees	32,952
Source: Prepared by legislative auditor's staff using data from the Louisiana Integrated Gaming History Tracking System (LIGHTS).	

Louisiana also has three Indian casinos. These casinos are governed by tribal-state compacts but each tribe has the exclusive right to regulate its casino. LSP assists the tribes in various areas by conducting background investigations of certain individuals and investigating criminal cases. The tribes reimburse the state for all expenses incurred in carrying out its obligations, including salaries, benefits, and vehicles. However, the state receives no additional revenue from these casinos.

Budget and Staffing. The Gaming Enforcement Division's FY 2009 enacted budget was \$22,692,183 with a staff of 277 full-time employees. LSP as a whole received \$64,432,317 in gaming revenue in FY 2008. However, only 35% of the revenue received by LSP is allocated to gaming activities. All remaining revenue is allocated to other divisions within LSP. Exhibit 4 summarizes how this revenue was allocated within LSP for FY 2008.

**Exhibit 4
Gaming Revenue to LSP
FY 2008**



Source: Prepared by legislative auditor’s staff using data from LSP.

Objective 1: Has LSP effectively managed its gaming regulatory activities?

We identified seven overall areas that LSP should address to improve its management of gaming regulation. During our audit, LSP management had begun to address some of the problems that we identified. These areas are summarized as follows and are presented in more detail on the following pages:

- Resource limitations resulted in some activities not being performed.
- Inspections conducted by LSP troopers, auditors, and technicians appear duplicative in some areas.
- LSP should develop additional controls to ensure all inspection and enforcement activities are conducted in a consistent manner.
- LSP does not require that key management positions have both prior gaming experience and supervisory experience.
- LSP has not established a formal training program for employees within the Gaming Division.
- LSP has not effectively used data to evaluate performance and manage gaming regulatory functions.
- Better use of technology could promote efficiency in the licensing process.

Resource limitations resulted in some activities not being performed

Although we did not conduct a comprehensive review to determine if LSP was conducting all required activities, we did identify three areas where a lack of resources has resulted in LSP not performing certain functions. Specifically, our analysis of video poker inspection data showed LSP has not conducted a compliance inspection for 13% of video poker entities. In addition, LSP performed communications testing on 8% of the required slot machines at casinos and allowed the casinos or their contractor to conduct the remaining inspections. Also, auditors have not been able to conduct all fuel sale inspections of truck stops.

According to LSP, it made a decision not to conduct these activities because management determined that these activities were low risk and they did not have sufficient personnel to conduct them. LSP has lost 37 positions over the last five years. In addition, although the legislature authorized 277 positions to the Gaming Enforcement Division in 2008, LSP uses only 208 of these positions as full-time Gaming Division positions. The remainder are organizationally located and used in other DPS divisions even though they are funded with gaming revenue. According to LSP, even though these positions are not organizationally within the division, they support the mission of gaming by performing such functions as human resources and IT support.

Our analysis of video poker inspection data showed that LSP has not conducted a compliance inspection for 13% of video poker licensees. Although there is no statutory requirement for the number of video poker inspections to conduct, LSP's goal states that it strives to conduct an annual inspection for 95% of licensed establishments. However, we found that there was no record of a compliance inspection conducted for 385 out of 3,037 (12.7%) video poker entities with current licenses as of January 2009. According to LSP, approximately 60% of these are device owners who are not inspected by troopers because they are inspected by LSP's Technical Division. However, the technical staff said that they have not conducted warehouse inspections of device owners in over two years. In addition, technical inspectors only inspect warehouses of off-line video poker machines that are owned by device owners, not the device owner business itself. Therefore, at the time of our audit, no one was inspecting device owners to ensure they are in compliance with license requirements. According to LSP, it is currently working on developing an inspection specifically for device owners and the Technical Section resumed warehouse inspections in July 2009.

LSP performed communications testing on 8% of the required slot machines at casinos in FY 2008. Louisiana Administrative Code (LAC) 42 VIII 4209 et al. require that all new and modified slot machines must be tested by LSP before the slot machine can be played. However, according to data from the Technical Division, LSP performed 8% of the required communications testing in FY 2008. Casinos performed 60% of the testing on their own slot machines and a casino contractor performed 32% of the testing in FY 2008. According to the Technical Division, it is unable to perform all required testing because of a lack of staff. Currently, twenty staff are in this division. Even casino industry officials cited the lack of inspections by LSP as a problem when we interviewed them. Casinos spent approximately \$500,000 in FY 2008 to hire a contractor to perform duties that LSP was required to provide.

LSP auditors did not conduct all truck stop fuel sales audits in FY 2008. According to LSP staff, audit staff are required by the Gaming Control Board to conduct inspections of licensed truck stops that have video poker machines. Inspections are designed to verify truck stop fuel sales reports that are sent to LSP monthly by the truck stops. Verifying fuel sales is important because the amount of fuel sold dictates how many machines truck stops can have as provided by state law. However, according to audit staff, they are only able to conduct these inspections when they have time instead of on a regular schedule. There were approximately 170 licensed truck stops as of December 2008, but audit staff were only able to inspect 112 of these.

Because of its loss of staff over the last few years, LSP should assess all of its primary functions to determine what purpose they serve and how they add value to regulation. Some functions, such as warehouse inspections, may no longer serve a useful purpose. Others, such as fuel sales audits, perhaps could be done on a risk-based schedule or could be combined with truck stop inspections conducted by troopers. There may also be some activities that are not currently done but need to be, such as compliance inspections of device owners.

Recommendation: LSP management should evaluate its regulatory functions to ensure that all of its current functions serve a valuable purpose (e.g., warehouse inspections) and determine if additional regulatory functions may be needed (compliance inspections of device owners).

Recommendation: LSP management should evaluate its workload and use available staffing and funding to ensure that they carry out all critical regulatory responsibilities.

Summary of Management's Response: LSP agrees with these recommendations and states that they are currently and continually evaluating their functions and areas of risk to focus on critical responsibilities, which includes making necessary changes to staffing levels. They also state that their decision not to perform the above activities results from such evaluations of functions and risk.

Legislative Auditor's Additional Comments: LSP's response states that the 13% of video poker inspections that were not conducted does not accurately reflect the requirements of the division because most were device owners who are not considered gaming "establishments." As a result, these entities are not included in the performance indicator which requires that 95% of establishments be inspected. While it is true that device owners are not a gaming establishment, they do have businesses that must meet suitability and other licensing requirements and warehouse inspections do not review licensee compliance. As such, LSP should also consider performing compliance type inspections of these licensees.

In addition, LSP responded by stating that the 8% of the slot machines tested in FY 2008 does not accurately reflect the actions of the division. According to LSP, it also performs software certifications of slot machine software to ensure the software has been approved. LSP stated that this approval process is more important than the software testing as it ensures that the slot machines are operating within the regulations and

statutes of the state. However, as stated in this section of the report, we did not comprehensively review all activities of the division to ensure LSP was performing required duties. As such, we did not look at software testing. We reviewed communications testing which is required by regulations. LAC 42 VII 4209 et al. state LSP should be conducting communications testing. In addition, LSP responded that allowing the casino to perform communications tests is not a risk because technicians review documentation of self-testing. As such, if LSP concludes that self-testing is appropriate, LSP should seek to change the requirements in the regulations to allow casinos to self-test.

Finally, according to LSP's response, LSP decided that auditing all truck stops was not an effective allocation of resources and therefore focused its resources on those truck stops closest to the minimum fuel sales. While we agree that work should be conducted based on risk, we are simply pointing out that there are some truck stops that are not being inspected on an annual basis.

Inspections conducted by troopers, auditors, and technicians appear duplicative in some areas

Troopers, auditors, and technicians all perform casino inspections which appear to be duplicative. We reviewed data on the different types of casino inspections conducted and who conducted them. We found that troopers, auditors, and technicians all appeared to be conducting the same types of inspections for casinos. In some cases, we found that troopers and auditors were conducting the same inspection at the same casino at or near the same time. Exhibit 5 summarizes the number of inspections by section and by inspection type.

To determine if these inspections were duplicative, we reviewed the checklists used by LSP for "cage and credit" inspections conducted by troopers and auditors and for "poker table games" inspections conducted by troopers and auditors and found that both checklists contained nearly identical procedures. We also tried to review other types of inspections (e.g., slot machine inspections), but troopers did not have a checklist for all inspections and technicians did not use checklists at all. During our audit, LSP began reviewing the checklists and procedures used by each section to eliminate duplicative and overlapping procedures.

The primary reason these sections appeared to be duplicating efforts was that LSP had not developed an overall division-wide plan to guide inspections. An inspection plan that includes the specific responsibilities of troopers, auditors, and technicians would help ensure that resources are coordinated and used in an effective and efficient manner.

Exhibit 5
Inspections by Section and Type
FY 07 to FY 08

Inspection Type	Inspection Description	Trooper	Auditor	Technician	Total
Accounting Procedures	Review of cash reserve requirements, coupons, meter and drop comparisons, general ledger reconciliation, internal audit reports, etc.		1,241		1,241
Bill Validator (BVA) Count	Observation of the removal of bill validators from the slot machines, including the issuance of drop keys	17	387		404
Bill Validator (BVA) Drop	Observation of the emptying of bill validators and the counting of cash tickets, coupons, etc. Also includes the issuance of the count keys and testing of count machines	37	384		421
Cage and Credit	Review of credit granting procedures, record keeping, and collection; Review of self-service machines and accountability of cages	229	347		576
Electronic Gaming Device (EGD) Inspection	Ensure that EGD is connected and communicating properly with LSP Central System; Observation that security seals are intact and LSP sticker is affixed to machine			97	97
Employee Permit	Observation of casino employees to ensure they possess and properly display their permits and only access those areas in which they are authorized	4			4
General Inspection	Review to ensure that required signage is displayed; May be used for other inspections that do not have forms	563	16	52	631
Kiosk Certification	Review to ensure that application software is approved and has not been modified			24	24
Other (Inspection)	No description provided	277	61	74	412
Progressive Inspection	Review to ensure that slot machines are connected and communicating properly with LSP Central System and that internal workings of machines are functioning properly		2	8	10
Sensitive Keys	Review inventory of all sensitive keys and employee access to keys	55	152		207
Slot Count	Physical counting of the slot drop	14	69		83
Slot Drop	Observation of the procedures performed when removing coins and tokens. This inspection no longer performed because coins and tokens have been eliminated	4	68	1	73
System Certification	Review to ensure that slot machine's monitoring software is approved and has not been modified			196	196
Table Count	Observation of the procedures to account for the contents in table drop boxes	11	370		381
Table Drop	Observation of inventory of chips and procedures performed to remove drop boxes for transport to the count room	16	423		439
Security	Review to ensure staffing is in accordance with rules and that measures are in place to keep excluded persons from entering the casino	503	14		517
Slots	Per LSP, this inspection is same as EGD Inspection for technicians. For audit, this inspection involves inspection of procedures to pay jackpots and review to ensure EGDs are set up and maintained properly.	170	310	216	696

Exhibit 5
Inspections by Section and Type
FY 07 to FY 08

Inspection Type	Inspection Description	Trooper	Auditor	Technician	Total
Surveillance	Review of casino's surveillance system for compliance with rules, adequate coverage, etc.	396	8		404
Tables	Review of procedures and required documents for table games (poker, cards and dice, etc.)	2,119	521	1	2,641
Ticket In Ticket Out (TITO)	Review to ensure that the TITO machine is functioning properly and that proper accounting documents are maintained	8	4		12
Total		4,423	4,377	669	9,469

Note: As discussed on page 21, this data includes some duplicates. However, we are using the data for illustration purposes only.
Source: Prepared by legislative auditor's staff using data from the SAR database. Inspection descriptions were provided by LSP.

Recommendation: LSP management should continue to evaluate the inspections conducted by troopers, auditors, and technicians to determine if overlap or duplication occurs. LSP should then eliminate unnecessary overlap and duplication.

Recommendation: LSP management should develop an overall inspection plan that outlines the number and types of inspections that will be conducted by each section.

Summary of Management's Response: LSP agrees with these recommendations and states that they are developing a division wide inspection plan and incorporating other changes to avoid duplication. For example, LSP states that they have revised inspection forms and provided training and procedural clarifications.

LSP should develop additional controls to ensure all inspection and enforcement activities are conducted in a consistent manner

Lack of formal procedures for all activities. While LSP has developed some formal procedures for its regulatory activities, it has not developed procedures for all of its regulatory activities. Specifically, at the time of our audit, LSP did not have formal procedures for conducting casino inspections. As a result, we found that LSP conducted casino inspections differently among regions. Some regions were using standardized checklists to document the inspections while others were not using any checklist. Regions were also coding inspections differently in the inspection database because there were no procedures for how to enter data. Finally, some regions were conducting follow-up inspections while others were not.

Incomplete penalty schedules for casinos and video poker establishments. LSP has not updated the penalty schedules it uses to assess fines for violations. We identified 14% of casino violations and 15% of video poker violations were assessed penalties for violations that were not listed on the approved penalty schedules. Because there were no approved amounts to measure against, we were unable to determine if the penalties assessed for these violations were

issued consistently and reasonably. It is important to include all violations on the penalty schedule to help ensure that penalties are assessed reasonably and consistently. According to LSP, it has been unable to update the penalty schedule for video poker because of industry opposition.

Lack of supervision. LSP did not provide comprehensive supervision of regulation activities. Specifically, commissioned regional supervisors were not always reviewing inspection and enforcement activities. For example, we found that 20% of video poker inspection reports did not have evidence of review in the database and review of casino inspections was not documented. In addition, there was a lack of centralized review at LSP headquarters which could have helped ensure that regions were conducting activities consistently.

Lack of controls can result in inconsistent enforcement. We identified some cases where the same violation received different levels of enforcement. For example, LSP issued 13 fines in accordance with the civil penalty schedule for “not displaying a license” at video poker establishments. However, for the remaining 20 violations, LSP issued warning letters. We could not identify any justification for the varying enforcement levels in the inspection database. We were unable to determine whether casino violations were issued consistently because of the way data is captured in the database.

According to LSP, troopers may use their discretion when deciding upon the level of enforcement. Although LSP procedures allow troopers to issue warnings, the procedures do not specify when warnings should be chosen over penalties. As a result, licensees may be treated inconsistently. In addition, this lack of control increases the risk of fraud and abuse. Therefore, LSP should ensure that if a violation has a penalty amount on the penalty schedule, it should assess the penalty or include a reason in the data why a penalty was not pursued.

LSP has recognized inconsistency in the inspection and enforcement process as a problem and is working to improve the process. LSP has drafted an overall checklist that can be used to evaluate the activities of each regional office and assess consistency. LSP officials also told us that they will develop inspection guidelines and train regions on the guidelines. Finally, LSP said it is going to require supervisory review at headquarters.

Recommendation: LSP management should continue its efforts to improve the consistency of the inspection process through the development of formal inspection and enforcement procedures.

Summary of Management’s Response: LSP agrees with this recommendation and states that they have added specificity for casino inspection procedures and re-developing inspection checklists. They have also conducted training on proper ways to complete and submit video poker related documents. In addition, supervisors will be held accountable for the work of their employees.

Recommendation: LSP management should ensure that supervisory review of inspection reports and associated violations is conducted to help guarantee consistency. LSP should also ensure that this review is documented.

Summary of Management's Response: LSP agrees with this recommendation and states that they have taken steps to document supervisory review of inspections. In addition, all casino violations must have a supervisor's signature and headquarters is reviewing all video poker violations to ensure consistency statewide.

Recommendation: LSP management should ensure that all violations that may be issued penalties are listed on the penalty schedule.

Summary of Management's Response: LSP agrees with this recommendation and states that they will make another attempt to revise the penalty schedule, but that this action must be initiated by the LGCB and must go through the Administrative Procedures Act.

Summary of LGCB's Response: LGCB agrees with this recommendation and states that they will review the fine schedule and consider an expanded application but notes that exact fines may not be feasible for all violations. Some infractions must be reviewed independently on a case by case basis and issued administrative actions.

Recommendation: LSP management should ensure that it is complying with approved penalty schedules. If troopers issue non-civil penalties, such as warning letters, they should include a comment in their database describing the rationale for selecting this enforcement action.

Summary of Management's Response: LSP agrees with this recommendation and states that while there is always some degree of discretion when determining the type of violation, LSP will implement procedures that better document the use of discretion and provide for better internal oversight.

Recommendation: LSP management should ensure that the inspection process has sufficient controls to guard against potential fraud and abuse.

Summary of Management's Response: LSP agrees with this recommendation and states that the steps they have implemented in the above recommendations should provide sufficient control to mitigate the risk of fraud and/or abuse.

Recommendation: LSP management should develop standardized descriptions for casino violations that correspond to actual statutes, citation types, and penalty schedules so it can analyze enforcement data for consistency.

Summary of Management's Response: LSP agrees with this recommendation and states that they will explore ways to better categorize and capture meaningful information for statistical analysis.

LSP does not require that key management positions have both prior gaming and supervisory experience

While LSP does require some supervisory experience for key gaming management positions, it does not require previous gaming experience. According to the department, not requiring experience in the specific areas managers are overseeing is a common occurrence for all law enforcement positions. Although this practice may be common at LSP, this practice may result in inexperienced personnel in leadership positions who are responsible for managing and overseeing programs in which they have little to no knowledge. Since gaming regulation involves an understanding of complex laws and historical precedents, it is important to have knowledgeable personnel in these key positions. Prior knowledge is especially important because of the lack of formal procedures mentioned earlier and the lack of formal training which is described in more detail in the next section.

Recommendation: When possible, LSP management should consider both management and gaming experience when promoting individuals to key management positions within gaming.

Summary of Management's Response: LSP agrees with this recommendation and states that entry level supervisors may not have prior supervisory experience but experience in gaming and supervision will always be considered when making personnel decisions.

LSP has not established a formal training program for employees within the Gaming Division

Although LSP has provided some training over the years to its employees, there is no formal training required and provided on a routine basis. Formal training specific to gaming would help ensure that employees understand what is expected of them and that employees perform their duties consistently and effectively. Training is especially important because of the high degree of turnover in the division which is discussed on page 24. In addition, board members on the LGCB do not receive any training. Board members should be educated about certain processes within the department to help them make more informed decisions.

Recommendation: LSP management should consider developing a formal training curriculum for its gaming employees. Examples of training courses that are needed are training in how to use data systems appropriately and training in how to conduct and document inspections.

Summary of Management's Response: LSP agrees with this recommendation and states that they have provided some training in the past and are working on developing a course for casino regulation and for new employees. They state that they will also continue to develop and enhance internal training on procedures and systems.

Recommendation: LSP management should consider developing training for board members. Examples of training that could be provided include providing overviews of the licensing, inspection, and enforcement processes.

Summary of Management's Response: LSP agrees with this recommendation and states that the new LGCB chairman has initiated this training.

Summary of LGCB's Response: LGCB agrees with this recommendation and states that they have scheduled briefings to familiarize LGCB members on various aspects of gaming regulation.

LSP has not effectively used data to evaluate performance and manage gaming regulatory functions

We found problems with the system(s) that LSP uses to collect and maintain data. In addition, we identified reliability problems with the data that LSP does collect and maintain. Finally, LSP has not captured certain data in an electronic format which may have helped them manage more effectively. These problems have affected LSP management's ability to evaluate performance, identify problems, and plan for improvement.

LSP has not developed an integrated data system, making data difficult to maintain and access. We identified over 30 different databases or systems that LSP used to store and process gaming data. LSP staff informed us that these multiple systems have made it difficult to manage and monitor the input and output of data and that it is difficult to efficiently search for needed data. For example, inspection data was kept in three separate databases and casino enforcement actions were kept on a spreadsheet and not linked with violations in the database.

LSP recognizes the problems with having multiple systems and has recently begun a project to identify systems which are no longer needed or can be consolidated. Although this project will help eliminate unneeded systems, LSP would like to have an integrated system that incorporates all of its regulatory activities. However, LSP informed us that budget constraints have prevented them from developing such a system.

LSP maintained certain performance data that were unreliable and inaccurate. We reviewed three databases that are used significantly in the licensing, inspection, and enforcement process and assessed the reliability of certain data within these systems. The databases used for casino inspections and the status of licenses contained unreliable data. While the system used for video poker inspections generally contained reliable data, the system did have some data problems.

Because LSP data is not reliable, LSP had to rely on staff testimony as the basis for its performance indicator on the timeliness of the licensing process. This indicator was included in the FY 2009 executive budget. To report on this indicator, LSP officials asked licensing staff how long it took them to conduct background checks and relied on their informal feedback which may not have been accurate. They should have taken a more systematic approach to

ensure that data was collected to support this indicator. If LSP improves the reliability of the case management database, it can use this system as the basis for development of its performance indicators.

Other problems related to reliability included duplicate inspection data, incomplete data, and lack of evidence of supervisory review of data. These problems have affected the ability of LSP officials to accurately assess performance and plan for improvement. For example, LSP was not able to determine if it issued licenses in a timely manner to meet its stated performance goals. These problems occurred because management does not have a formal process to ensure that gaming data goes through careful supervisory review. Also, management has not provided formal training on how to document inspections and other activities used to populate databases.

According to LSP, it is already implementing changes to its system to address these issues. These changes include requiring supervisory review of data, developing guidelines for conducting and reporting inspections, and providing training to the field offices.

LSP has not maintained certain data in an electronic format to assist in the evaluation of its performance. From FY 2006 to FY 2008, LSP denied 388 licenses, suspended 234 licenses, and revoked 159 licenses. However, the reasons these licenses were denied, suspended, or revoked are not kept in an electronic format. The only way to determine the reasons was to review each case file. In addition, neither LSP nor the LGCB captured electronic information on board or hearing officer decisions. As a result, we were unable to obtain and analyze information on how LGCB or the hearing officer ruled in cases. The only electronic data kept was the number and types of hearings. From FY 2006 to FY 2008, a total of 802 hearings were held.

If LSP maintained such information electronically, management could more easily analyze and evaluate trends and patterns. These trends or patterns could be used to detect problem areas such as inconsistent practices. Management could then develop strategies to improve problematic areas. By not capturing these kinds of data, LSP and LGCB are missing opportunities to analyze data, identify problems, and fix these problems.

Recommendation: LSP management should continue efforts to consolidate its data systems. LSP should consider development of an integrated database.

Recommendation: LSP management should assess the reliability of its data systems and implement necessary controls to ensure that data is reliable. Such controls could include providing training to employees on how to use the systems appropriately.

Recommendation: LSP management should evaluate what kinds of data it needs to effectively manage operations and evaluate performance. Management should work with data personnel to have them include fields in their electronic systems to capture this information.

Recommendation: Once data problems have been corrected, LSP management should ensure that electronic data is used to evaluate performance and manage regulatory functions (e.g., evaluate whether LSP is meeting its licensing goals).

Summary of Management's Response: LSP agrees with these recommendations and states that they are aware of the limitations of their databases and data and have recently met with IBM to review processes and data needs and begin looking for solutions to data problems.

Summary of LGCB's Response: LGCB agrees with this recommendation and states that they will be recording statistical data on all decisions.

Better use of technology could promote efficiency in the licensing process

We reviewed a random sample of 50 licensee files to determine if suitability investigations were conducted in accordance with state law. We did not find any significant compliance problems with LSP suitability investigations. However, the licensing process could be streamlined by reducing LSP's reliance on paper and using available technology for processing applications. Currently, required licensing application documents are not imaged for ease of processing. Also, reports and other documents are hand delivered to the AG's Office or to the LGCB for its approval. In addition, paper documents are compiled into physical files and kept in numerous file rooms making it difficult to locate and efficiently access information. LSP officials have recognized that these systems could be updated and are working to correct such issues. According to LSP, it is evaluating the feasibility of using a content management system to scan and store documents. This kind of system could make information more accessible and processing more efficient.

LSP could also expand the use of its web-based application system. Although LSP has a web-based application system, not all licensees are using the system. Currently, only casinos have access to the LIGHTS database and can enter non-key and key employee applications directly into the system. This procedure saves time because LSP employees do not have to enter the application information.

Recommendation: LSP management should continue its efforts to use technology to increase the efficiency of the licensing process.

Summary of Management's Response: LSP agrees with this recommendation and states that they are currently working with DPS Information Services and IBM for possible solutions. Long-term, they would like to implement a paperless application process and workflow.

Summary of LGCB's Response: LGCB agrees with this recommendation and states that they will work with LSP and the Attorney General's office to identify solutions to enhance efficiency in the licensing process.

Objective 2: What other issues came to our attention during the audit that may affect LSP's regulation of gaming?

We identified several additional issues that may affect gaming regulation. These came to our attention while we were conducting fieldwork to answer our first objective. During our audit, LSP management had begun to correct some of these problems. These issues are presented in detail below.

Licensing statutes are outdated and may cause confusion. Before the creation of the LGCB in 1996, casinos and video poker were regulated by various entities and each type of gaming had its own set of requirements. In 1996, Louisiana Revised Statute (R.S.) 27:21 transferred all powers and duties of these previous entities to the LGCB. However, the statutes are still separated under the previous entities and sections and still contain references that are outdated and no longer valid. These references could result in confusion for those charged with carrying out regulation tasks.

In addition, many of these statutes contain identical requirements and could be consolidated and standardized under the overall LGCB statutes. For example, there are currently five sets of suitability requirements in the law, each with slightly different requirements. R.S. 27:28 outlines overall suitability requirements established by the LGCB. Casinos must meet all of these requirements to be licensed. However, video poker establishments do not have to meet the same suitability requirements. For example, casinos and their employees will not receive a license if they have been convicted of a crime of violence as defined in R.S. 14:2(B) or if there is current prosecution or pending charges of certain offenses. However, video poker suitability requirements do not have this provision.

LSP is currently reviewing the administrative code and plans to consolidate rules and regulations under the LGCB section of the administrative code. Since LSP is already doing this for the regulations, management should also consider recommending legislation that would update the statutes as well. Updating the statutes may help standardize licensing activities and enhance the efficiency and effectiveness of the overall process.

Recommendation: LSP management should identify where gaming laws need to be updated and work with the legislature to make necessary changes.

Summary of Management's Response: LSP agrees with this recommendation and states that they are working in conjunction with LGCB and the Attorney General's office to identify outdated statutes and rules and take the necessary steps to eliminate them.

Summary of LGCB's Response: LGCB agrees with this recommendation and states that a working group should be formed to draft revisions for legislative considerations in upcoming session. The group should include legislative staff, regulators, and industry representatives.

Matter for Legislative Consideration: The legislature may wish to consider standardizing and updating certain licensing laws, such as suitability requirements.

Casino penalty schedules include variable prescriptive periods depending on the violation, but video poker penalty schedules do not. Variable prescriptive periods are important for effective regulation. They determine how long the current violation is considered "active" for the purposes of assessing further/additional penalties. For example, the fine for not having an employee permit is \$10,000 and the prescriptive period is 18 months. This period means that the penalty will be increased if the same violation occurs within 18 months. A less severe violation, such as not displaying an employee permit, has a lesser fine (\$500) and shorter prescriptive period (12 months).

R.S. 27:308.1(D)(1)(b) designates a one-year prescriptive period for all video poker violations. This requirement means that when LSP reviews the compliance history of entities to determine the appropriate penalty amount, it can only look back one year. If LSP fails to inspect these entities one year from the date of the last violation, some video poker entities with repeating violations may never be assessed a higher penalty for a second offense.

Establishing variable prescriptive periods for video poker violations would make them consistent with how casino violations are addressed. In addition, variable periods would be a better deterrent against noncompliance.

Matter for Legislative Consideration: The legislature may wish to consider requiring variable prescriptive periods for video poker violations.

Turnover may affect LSP's ability to regulate effectively. Although LSP has not performed any formal studies of turnover, personnel data shows that about half of the troopers leave the division within two years. LSP said that troopers leave gaming because of promotional opportunities in other divisions. In addition, some troopers may transfer because of the administrative (i.e., non-law enforcement) nature of the job. Although some turnover is unavoidable, retaining employees is important for consistent and effective regulation.

Recommendation: LSP management should formally evaluate the effect turnover has had within the Gaming Enforcement Division and determine if changes are necessary to reduce turnover in the future.

Summary of Management's Response: LSP agrees with this recommendation and states that they have and continue to look to reduce turnover and notes that the use of civilians will have a positive impact on turnover.

Using non-commissioned personnel instead of troopers may reduce both costs and turnover. LSP has developed a plan that replaces 29 positions currently occupied by troopers with investigative specialists. These positions would be non-commissioned and would consist of accountants, administrative personnel, or technical personnel. These individuals will be responsible for conducting low level background investigations and other tasks that do not require police expertise. The current plan reduces the use of troopers in gaming from 82% to 49%. This plan will allow troopers to be used in more critical law enforcement activities where police officers are needed.

LSP estimates that it will save \$1.2 million by replacing troopers with specialists. In addition to the cost-savings benefits, such a plan may increase the consistency of regulatory activities because turnover may be reduced and these individuals will not be called on for emergencies and police activities. However, as of March 2009, the plan has not yet been approved.

We did see evidence during our audit that troopers were conducting certain activities that auditors could do. For example, as noted earlier in the report, similar inspections were conducted at casinos by both troopers and auditors. These inspections focused primarily on internal controls.

Recommendation: LSP should continue work with policy-makers to ensure that such a plan is the best option for effective gaming operations.

Summary of Management's Response: LSP agrees with this recommendation and states that the use of civilian personnel in place of commissioned troopers will reduce the cost to administer and regulate gaming.

Objective 3: How much revenue does the state collect from gaming and how does Louisiana compare to other states?

In FY 2008, the state received a total of over \$886 million from gaming. Most of this revenue came from riverboat casinos and video poker establishments. State law provides for taxes and other fees that gaming entities must pay to the state and outlines how tax revenue will be used. Gaming revenue funds a variety of activities, such as teacher pay raises and boll weevil eradication. Gaming revenue is also allocated to a variety of entities and funds, including LSP, the Department of Justice, and various racing associations.

According to data from the American Gaming Association (AGA), Louisiana has more forms of gaming than any other state. The state ranks 4th of 12 states in terms of casino tax revenues collected and 3rd of five states for video poker tax revenues. The following sections present more detail regarding how much revenue the state received from gaming, how this revenue was collected and distributed, and how Louisiana compares to other states.

State Revenue from Gaming. State revenue derived from gaming has increased over the last four years. In FY 2008, the state received approximately \$886 million from gaming. Exhibit 6 summarizes total gaming revenue to the state for the last four fiscal years.

Exhibit 6				
Total Revenue from Gaming to the State				
FY 05 to FY 08				
	FY 2004-2005	FY 2005-2006	FY 2006-2007	FY 2007-2008
Riverboat Casinos	\$335,194,917	\$394,478,764	\$383,122,463	\$387,861,887
Land-based Casino	70,357,242	59,999,998	83,868,283	90,239,866
Video Poker	183,769,775	214,084,849	214,346,374	211,738,109
Racetrack Casinos	47,779,510	53,030,967	55,505,610	58,309,724
Louisiana Lottery	110,391,785	119,433,115	128,263,375	131,861,525
Horse Racing*	6,067,968	5,485,644	6,405,319	6,308,757
Total	\$753,561,197	\$846,513,337	\$871,511,424	\$886,319,868
<p>*The only state revenue from horse racing is used to fund the expenses of the Horse Racing Commission. Other state entities do not receive any revenue from horse racing. Note: This exhibit does not include revenue from Indian casinos. These casinos reimburse LSP for regulatory expenses, but do not provide additional revenue to the state from gaming operations. In FY 2008, LSP's revenue from Indian casinos was approximately \$1.7 million. Source: LSP, Gaming Division and the Louisiana Lottery Corporation Comprehensive Annual Financial Report.</p>				

Allocation of Gaming Revenue. State law allocates gaming revenue to a variety of different sources. These sources include allocations to state agencies such as LSP and DOJ, teacher pay raises, compulsive gaming programs, and state general fund. The amount of gaming revenue each entity receives is set by state law. Appendix B provides a chart of gaming revenue received in FY 2008 and where the revenue was allocated.

Louisiana compared to other states. According to data from the AGA, Louisiana has more forms of gaming than any other state. Louisiana has riverboat casinos, racetrack casinos, a land-based casino, Indian casinos, and video poker establishments (see Appendix C for a summary of types of gaming in other states). We used the AGA's data to compare Louisiana's tax rate and total tax revenue to other states. This comparison is summarized below.

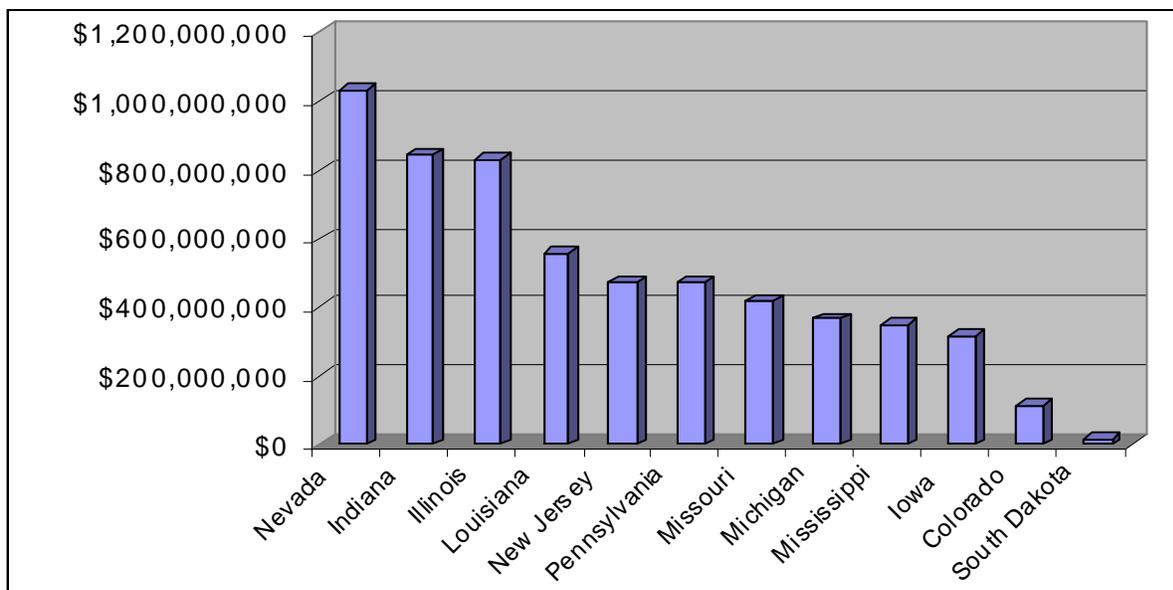
It is difficult to rank states by their tax rates because some states have a graduated tax rate which increases as annual casino revenues increase. Others, like Louisiana, have a fixed rate. In addition, some states, like Louisiana, charge boarding or patron fees, while others do not. However, the state appears to fall somewhere in the middle of the range regarding casinos and toward the lower end regarding video poker. Louisiana's tax rates compared to other states are summarized in the following sections.

- Riverboats, Land-based casino, and Racetrack Casinos.** Louisiana is one of 12 states with riverboat and/or land-based casinos. Casinos in other states are taxed from a low of 6.75% in Nevada to a high of 50% in Illinois. Some states have graduated rates which increase as annual casino revenues increase. Louisiana has a flat rate of 21.5% for both riverboats and the land-based casino. Louisiana taxes racetrack casinos at 18.5%. Appendix D summarizes this information.
- Video Poker.** Louisiana is one of five states with video poker establishments. Video poker is taxed from a low of 15% in Montana to a high of 72%¹ in Oregon. Louisiana’s tax rate is the second lowest and ranges by type of establishment from 26% to 32.5%.

Some states (Oregon and West Virginia) own their video poker machines. Louisiana, like Montana and South Dakota, licenses device owners who sell or lease machines to licensed establishments. The device owners and establishments then have contracts that outline the percentage revenue each will receive. Appendix E summarizes this information.

Louisiana received approximately \$559 million in tax revenue from its commercial casinos (riverboat, land-based, and racetracks) in FY 2007 and approximately \$214 million from video poker establishments. Louisiana ranks 4th of 12 states in terms of casino revenues collected. The state ranks 3rd of five states when it comes to video poker revenues collected. Exhibits 7 and 8 show how Louisiana compares to other states related to tax revenue.

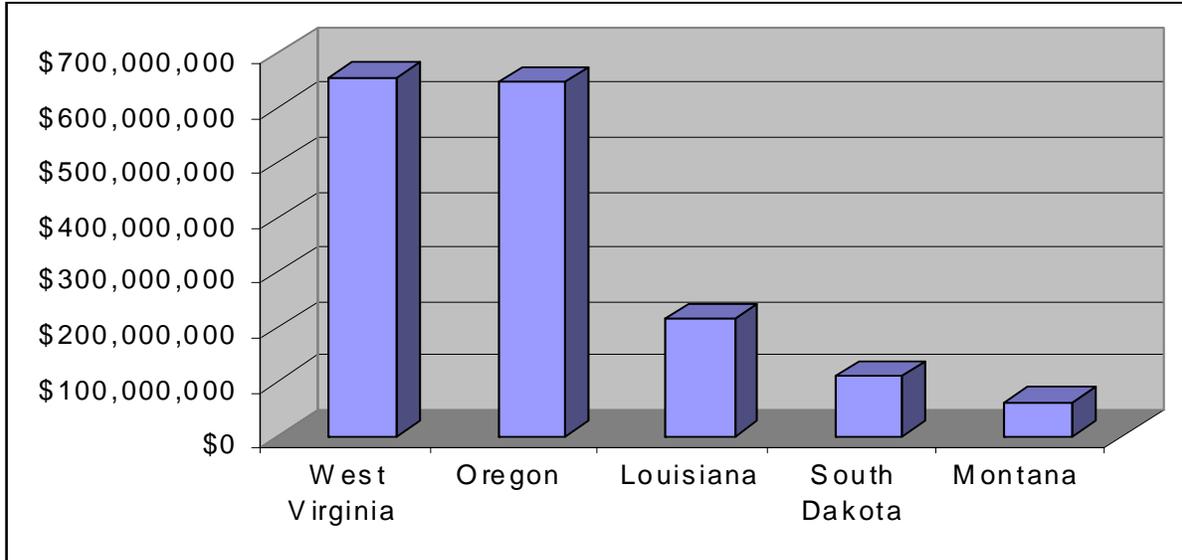
**Exhibit 7
Comparison of Louisiana’s Tax Revenue to Other States
Riverboat, Land-based Casino, and Racetrack Casinos**



Source: AGA.

¹ Oregon’s actual rate changes each year because it is based on net receipts after expenses are taken out.

Exhibit 8
Comparison of Louisiana's Tax Revenue to Other States
Video Poker Establishments



Source: AGA.

APPENDIX A: MANAGEMENT'S RESPONSES

LSP and LGCB Responses

BOBBY JINDAL
GOVERNOR



MICHAEL D. EDMONSON, COLONEL
DEPUTY SECRETARY

State of Louisiana
Department of Public Safety and Corrections
Public Safety Services

November 10, 2009
3640/MN/ADM-09-0005
HQ-1-856

Mr. Steve J. Theriot, CPA
Louisiana Legislative Auditor
1600 North Third Street
Baton Rouge, Louisiana 70804-9397

Dear Mr. Theriot:

Shortly after Governor Jindal appointed me Deputy Secretary of the Department of Public Safety and Corrections, Public Safety Services, I asked the Legislative Auditor to conduct a performance audit of the Gaming Enforcement Division. I asked for this audit to determine the efficiency and effectiveness of gaming management, as well as, gaming regulation overall.

I appreciate the time your staff spent conducting their research and the professionalism they displayed. Overall, the report serves as a roadmap that will guide us in our efforts to improve efficiency within our Gaming Division and regulatory effectiveness. The Gaming Division has already implemented several changes that were identified in the report or discovered during the audit.

After reviewing your report submitted to me on October 27, 2009, I offer the attached information, not only in response to the information and recommendations in the report; but also to clarify information in the report. Should you have any questions or need to discuss the audit further, please feel free to contact me at (225)925-6118.

Sincerely,

A handwritten signature in black ink, appearing to read "M. Edmonson", written over a horizontal line.

Colonel Michael D. Edmonson
Deputy Secretary, Public Safety Services
Superintendent, Louisiana State Police

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P.O. BOX 66614, BATON ROUGE, LOUISIANA 70896

Department of Public Safety and Corrections
Public Safety Services
Office of State Police
Response to Performance Audit of LSP Gaming Division
November 10, 2009

Objective 1: Has LSP effectively managed its gaming regulatory activities?

I believe the information and recommendations clearly show that while there are areas for improvement; overall, gaming management has effectively managed its regulatory activities. Over the years as the gaming industry continues to evolve, we must also evolve as a regulatory body. While doing so, we must also adapt work processes to ensure we maintain the integrity of the games, the collection of state revenues, and the weeding out of corruptive forces, with fewer resources. In order to accomplish that goal, we must trust gaming management to utilize its resources as efficiently as possible. This includes reviewing everything we do in the gaming division and making decisions to compress our duties down to those most beneficial to meeting our goals. On several occasions, your recommendations match processes we are currently undertaking, which can only mean the auditor believes we are moving the division in the right direction.

Below are our responses to individual findings and recommendations presented to us by the Legislative Auditor:

Resource limitations resulted in LSP not performing some activities.

The finding that we did not conduct an inspection of 13% of video poker licensees does not accurately reflect the requirements or actions of the division. The goal listed as our performance indicator is to inspect 95% of all video gaming establishments by June 30, 2010. During fiscal year 2008-2009, the Gaming Division conducted 2,589 compliance inspections at licensed video gaming establishments which accounts for more than 95 percent. The 13% figure noted in your report includes device owners who maintain warehouses with off-line video poker machines. The device owner warehouses are not required to meet the standards of establishments as these machines are in storage and not available for play. The division's Technical Section conducted inspections of these warehouses until 2007 when division management made the decision to focus the techs on the installation and implementation of the new video poker central system (ES-Video). This was a decision based on the risks associated with each activity and the importance of effectively managing the implementation of the new system. It is also important to understand these inspections are to ensure operating establishments comply with the regulations as they relate to signage, physical structure of the establishment, and on-site employees knowledge of the regulations. Division employees inspect every video poker establishment prior to opening. In addition, the division's central system constantly communicates with every video poker machine in the state and notifies us when a machine is not communicating, which we investigate to determine the cause. In order to ensure the integrity of the video poker machine, the central system verifies the software running the game against software approved for operation in the state. If an establishment attempts to operate illegal software, the central system will not allow the machine to operate for patron play. This is part of the ongoing communications between the system and the game. Finally, the state's share of

video poker revenue is determined through meter information communicated from the game to the system, which does not allow for manipulation by the establishment.

Again, the finding that LSP tested only 8% of the required slot machines at casinos in FY 2008 does not accurately reflect the actions by the division or the requirements placed upon the casinos to operate slot machines. The noted percentages are skewed because “communication tests” and “software certification” are lumped together. There is significant difference and risk level between the two. The division or the division’s approved testing lab (GLI), perform “software certification” on every slot machine in Louisiana before it is approved for patron play. During FY 2008-2009, division techs performed “software certification” on 11,616 slot machines which represents approximately 41% of all slot machines in the state. These certifications are performed to ensure the slot machines are operating within the regulations and statutes of Louisiana. The testing identified in the report is “communication testing” conducted at the casino to ensure the slot machine is communicating with the casinos slot monitoring system (SMS). We implemented a process to allow communications testing by the property or GLI to adjust to the realities of staffing in each area. Authorization for the properties to conduct “self-testing” may imply that LSP technicians are removed from the process, however, as noted, there is a larger process in place and communication testing is just one phase. Prior to this test, division agents or GLI are present to certify the software in the “brain” of the device to ensure that approved software is installed. The software is then sealed with tamper resistant tape to ensure it is not modified. Not to minimize the step, but the *self-testing is a communications check, not a verification of the legality or integrity of the software*. Information from the self-test is documented on a standard division approved “EGD 96-01 form” and slot monitoring system reports for each device tested are verified and signed off on by slot department management level personnel or above. Division techs perform random paperwork checks to ensure accurate information is being recorded and all steps are properly completed. As required, the licensee maintains all forms and associated system reports on file for future review. Additionally, if communication issue are not caught by casino employees at the time games are put up for play, hold percentage reports and drop variance reports will show significant exceptions on these machines, which the licensee investigates and resolves. Subsequent EGD inspections are completed and discrepancies are investigated as needed. If a licensee fails to conduct self-testing properly on a consistent basis, the division may rescind permission for that licensee to conduct self-testing until the division is satisfied all problems are resolved.

All activities being performed were evaluated according to statutory mandates, risks, and outcomes, and it was determined that the risk associated with allowing other entities to perform communications tests was outweighed by the reality that resources had to be concentrated in more critical areas. Initially, the Division used communications testing to ensure all coins going through the machine were counted and recorded correctly in the system, because coins were weighed not counted to determine revenue. As the industry has all but eliminated coins and moved to currency, tickets, and electronic transfers, we are able to perform reviews after the fact to ensure accurate information is communicated to the SMS. To mitigate the risk, contractor personnel have submitted documentation for a background and suitability check completed by LSP. If found suitable, the individual is allowed to conduct testing at the discretion of the Division. Any device testing completed by contract labor personnel is documented on the aforementioned EGD96-01 form kept on file by the licensee. A certification report and spreadsheet specific to each project is also completed and forwarded to the Division by the

contractor. This report specifically lists all pertinent information, such as which devices were tested, the results of each device test (whether it passed/failed), reason for failure, and any devices which were part of the project but not tested along with a brief explanation. Contractors may only be utilized for software verifications and communications testing, not for monthly compliance inspections.

The report further notes that, “even casino industry officials cited the lack of inspections by LSP as a problem when we interviewed them. Casinos spent approximately \$500,000 in FY 2008 to hire a contractor to perform duties that LSP was required to provide.” It is our interpretation from conversations with the industry that their complaint is more about the money spent than their desire for division techs to perform the testing. Their belief is they pay the state enough in taxes for these services. Their discontent with this process does not reflect on the effectiveness of gaming management in setting policies and efficiently using the resources available to it.

The final finding in this section is that the LSP auditors did not conduct all truck stop fuel sale audits in FY 2008. By statute, the number of video poker machines at truck stops is determined by fuel sales. To ensure truck stops have the correct number of machines operating, the division receives fuel sale reports monthly from each truck stop. During 2008 we determined auditing all truck stops was not an effective allocation of resources. Many truck stops sell well in excess of the monthly minimum fuel sales and some maintain fewer games than their fuel sales allow, so we made a decision to focus our resources on those truck stops closest to the minimum fuel sales. Audit has already implemented a process to audit truck stops based on their level of reported fuel sales focusing on those properties whose sales are borderline for an increase or decrease in the number of video poker machines allowed. These properties may have an incentive to falsify fuel sales to increase video poker machines. We still receive fuel sale reports from all truck stops and we are in the process of automating that process, which should help us to perform more in depth analysis of all fuel sales to ensure we continue to properly allocate our resources when auditing truck stop fuel sales. Currently, our staff inputs the fuel sales into an Excel spreadsheet to track sales and calculate average fuel sales. The automated version will allow the truck stops to input the information directly into our system rather than mailing in fuel sale reports. The audits are not required by the Louisiana Gaming Control Board (LGCB), but are necessary to ensure truck stops do not have more machines than allowed by law. We think the plan above ensures audits are planned in a manner that maximizes the efficiency and effectiveness of our work.

LLA Recommendation 1: LSP management should evaluate its regulatory functions to ensure that all of its current functions serve a valuable purpose (i.e., warehouse inspections) and determine if additional regulatory functions may be needed (compliance inspections of device owners).

Response included below.

LLA Recommendation 2: LSP management should evaluate its workload and use available staffing and funding to ensure that they carry out all critical regulatory responsibilities.

We believe the information in the Legislative Auditor’s report, in addition to our responses, shows we are currently and continually evaluating our functions and using our years of experience in the regulation of gaming to reevaluate our

priorities and areas of risk so that we focus on critical responsibilities. This includes making necessary changes to adapt to levels of staffing, funding, and changes in the gaming industry.

Inspections conducted by LSP auditors, troopers, and technicians appear duplicative in some areas.

While there may be some overlap in the inspections performed by all three sections, we are currently working on a comprehensive compliance plan as recommended by this report, which should eliminate possible duplication.

In the majority of cases, the duplication varies in degree of technical expertise required. Whereas some of the trooper's inspections are of a cursory nature to ensure security measures, audit and tech inspectors are verifying different levels of compliance. From an auditor's perspective reviewing documentation and data in the SAR database, the distinction between the different inspecting parties is indiscernible as there are a limited number of areas to note in the database to describe the area inspected.

Troopers and audit may inspect the same areas, such as Cage and Credit or Table Games, but in most cases, they are looking at different aspects of the area inspected. For example, during a table game inspection Troopers look at things such as table layout, opening and closing procedures, and is the game played in accordance with the licensee's internal controls. Audit looks at the activities that deal with money, accounting, and paperwork.

Due to staffing issues, troopers sometimes augment IT staff by assisting with slot machine testing. These activities are claimed as EGD inspections making it appear as if there is duplication when there is not.

The auditor reported that the troopers did not have a checklist for all inspections and the technicians did not use a checklist at all. It should be noted that checklists are used as a guide for each inspection. An inspection is based on laws, rules and internal controls. The internal controls are licensee specific and constantly change as the casino evolves. Therefore, depending on the level of an inspection being conducted, a checklist may not be used for all inspections.

LLA Recommendation 3: LSP management should continue to evaluate the inspections conducted by auditors, troopers, and technicians to determine if overlap or duplication occurs. LSP should then eliminate unnecessary overlap and duplication.

Response included below.

LLA Recommendation 4: LSP management should develop an overall inspection plan that outlines the number and types of inspections that will be conducted by each section.

LSP Gaming is developing a Division wide compliance inspection plan as well as incorporating other changes to avoid duplication. Revised inspection forms, training, and procedure clarifications have already been put in place. For EGD inspections, licensees will provide the local field technician a copy of their slot file which lists the slot machines in use and the location of each on the gaming floor. A copy of this slot file will be kept on the DPS shared drive and updated to

reflect the individual devices inspected by the Enforcement and Technical sections. This will help ensure agents inspect more EGD's during the year and do not accidentally inspect the same EGDs multiple times during a fiscal year.

LSP should develop additional controls to ensure all inspection and enforcement functions are performed in a consistent manner.

LLA Recommendation 5: LSP management should continue its efforts to improve the consistency of the inspection process through the development of formal inspection and enforcement procedures.

In July 2008, LSP Gaming implemented a Gaming Policy and Procedure manual. The procedures for casino inspections are under review and will have additional specificity. Training was conducted to inform troopers of the proper ways to complete and submit video poker related documents and supervisors will be held accountable for the work of their employees. Checklists for casino inspections are currently under re-development as part of the comprehensive inspection plan. These checklists will include items required at all casinos for consistency, but will include some customization to include specific criteria based upon the properties internal controls. The gaming Policy and Procedure manual will continually be reviewed and revised to meet the demands of gaming regulation.

LLA Recommendation 6: LSP management should ensure that supervisory review of inspection reports and associated violations is conducted to help guarantee consistency. LSP should also ensure that this review is documented.

Earlier this year, an additional step was added to the SAR number process, which requires a supervisor to approve the issuance of the SAR number before the employee who performed the inspection can obtain a tracking number for their inspection. This will document the supervisor's review of the inspection. In addition, all violations issued to a casino licensee must have the supervisor's signature prior to issuance and CAT 2 violations (fineable offenses) are submitted to the Case Review Committee (CRC) to ensure consistency in the issuance of fines at casinos.

Headquarters is now reviewing all video poker violations to ensure consistency statewide and we are exploring the possibility of including video poker violations in the CRC process.

Gaming Audit has a formal audit plan followed by each office for each property. Variances are based on specific differences in each licensees' internal controls. Supervisors and auditor 3s review all audit inspections and document the review by initialing the audit program. Audit case reports (CAT 2 violations) are reviewed by the supervisor, manager, and director before finalized. As part of the audit plan, follow-ups of issues from previous inspections are included during the next review period.

The technical section holds monthly meetings between IT Supervisors and area leaders to discuss new policies, field issues, personnel matters, and other concerns or questions posed by licensees or other gaming sections.

LLA Recommendation 7: LSP management should ensure that all violations that may be issued penalties are listed on the penalty schedule.

LSP Gaming cannot update or change penalty schedules without going through the rule promulgation process outlined in the Administrative Procedures Act. Additionally, the LGCB must initiate this process. Some violations are not civil penalty appropriate such as “Expired ATC License” since it is a licensing requirement. The primary goal is to ensure compliance with licensing requirements. Once that is accomplished, then a monetary settlement is negotiated and subsequently approved by the LGCB. We are exploring the possibility of making another attempt at revising the penalty schedule.

LLA Recommendation 8: LSP management should ensure that it is complying with approved penalty schedules. If troopers issue non-civil penalties, such as warning letters, they should include a comment in their database describing the rationale for selecting this enforcement action.

LSP attempts to promote fairness and consistency when citing violations. There will always be some discretion when determining the type of violation an establishment receives. LSP will implement procedures that better document the use of discretion and provide for internal oversight.

LLA Recommendation 9: LSP management should ensure that the inspection process has sufficient controls to guard against potential fraud and abuse.

We believe the steps we implemented requiring the supervisor to approve the issuance of SAR numbers in addition to the steps necessary for issuing violations and the review process should provide sufficient controls to mitigate the risk of fraud and/or abuse.

LLA Recommendation 10: LSP management should develop standardized descriptions for casino violations that correspond to actual statutes, citation types, and penalty schedules so they can analyze enforcement data for consistency.

As part of its overall effort to improve the use of data and the systems involved, LSP management is exploring ways to better categorized and capture meaningful information for statistical analysis.

LSP does not require that key management positions have both prior gaming experience and supervisory experience.

LLA Recommendation 11: When possible, LSP management should consider both management and gaming experience when promoting individuals to key management positions within gaming.

As with many organizations, first line supervisors are often promoted from within. As such, entry-level supervisors may not have prior supervisory experience. LSP management recognizes the unique and complicated nature of gaming regulation as well as the need to maintain institutional knowledge. Experience in gaming and supervision will always be considered when making those decisions.

LSP has not established a formal training program for employees within the Gaming Division.

LLA Recommendation 12: LSP management should consider developing a formal training curriculum for their gaming employees. Examples of training courses that are needed are training in how to use data systems appropriately and training in how to conduct and document inspections.

LSP Gaming has identified core training for most personnel offered either in-house or through outside training vendors. In the fall of 2008, the Division developed and conducted a video poker specific training course for all personnel. We are currently developing a course specific to casino regulation targeted for completion in early 2010. An FTO program for new employees has been drafted and is close to being implemented. Most of the commissioned personnel in the Gaming Division have attended an in-house basic investigator course developed several years ago by LSP, Bureau of Investigation.

The Gaming Policy and Procedure provides job specific instructions in most areas. IT has incorporated their Standard Operating Procedure (SOP) manual, which provides instructions to new and existing staff members for completing routine tasks performed by technical supervisors and field agents. The SOPs can also be referenced by other Gaming sections and are located on the shared drive. Contracts with Momentum, Netdesk, and LSU Continuing Education have been utilized to implement a standardized, progressive training program. Beginning technicians receive introductory networking training to establish a basic level of network and security knowledge among staff members. From there, a series of courses builds to higher-level concepts.

New auditors are placed in the field with an experienced auditor and assist the experienced auditor until the supervisor and the auditor 3 determine the new employee is prepared to lead. At that point, the auditor works as the lead with the experienced auditor until the supervisor and auditor three are satisfied that the new employee is prepared to work independently.

All gaming personnel receive training throughout the year that is specific to their needs (Ex. Interview and Interrogation, Undercover Investigations, Gaming Surveillance and Asset Protection, Fraud Investigations, etc.).

Overall, LSP Gaming will continue to develop and enhance internal training on procedures and systems.

LLA Recommendation 13: LSP management should consider developing training for board members. Examples of training that could be provided include providing overviews of the licensing, inspection, and enforcement processes.

This process began with the appointment of Chairman Dane Morgan. He requested the division put together a general overview presentation for the board to describe the makeup of the gaming division. Then, every 2nd or 3rd meeting, he is asking a section of the division to provide more in-depth training for board members on that section's responsibilities.

LSP has not effectively used data to evaluate performance and manage gaming regulatory functions.

LLA Recommendation 14: LSP management should continue efforts to consolidate their data systems. LSP should consider development of an integrated database.

Response included below.

LLA Recommendation 15: LSP management should assess the reliability of its data systems and implement necessary controls to ensure that data is reliable. Such controls could include providing training to employees on how to use the systems appropriately.

Response included below.

LLA Recommendation 16: LSP management should evaluate what kinds of data it needs to effectively manage operations and evaluate performance. They should work with data personnel to have them include fields in their electronic systems to capture this information.

Response included below.

LLA Recommendation 17: Once data problems have been corrected, LSP management should ensure that electronic data are used to evaluate performance and manage regulatory functions (e.g., evaluate whether LSP is meeting its licensing goals).

Gaming management is well aware of the limitations of its databases and the information they collect. We recently met with IBM to review our processes and data needs and begin looking for solutions to our data problems. Over the years, we developed numerous databases to solve short-term needs and we are now trying to develop solutions to solve the long-term needs that will help improve our management of gaming regulatory activities.

Better use of technology could promote efficiency in licensing process.

LLA Recommendation 18: LSP management should continue its efforts to use technology to increase the efficiency of the licensing process.

LSP Gaming has long recognized the advantages that technology offers in increasing efficiency and is currently working with DPS, Information Services and IBM for possible solutions. We currently scan incoming applications into a PDF file and post on a shared drive for field offices. We are also exploring the possibility of a web-based application process, which would alleviate data entry tasks. However, applicants would still submit paper documents that support the application (i.e. – release forms, tax returns, articles of incorporation, etc.) The long term goal is to implement a paperless application process and workflow.

Objective 3: What other issues came to our attention during the audit that may affect LSP's regulation of gaming?

LLA Recommendation 19: LSP management should identify where gaming laws need to be updated and work with the Legislature to make necessary changes.

In conjunction with the Gaming Control Board and the Attorney General's office, we are working to identify outdated statutes and rules and take the necessary steps to eliminate them. Recommendations will be forthcoming during the legislative session.

LLA Recommendation 20: LSP management should formally evaluate the effect turnover has had within the Gaming Enforcement Division and determine if changes are necessary to reduce turnover in the future.

Response included below.

LLA Recommendation 21: LSP should continue work with policy-makers to ensure that such a plan is the best option for effective gaming operations.

LSP management has and continues to look for ways to reduce turnover. One proposal that should have a positive impact on turnover is to increase the ratio of civilian employees to commissioned troopers. Civilian personnel can effectively accomplish certain licensing and compliance functions and leave commissioned troopers to focus on more complicated background investigations, criminal enforcement, and video poker compliance. The use of civilian personnel in place of commissioned troopers also has a distinct reduction in cost to administer and regulate gaming.



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State of Louisiana
Gaming Control Board
November 4, 2009

BOBBY JINDAL
GOVERNOR

DANE K. MORGAN
CHAIRMAN

Mr. Steve J. Theriot, CPA
Louisiana Legislative Auditor
1600 North Third Street
Baton Rouge, Louisiana 70804-9397

Dear Mr. Theriot:

I am writing in response to the audit report performed by your staff on the Louisiana State Police, Gaming Enforcement Division. Please note that my responses primarily relate to the portions of the report concerning the Louisiana Gaming Control Board.

I very much appreciate the professionalism displayed by your staff during this process. I found their interaction and feedback most helpful. This audit is especially beneficial to me in my new capacity as Chairman of the Gaming Control Board. I have already met with the Louisiana State Police and the Attorney General's Office to discuss means in which to implement many of the recommendations contained in the report.

Please do not hesitate to contact me if I can be of future assistance to you or your staff. I can be reached at (225) 295-8450.

Sincerely,

Dane K. Morgan
Chairman
Louisiana Gaming Control Board

Cc: David Greer, CPA
Karen Leblanc, CPA



State of Louisiana
Gaming Control Board

BOBBY JINDAL
GOVERNOR

DANE K. MORGAN
CHAIRMAN

November 4, 2009

Karen LeBlanc, CPA
Senior Performance Auditor
Louisiana Legislative Auditor's Office
1600 North Third Street
Baton Rouge, Louisiana 70804-9397

Re: Response to Performance Audit on the
Louisiana State Police Gaming Division

Dear Ms. LeBlanc:

The following are responses to the Performance Audit performed by your office on the Louisiana State Police Gaming Division. These responses are submitted on behalf of the Louisiana Gaming Control Board (hereinafter LGCB). Please note that the responses contained herein relate primarily to the findings which, in my opinion, are relevant to matters under the authority of the Gaming Control Board. I have also included a brief analysis of other pertinent gaming information that was requested in the exit conference. This information is provided for historical purposes and to assist in the continued development of gaming regulation in Louisiana.

Finding: Gaming statutes are outdated and may cause confusion.

Response: The Louisiana Gaming Statutes are in need of revision. It is recommended that a working group be formed to draft revisions for legislative consideration in upcoming sessions. The group should include legislative staff, regulators, and industry representatives from various industries regulated by the LGCB.

Finding: Video poker penalties do not have variable prescriptive periods, like casino penalties do.

Response: It is preferable that all gaming activities under the LGCB's authority be consistently regulated. Accordingly, the LGCB will research this matter and if legally permissible, will adopt a fine schedule for Video Poker with the appropriate prescriptive periods. If this action is not permissible under current law, the LGCB will request legislative consideration of revisions to applicable statutes to enable adoption by the LGCB.

GCB1-0013-09

9100 Bluebonnet Centre, Suite 500, Baton Rouge, LA 70809
Phone: (225) 295-8450 Fax: (225) 295-8479

Finding: Incomplete penalty schedules for casinos and video poker establishments.

Response: The LGCB agrees that the penalty schedules need to be broadened to incorporate more violations of administrative rules. The LGCB will review the fine schedule and consider an expanded application. However, many violations have multiple factors that must be considered. Accordingly, it is often not feasible to administer a set fine on matters wherein suitability may be in question or extenuating circumstances are present. Infractions such as these must be reviewed independently on a case-by-case basis and the appropriate administrative action imposed.

Finding: Better use of technology could promote efficiency in licensing process.

Response: The LGCB recognizes the current business practices do not optimize technological software applications and solutions that are currently available. The LGCB will work with LSP and the A.G. Office to identify solutions to enhance efficiency in the licensing process.

Other General Audit Observations:

Finding: (Training): "... members on the LGCB do not receive any training. Board members should be educated about certain processes within the department to help them make more informed decisions.

Response: The LGCB receives periodic formal briefings at LGCB meetings from the LSP and A.G. Office on gaming regulatory matters. Additional briefings are scheduled to familiarize the LGCB members on various aspects of gaming regulation. It is not the responsibility of the LSP or the A.G. Office to provide this training, but each office willingly assists the Chairman by providing this service. Training for new LGCB members on ethics, administrative law, the authority and responsibility of their positions, and related topics will be conducted in the future on an individual basis by LGCB and A.G. staff.

Finding: LSP has not maintained certain data in an electronic format to assist in the evaluation of their performance. "... neither LSP nor the LGCB captured electronic information on board hearing officer decisions. As a result, we were unable to obtain and analyze information on how LGCB or the hearing officer ruled in cases."

Response: The LGCB seeks to keep vital data that will assist in the regulation and administration of gaming in Louisiana. Accordingly, the LGCB will commence recording statistical data on all decisions for future use and reference.

General Observations and Comments

Existing Regulatory Methodology

In the early 1990's there were two main regulatory bodies to which emerging gaming jurisdictions referenced in developing their regulatory model. The Nevada Gaming Control Board embraced a regulatory methodology which placed emphasis on audit and higher level

regulatory matters. Less emphasis was placed on the day to day operational aspects of licensed casinos. In contrast, the New Jersey Gaming Control Board placed greater attention on regulating all aspects of gaming operations. The New Jersey model was very labor intensive and thus expensive to sustain. Considering budget and personnel restrictions, the Louisiana State Police chose to closely mirror the casino regulatory system that Illinois had devised. The Illinois regulatory system was a hybrid of both the Nevada and the New Jersey models. Louisiana placed significant emphasis and resources on suitability of persons and companies involved in gaming, auditing, electronic gaming device monitoring, and other higher level operational matters. Administrative rules were developed which governed these areas. Many of these rules have not been changed since initial adoption and are in need of review and revision to meet current regulatory staffing levels, technology and trends.

Gaming Evolution / Trends

Gaming continues to evolve at a rapid pace especially technological advances regarding electronic gaming devices. Slot machines account for approximately 75% - 80% of the gross play at Louisiana Casinos. In the past, coinage was used for a majority of the play. By contrast, currently the overwhelming majority of slot play is by paper currency or credit. Accordingly, this causes a greater need for IT regulatory oversight and processes.

The industry has not slowed in developing new games and enhanced electronic close circuit monitoring systems (surveillance systems). Surveillance systems that once relied on VCR analog technology now are high tech digital based supported by a PC platform. With the continued advent of new games, surveillance systems, automated audit programs, and marketing systems, it is essential that regulators focus their resources on adequately monitoring these systems. It is also critical that regulators maintain a regulatory environment that provides for adequate control but does not inappropriately place Louisiana gaming entities at a competitive disadvantage with other neighboring gaming markets through unnecessary, burdensome controls and regulations.

The Future

The Louisiana Gaming Market continues to be challenged by the economic recession and by neighboring competition in Mississippi and Oklahoma. Louisiana Gaming Operators have expressed their desire for opportunities of growth in the Louisiana Gaming Market. However, many of the initiatives require legislative action and must be properly vetted through the legislative process.

Regulators should strive to use all available technological solutions to enhance the efficiency of regulation in Louisiana. The regulatory system should be balanced with personnel who possess the appropriate educational and technical skills to efficiently and effectively regulate the industry. Currently, many of the civilian gaming regulators within the various gaming Divisions are tenured employees who possess vast gaming experience. This has served Louisiana well by having a proficient, knowledgeable staff. Civilian employees, specifically audit, IT, and Investigative Specialist personnel are required to possess certain educational and / or technical qualifications to work in their respective fields. These competencies enhance LSP Gaming

Division's ability to provide regulatory oversight in an efficient manner. Expansion of this employment model will further improve gaming regulation with optimum efficiency.

Comprehensive regulation of gaming in Louisiana is vital to the protection of citizens, the integrity of the industry, and economic development. The regulatory model should ensure thorough, consistent, fair and reasonable regulation of gaming industries within the state. Regulatory oversight must be appropriately managed, reasonably and consistently applied, and timely administered to ensure that the Louisiana Gaming Industry remains viable. Restrictions placed on gaming operators must be monitored to ensure reasonableness. The Louisiana gaming statutes should be studied and revised to remain current with technology and to provide clarity for regulators and industry.

The LGCB remains committed to improving gaming regulation in Louisiana. The LGCB and its regulatory partners will continue to provide exceptional service to the citizens of Louisiana and those we regulate.

I appreciate the opportunity to comment and provide the aforementioned information. I look forward to acting upon your recommendations to improve gaming regulation in Louisiana. If I can be of assistance in the future, please feel free to call. I can be reached at (225) 295-8450.

Sincerely,



Dane K. Morgan

Chairman

Louisiana Gaming Control Board

APPENDIX B: Distribution of Gaming Revenue - FY 2008		
Agency/Fund Name	Revenue Dedicated	Percentage of Total Revenue
Riverboat Casinos		
Support Education in Louisiana First Fund	\$85,341,078.49	21.8%
State General Fund	249,711,837.57	63.8%
Compulsive & Problem Gaming	500,000.00	0.1%
Louisiana State Police	53,168,486.24	13.6%
Department of Justice	2,144,349.59	0.5%
Louisiana Gaming Control Board	776,949.52	0.2%
Total	\$391,642,701.41	100.0%
Land-based Casino		
Support Education in Louisiana First Fund	\$90,239,867.95	99.5%
Compulsive & Problem Gaming	500,000.00	0.5%
Total	\$90,739,867.95	100.0%
Slots at the Racetrack		
Compulsive Gaming	\$500,000.00	0.9%
Calcasieu Parish Fund	1,265,956.02	2.2%
Bossier Parish Truancy Fund	682,916.11	1.2%
Orleans Parish Excellence Fund	147,780.69	0.3%
St. Landry Parish Excellence Fund	818,833.40	1.4%
Beautification & Improvement of the N.O. City Park Fund	834,876.28	1.4%
Greater N.O. Sports Foundation Fund	556,584.19	1.0%
Algiers Economic Development Foundation Fund	100,000.00	0.2%
N.O. Urban Tourism & Hospitality Training in Economic Development Foundation Fund	100,000.00	0.2%
Beautification Project for N.O. Neighborhoods Fund	100,000.00	0.2%
Friends for NORD Fund	100,000.00	0.2%
N.O. Sports Franchise Assistance Fund	991,460.46	1.7%
Rehab for the Blind and Visually Impaired	2,000,000.00	3.4%

APPENDIX B: Distribution of Gaming Revenue - FY 2008		
Agency/Fund Name	Revenue Dedicated	Percentage of Total Revenue
Slots at the Racetrack (Cont.)		
Equine Health Studies Program Fund	\$750,000.00	1.3%
Southern University Agricultural Center Program Fund	750,000.00	1.3%
Beautification & Improvement of the N.O. City Park Fund	200,000.00	0.3%
State General Fund	33,230,596.64	57.0%
Louisiana Agricultural Finance Authority Fund	12,000,000.00	20.6%
Department of Justice	580,950.15	1.0%
Louisiana State Racing Commission	608,196.00	1.0%
Louisiana State Police	1,862,651.00	3.2%
Louisiana Gaming Control Board	78,923.33	0.1%
Southern University Board of Supervisors	50,000.00	0.1%
Total	\$58,309,724.27	100.0%
Video Poker		
Purse Supplement Fund	\$3,323,584.00	1.6%
Compulsive & Problem Gaming	500,000.00	0.2%
District Attorneys	5,400,000.00	2.5%
Local Governments	46,581,631.34	21.9%
Louisiana State Police	4,886,905.00	2.3%
Dept. of Public Safety, Office of Management and Finance	1,963,769.00	0.9%
Attorney General's Office	1,519,508.00	0.7%
State General Fund	148,678,199.86	69.8%
Total	\$212,853,597.20	100.0%
Note: This chart does not include revenue from lottery or horse racing.		
Source: Prepared by legislative auditor's staff using data from the Department of Public Safety and the Office of the Treasurer.		

APPENDIX C: Gaming in Other States									
State	Charitable Gaming	Commercial Casinos	Horse Racing	Indian Casinos	Lotteries	Pari-Mutuel Wagering	Racetrack Casino	Video Poker*	Total
Alabama	1			1		1			3
Alaska	1			1					2
Arizona	1		1	1	1	1			5
Arkansas	1		1			1			3
California	1		1	1	1	1			5
Colorado	1	1	1	1	1	1			6
Connecticut	1			1	1	1			4
Delaware	1		1		1	1	1		5
District of Columbia	1				1				2
Florida	1		1	1	1	1	1		6
Georgia	1				1				2
Hawaii									0
Idaho	1		1	1	1	1			5
Illinois	1	1	1		1	1			5
Indiana	1	1	1		1	1			5
Iowa	1	1	1	1	1	1	1		7
Kansas	1			1	1	1			4
Kentucky	1		1		1	1			4
Louisiana	1	1	1	1	1	1	1	1	8
Maine	1				1	1	1		4
Maryland	1		1		1	1			4
Massachusetts	1		1		1	1			4
Michigan	1	1	1	1	1	1			6
Minnesota	1		1	1	1	1			5
Mississippi	1	1		1					3
Missouri	1	1		1	1	1			5
Montana	1			1	1	1		1	5
Nebraska	1		1	1	1	1			5
Nevada	1	1				1		1	4
New Hampshire	1				1	1			3
New Jersey	1	1	1		1	1			5

APPENDIX C: Gaming in Other States

State	Charitable Gaming	Commercial Casinos	Horse Racing	Indian Casinos	Lotteries	Pari-Mutuel Wagering	Racetrack Casino	Video Poker*	Total
New Mexico	1		1	1	1	1	1		6
New York	1		1	1	1	1	1		6
North Carolina	1			1	1				3
North Dakota	1		1	1		1			4
Ohio	1		1		1	1			4
Oklahoma	1		1	1	1	1	1		6
Oregon	1		1	1	1	1		1	6
Pennsylvania	1	1	1		1	1			5
Rhode Island	1				1	1	1		4
South Carolina	1				1				2
South Dakota	1	1		1	1	1		1	6
Tennessee					1	1			2
Texas	1		1	1	1	1			5
Utah									0
Vermont	1				1	1			3
Virginia	1		1		1	1			4
Washington	1		1	1	1	1			5
West Virginia	1		1		1	1	1	1	6
Wisconsin	1			1	1	1			4
Wyoming	1		1	1		1			4
Total	48	12	30	27	42	43	10	6	

Source: Prepared by legislative auditor's staff using data from AGA.

APPENDIX D: Revenue and Tax Rate for States With Commercial Casinos

State	Current Number of Operating Casinos	Gross Casino Gaming Revenue Fiscal Year 2007	Gaming Tax Revenue 2007	State Gaming Tax Rate	How Taxes Are Spent
Colorado	45 (all land-based)	\$816,130,000	\$115,410,000	Graduated tax rate up to 20%	Local communities, historic preservation, general fund
Illinois	9 (all riverboat)	1,983,000,000	833,900,000	Graduated tax rate from 15% to 50% of gross gaming revenue and \$2 to \$3 per patron admissions tax	Education assistance and local government
Indiana	11 (all riverboat)	2,625,000,000	841,990,000	Graduated tax rate from 15% to 35% of gross gaming revenue; \$3 per patron admissions tax	Economic development and local government
Iowa	17 (10 riverboats, 4 land-based, 3 racetrack casinos)	1,363,000,000	314,780,000	Graduated tax rate with a maximum tax of up to 22% on gross gaming revenue at riverboats and land-based casinos and up to 24% at racetracks with slots and table games	Infrastructure improvements, local government, general fund, schools and universities, the environment and tourism
Louisiana	18 (13 riverboat, 1 land-based, 4 racetrack casinos)	2,566,000,000	559,190,000	Riverboat casinos -21.5% plus an additional 4% to 6% to local governing authorities for boarding fees; Land-based - \$60 million annual tax or 21.5% of gross gaming revenue; Racetrack -18.5% tax on gross gaming revenue	General fund, education, public safety
Michigan	3 (all land-based)	\$1,335,000,000	\$365,600,000	24% tax on gross gaming revenue (11.9% to city of Detroit, 12.1% to state of Michigan) effective tax rate 23.02% (including taxes and fees)	Public safety, capital improvements, youth programs, tax relief, neighborhood development and improvement, infrastructure repair and improvement

APPENDIX D: Revenue and Tax Rate for States With Commercial Casinos					
State	Current Number of Operating Casinos	Gross Casino Gaming Revenue Fiscal Year 2007	Gaming Tax Revenue 2007	State Gaming Tax Rate	How Taxes Are Spent
Mississippi	29 (all dockside; land-based)	\$2,891,000,000	\$350,440,000	Graduated tax of 8% on gaming revenues; up to 4% additional tax on gaming revenues may be imposed by local governments	Housing, education, transportation, health care services, youth counseling programs, local public safety programs
Missouri	12 (all riverboat)	1,592,000,000	417,330,000	20% tax on gross gaming revenue; 2 per patron admission fee, per excursion, split between home dock community and the state	Education, local public safety programs, disordered gambling treatment, veteran's programs, early childhood programs
Nevada	270 (all land-based)	12,849,000,000	1,034,000,000	Graduated tax rate with a maximum tax of 6.75% on gross gaming revenue; additional fees and levies may be imposed by counties, municipalities & the state adding approximately 1% to the tax burden	Education, local governments, general fund, problem gambling programs
New Jersey	11 (all land-based)	4,921,000,000	474,720,000	8% tax on gross gaming revenue, plus a community investment alternative obligation of 1.25% of gross gaming revenue or an investment alternative 2.5% on gross gaming revenue; 3.1875% tax on casino complimentaries	Senior citizens, disabled, economic revitalization programs
Pennsylvania	6 (1 land-based; 5 racetrack casinos)	1,090,000,000	472,760,000	34% to state gaming fund; 12% to horse racing industry; 5% to economic development & tourism; 4% to local & county government	Property tax relief, economic development, tourism, horse racing industry, host local governments

APPENDIX D: Revenue and Tax Rate for States With Commercial Casinos

State	Current Number of Operating Casinos	Gross Casino Gaming Revenue Fiscal Year 2007	Gaming Tax Revenue 2007	State Gaming Tax Rate	How Taxes Are Spent
South Dakota	36 (all land-based)	\$98,220,000	\$14,930,000	8% tax on gross gaming revenue, gaming device tax of 2,000 per machine per year	Department of Tourism, Lawrence County, Commission fund
<p>Note: Louisiana and Iowa's gross revenue also includes racetrack casino revenue. Tax rate does not include admission or boarding fees. Source: Information from the AGA (http://www.americangaming.org).</p>					

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APPENDIX E: Revenue and Tax Rate for States With Video Poker Establishments

State	Number of Locations for Video Gaming	Gross Video Gaming Revenue	Video Tax Revenue	Video Poker Tax Rate	How Tax Dollars Are Spent
Louisiana	2,351	\$684,725,930	\$214,346,374	22.5% to 32.5% depending on type of establishment	Local governmental entities, state gaming regulators, problem gaming fund, horsemen's purses, general fund
Montana	1,686	422,829,120	63,424,368	15%	General fund
Oregon	2,263	895,111,696	648,408,187	Based on net receipts after expenses and prizes are taken out; Changes each year - for 2008 it was 72.4%	Public education, economic development, state parks, habitat restoration
South Dakota	1,477	652,685,841	110,567,773	50%	Property tax reduction fund, department of human services, general fund
West Virginia	1,663	1,309,540,160	657,210,160	Ranges from 30% to 50% and can change quarterly - for 2008 it was 46%	Education, senior citizens, tourism & economic development programs

Note: We were not able to get information from Nevada as revenue information is combined with slot machine revenue. Highlighted rows are states that own their video poker machines.

Source: Louisiana gaming annual report, Montana gambling division report, Oregon state lottery executive summary, South Dakota annual report, West Virginia gambling annual report, 2008 national economic impact.

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