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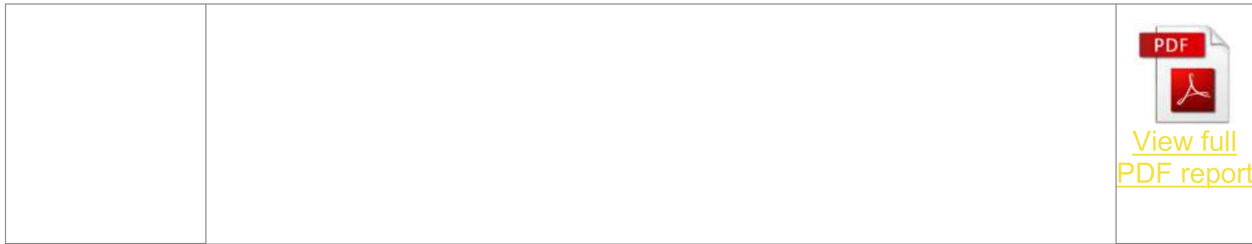

The Bureau of Gambling Control and California Gambling Control Commission

Their Licensing Processes Are Inefficient and Foster Unequal Treatment of Applicants

Report Number: 2018-132

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The Bureau's and Commission's Inefficiencies Have Driven Delays and Compounded Backlogs in the Licensing Process

Key Points

- The bureau has regularly exceeded the statutory 180-day time frame for completing its review of license applications, and it has also failed to notify applicants of their status at required points. Although the bureau asserted that the delays were the result of a lack of resources, it could process applications more quickly if it effectively screened them for completeness when it first received them.
- The bureau has elected to stop issuing decisions on certain games applications, which has placed some card room owners at an economic disadvantage by preventing them from offering games that the bureau approved for their competitors.
- Since July 2015, the bureau has more than doubled its staffing to address its backlog of license applications. Nevertheless, as of December 2018, it still had a backlog of nearly 1,000 applications. The bureau's productivity has diminished since it hired additional staff, raising questions about the level of staffing it needs to process applications.
- As a result of its referral of an increasing number of applicants to evidentiary hearings and of conflicting regulations, the commission has repeatedly failed to meet the requirement that it approve or deny most applications within 120 days of receiving the bureau's recommendations.

The Bureau Has Failed to Establish Processes That Might Help It Address Licensing Delays

The bureau has regularly exceeded statutory time frames for processing gaming license applications. As Table 1 demonstrates, the bureau's data indicate that it exceeded the 180-day time frame for 3,521, or 70 percent, of the 5,012 applications it reviewed from January 2014 through December 2018. Some of these delays spanned years: in fact, 46 applications took longer than six years to complete. Similarly, the bureau exceeded the 180-day time frame to complete its review of 16 of the 23 application files we reviewed, with one review taking more than 2,300 days—over six years.

Table 1

The Bureau Exceeded the 180-day Time Frame for the Majority of the Applications It Reviewed in the Past Five Years

	LICENSE TYPE				
	CARD ROOM		THIRD-PARTY		
LENGTH OF TIME TO REVIEW	EMPLOYEES	OWNERS	EMPLOYEES	OWNERS	TOTAL REVIEWED

Table 1

The Bureau Exceeded the 180-day Time Frame for the Majority of the Applications It Reviewed in the Past Five Years

LENGTH OF TIME TO REVIEW	LICENSE TYPE				TOTAL REVIEWED
	CARD ROOM		THIRD-PARTY		
	EMPLOYEES	OWNERS	EMPLOYEES	OWNERS	
180 Days or Fewer	352	40	1,099	–	1,491
181 Days to 1 Year	180	58	1,432	–	1,670
< 1 Year to 2 Years	384	122	764	2	1,272
< 2 Years to 3 Years	10	68	250	1	329
< 3 Years to 4 Years	1	31	93	1	126
< 4 Years to 5 Years	1	7	15	–	23
< 5 Years to 6 Years	–	5	49	1	55
Greater Than 6 Years	–	4	39	3	46
Subtotals of applications taking more than 180 days	*576*	*295*	*2,642*	*8*	*3,521*
Totals	***928***	***335***	***3,741***	***8***	***5,012***

Source: Analysis of bureau data on license applications it completed from January 2014 through December 2018.

The bureau also rarely provided the applicants we reviewed with required notifications. Once an application review reaches 180 days, state law requires the bureau to give the applicant an update on the status of the application and the estimated time to completion. However, the bureau failed to provide such updates to any of the 16 applicants we reviewed whose applications took longer than 180 days. For certain types of licenses, regulations also require the bureau to notify applicants within five to 20 days if the applications they have submitted are complete and within 30 to 45 days if the applications include all required supplemental information, such as employment history and financial records. However, the bureau failed to meet the pertinent deadlines for 10 of the 13 applications we reviewed in which the first time frame applied and 11 of the 12 in which the second time frame applied. Figure 5 summarizes the bureau's compliance with relevant time frames for the applications we reviewed.

Figure 5

In Most Cases, the Bureau Did Not Meet Required Time Frames for Processing the 23 Applications We Reviewed

Source: Business and Professions Code; California Code of Regulations, title 4, section 12002 et seq.; and review of case files at the bureau.

Note: The length of time the bureau has to notify applicants whether their applications and supplemental information is complete varies by license type. Not all license types have these notification requirements, which is why not all of the above time frames apply to all 23 applications.

The bureau's failure to promptly determine whether applications were complete likely exacerbated at least some of its delays in processing the applications we reviewed. In one case, the bureau sent an applicant eight letters over two years requesting different types of missing and additional documentation. The bureau then took so long to assess the information that the applicant provided that staff ultimately asked for bank statements for an additional year and tax returns for two additional years. The bureau also took long periods of time between its requests to the applicant; in one instance, it waited nine months between requests and, in another instance, nearly a year.

Similarly, when the bureau was processing an application that it spent more than six years reviewing, it made multiple requests for additional information from the applicant. The bureau's files show that this applicant communicated his frustration with the length of the background investigation process and, at one point, requested an update of the bureau's estimated time to completion. However, the available documentation does not show that the bureau responded to this request. Although some of the letters in one of these cases included follow-ups to initial requests that the applicants had not met, some of the correspondence in both cases also requested new documentation. Failing to promptly and effectively assess the completeness of submitted applications and supplemental information leads to back-and-forth interactions that compound delays and create more work for the applicants and the bureau.

Although the licensing director cited the bureau's lack of available resources to assign cases to as contributing to the processing delays in several of the applications we reviewed, we found that the bureau could take steps to increase its efficiency. For example, it has not developed a process to screen applications as it receives them to determine if they are complete. Although the bureau's intake unit receives and sets up files for applications, it does not evaluate the applications' completeness. Instead, licensing staff make these assessments when they begin working on the applications. An evaluation of the completeness of an application at the beginning of the process would allow the bureau to request missing documentation earlier and enable licensing staff to begin their reviews more quickly.

Moreover, we identified other ways in which the bureau could improve its application review process. Although the bureau has written guidelines that list the steps licensing staff must take when performing background investigations, a licensing manager told us that the bureau lacks written guidelines to guide managers when prioritizing the applications they assign to staff. In addition, she stated that the bureau has not completed a review to determine what particular steps within the background investigation process may be contributing to delays. If the bureau identified the portions of its background investigation process—such as reviewing criminal histories or

requesting court documents—that most commonly cause delays, it could implement changes that might improve its timeliness in processing applications.

Lengthy delays have different implications for different types of applicants. Under state regulations, the commission may issue temporary licenses to individuals who apply to work in nonownership positions in the industry. These temporary licenses—which usually require the bureau only to check the applicants' fingerprints for criminal history—allow the individuals to work while the bureau investigates their license applications. However, lengthy delays in completing investigations of these applicants creates the risk that individuals for whom the bureau will ultimately recommend denials will inappropriately work in the industry for a prolonged period. In one extreme case, an applicant worked in the gaming industry as a registrant—a temporary status for third-party applicants—for more than five years before the bureau recommended that the commission deny his license. This applicant had failed to disclose information in his application, and his third-party business had violations that included improperly kept records and inappropriate financial transactions.

In contrast, the lengthy process for issuing licenses to card room owners can create hardships for some applicants. Although these applicants can apply for temporary licenses, the bureau's process for reviewing the temporary applications involves significant additional steps, such as reviewing the source of funds for the purchase of the card room business and a legal review of any ownership documents by IGLS. These practices are based upon procedures agreed to by the bureau and commission, and the bureau has since noted to the commission that reviewing temporary applications is time-consuming and just short of a full background investigation. Temporary licenses for card room owners are also relatively rare. As of December 2018, the bureau's licensing data indicated that it had 203 pending initial owner applications, including applications that dated back as far as 2014. Nonetheless, at that time, it had completed only 23 temporary license requests for card room owners in the previous four years and had six other temporary owner license requests in process. The delays owners and potential owners face mean they may miss opportunities to acquire card rooms or lose revenue while waiting for the licenses that would allow them to operate the card rooms.

Applicants for card room owner licenses are also likely to face long and inconsistent wait times in part because of the process the bureau uses to review these applications. For example, the bureau has not developed a formal process to prioritize the assigning of owner applications to staff for their review. In the absence of such a process, managers indicated that they generally assign applications in the order in which they are received. However, when we reviewed seven owner applications, we found that the time that managers took to assign them to staff ranged from as few as 19 days to as long as 510 days and that managers did not always assign them in the order they were received. According to the bureau's card room licensing manager, the bureau may assign some owner applications out of order because of extenuating circumstances. For example, it expedited one review because of the failing health of an applicant who was requesting to transfer ownership interest to a family member. In addition, according to another licensing manager, the bureau may prioritize applications either if owners die

and there is a question about who will take over the licenses or if owners have had licenses revoked or denied and the commission has set a time limit for them to sell the card rooms.

However, the bureau did not provide consistent rationales for its lengthy delays in assigning some applications but not others. For instance, it received two applications in the same month but assigned one nearly a year later than the other. A manager explained that the bureau assigned the first application 87 days after receiving it to prevent a card room license from expiring. This manager also explained that the bureau was able to assign the application so quickly because it was adequately staffed at the time. However, when we asked why the second application—which the bureau had received two days earlier—was not assigned for nearly a year, the manager cited a lack of staff.

The time the bureau took to assign owner applications was not the only cause of delays that we observed. As we discuss in the Introduction, until recently the bureau relied on attorneys from IGLS, another section of Justice, to review legal transaction documents associated with owner applications, such as purchase agreements. In some of the cases we reviewed, the time it took IGLS to complete its reviews significantly contributed to the lengthy application process. The senior assistant attorney general who oversees IGLS explained that unless the bureau requests IGLS to complete reviews quickly or by a certain date, they are generally a lower priority than—for example—the complex litigation with court-imposed deadlines that IGLS performs. However, even though the bureau specified due dates for four of the six IGLS requests that we reviewed, IGLS did not meet any of those due dates. Further, we found no evidence that the bureau attempted to hold IGLS to the due dates or that it consistently followed up with IGLS on the status of its legal reviews.

In October 2018, the bureau hired an in-house attorney so that it could begin performing its own legal reviews. IGLS's senior assistant attorney general stated that the bureau is no longer sending new requests for legal reviews, and the licensing manager explained that the bureau has withdrawn some of its pending requests from IGLS and reassigned them to the in-house attorney. With only one such attorney, the bureau should take steps to ensure its prioritization of legal reviews is as consistent and transparent as possible. Its past communications to IGLS, as well as our review, indicate that it has prioritized applications based on factors other than when it received them. However, it has done so without a formal process for weighing these extenuating factors, creating the risk that it may favor some applicants without sufficient reason. Now that the bureau is transitioning to in-house legal review of transaction documents, it should develop formal procedures for prioritizing the in-house attorney's workload and periodically assessing whether one attorney is sufficient to process legal reviews in a timely manner.

The Bureau's Approach to Processing Applications for Certain Games Has Disadvantaged Some Card Room Owners

For three years, the bureau has not issued any decisions on card rooms' applications for certain types of table games known as California games, which we describe in the Introduction. Instead, according to its records as of March 2019, it had a backlog of 99 such applications.[4] According to state law, the bureau has sole responsibility for the approval of card room games and their rules. A bureau manager stated that it reviews and approves each game on an individual card room basis.

The reason the bureau has not approved any new California games applications has to do with restrictions in state law about the games that card rooms can offer. As the Introduction explains, state law prohibits card rooms from the practice of game banking, when the gaming establishment employs the dealer and acts as the house by paying the winning players and collecting from the losing players. However, state law does not consider a game to be banked if its rules include a player-dealer position held by someone who is not a card room employee and if that position is continuously and systematically rotated among each of the participants during play. To help fill these player-dealer positions, card room owners may contract with third-party companies. In response to a question from gaming industry interest groups, a former bureau chief issued a letter in 2007 specifying the bureau's interpretation of the legislative intent behind the state law—which stated that as long as the opportunity to act as the player-dealer position is continuously and systematically offered to all players, the fact that at times, all players but one may decline the player-dealer position does not make the game illegal.

However, in February 2016, the bureau issued a notification to all California card rooms regarding changes in its approach to the rules of games featuring a player-dealer position. The rotation of the player-dealer position is important because if other players in a game choose not to accept the offer of the player-dealer position, then a single individual effectively becomes the house, banking the game in the process—which is prohibited. Therefore, the bureau's letter informed card rooms that it would no longer approve any new game rules if those rules permit only offering rotation of the player-dealer position. The bureau issued a notification of the revised enforcement and game-approval processes relating to the rotation of the player-dealer position on June 30, 2016. A card room and a third-party business objected and, in January 2017, submitted a petition challenging the notification to the Office of Administrative Law. The Office of Administrative Law ruled in July 2017 that the bureau's change in approach required it to enact regulations, which it has not yet done.

The bureau's decision to not act on new requests for these California games—as well as its delay in issuing regulations—has placed some card rooms at an economic disadvantage because they cannot offer games that the bureau approved for other establishments before the current suspension. Therefore, these card rooms' competitors may offer games that they do not. The bureau is currently holding workshops to receive input on rotation of the player-dealer position before it initiates the formal regulation process, and its licensing director told us that it is in the early stages of drafting regulations. Despite the fact that its moratorium on reviewing these applications has now lasted more than three years, the bureau's director stated that the bureau does not

have an estimated date by which it will complete the regulations because several steps still remain in the regulatory process. However, the director also stated that the bureau plans to introduce draft regulatory language at another workshop within the next few months.

When we expressed concerns about the impact of the delays on card rooms, the licensing director stated that the bureau intends to issue temporary approvals for these types of games once it has resolved an unrelated rules issue concerning blackjack-style games. According to the director, the bureau decided to handle both the rotation of the player-dealer position and the blackjack-style game rules at the same time, and it did not begin a formal review of the blackjack-style games rules until August 2018. Because such a significant amount of time has passed since the bureau stopped issuing decisions on California games, it is critical for the bureau to act as quickly as possible to provide card room owners with equal access to approved games.

Despite Significant Staff Increases, the Bureau Has Made Only Moderate Progress in Reviewing Pending Applications

Since July 2015, the bureau has significantly increased its licensing staff. Starting in fiscal year 2015–16, the Department of Finance (Finance) and the Legislature approved the bureau's request for three years of funding for 12 additional positions. When requesting these additional positions, the bureau's justification was its large number of pending license applications—which comprise all applications that are in progress, including those that are more than 180 days old and therefore backlogged. The bureau initially projected that with this increase in staff, it would be able to complete its review of the pending applications by June 2018. The Legislature then approved three years of temporary funding for an additional 20 positions starting in fiscal year 2016–17. The bureau placed the additional staff in its card room and third-party licensing units, which are responsible for the review of pending applications. The additional positions helped the bureau to more than double its card room and third-party licensing staff, from 25 in June 2015 to 58 in June 2017.

However, the bureau has made only moderate progress in clearing its pending license applications. Figure 6 shows the bureau's workload and progress over the past several years: the number of incoming applications increased only marginally in fiscal years 2015–16 and 2016–17, and it actually decreased in fiscal year 2017–18. Despite the small growth in incoming applications and the bureau's reviewing more total applications after receiving additional staff, a sizeable number of pending applications remains. Specifically, although the number of pending applications has decreased considerably from a high of 2,700 in June 2015, the bureau still had more than 1,800 as of June 2018.

Figure 6

As a Result of Declining Productivity, the Bureau Has Continued to Have a Sizeable Number of Pending Applications

Source: The bureau's licensing data and organizational charts for fiscal years 2014–15 through 2017–18.

* The bureau believes that a large majority of these applicants are third-party registrants who did not submit license applications. According to the bureau, an application is abandoned when the bureau receives notice that the applicant is no longer employed (for example, by the third-party company). Applicants may also request to withdraw their applications.

† Pending applications include all applications that are not completed.

Our review found that a decrease in the average productivity per licensing staff position caused this persistently high number of pending applications. As Figure 6 shows, although the bureau's licensing staff in the card room and third-party licensing units increased from 25 in fiscal year 2014–15 to 36 in fiscal year 2015–16, the average number of applications that each staff person reviewed decreased from 146 to 137. In fiscal year 2016–17, the bureau reviewed only 96 applications per filled position; in fiscal year 2017–18, that number decreased again to just 70 applications. Thus, in the course of three years, the average number of applications each staff member reviewed dropped by more than half, significantly diminishing the relative impact of additional staffing on the license application backlog. This decrease in productivity makes us question how effectively the bureau has utilized the resources the Legislature has provided to it.

According to the licensing director, the bureau initially directed a majority of its new positions, as well as significant overtime hours, to the unit that handles third-party license applications. The initial focus on the third-party unit was to prioritize the review of third-party player applications, which comprised most of the pending applications. From fiscal years 2015–16 through 2016–17, the number of third-party player applications the bureau reviewed annually rose from 390 to 1,500. However, this number decreased to 1,000 in fiscal year 2017–18.

According to the manager for the third-party unit, this decrease occurred in part because the bureau redirected licensing staff working on third-party player applications to focus on more complex and time-consuming third-party owner applications.
The manager explained that the bureau changed its focus under the rationale that third-party owners pose greater potential risk to the public if not subjected to thorough background investigations because third-party owners decide the card rooms with which to enter into financial arrangements. According to the manager, the bureau has found that some third-party owners are using outside financial arrangements to funnel money to card rooms outside of bureau-approved contracts. Although the bureau's reasoning for shifting staff is reasonable, it has not produced the expected results: the bureau did not actually complete reviews of any third-party owner applications in fiscal year 2017–18.

In addition, although the bureau has nearly doubled the number of staff in its card room unit since July 2015, that unit's overall productivity has actually decreased. In fiscal year 2015–16, the card room unit reviewed 560 initial applications. In fiscal year 2016–17, it

reviewed 430 applications, and in fiscal year 2017–18, it reviewed only 400, despite adding staff each year. The manager of the card room unit stated that she was not sure why the unit's production level dropped. However, she indicated that the time required to train the new staff might have reduced the unit's productivity.

As a result of the bureau's failure to use its additional staff to proportionately increase its productivity, many applications have been pending for years. As of December 2018, the bureau had more than 1,700 applications pending, 957 of which had been at the bureau for longer than 180 days and thus were part of its backlog. Table 2 provides the length of time applications had been backlogged as of December 2018, summarized by application type. Notably, 97 third-party license applications had been backlogged for more than five years. These numbers indicate that the bureau has struggled to clear out the older applications that it cited in its 2015 budget change proposal as the basis for requesting additional staff.

Our concerns about the decreasing productivity in the card room and third-party units is consistent with increases in the number of hours that the bureau has reported that it takes to review a single application. In its fiscal year 2015–16 budget change proposal to Finance, the bureau provided estimates of the average hours it spent reviewing a single application for each license type. In June 2018, the bureau updated its estimates for several license types, significantly increasing the average hours for each. For example, it nearly tripled the average hours to review a third-party player application, from eight to 22 hours. The average hours to complete a third-party supervisor application increased from 56 hours to 128 hours. These increases are consistent with the fact that the bureau has been reviewing fewer applications per licensing position than it was in fiscal year 2014–15. The bureau has not yet updated its per-application time estimates for reviewing many license types, including third-party owner licenses and nearly all card room licenses.

Table 2

Many Card Room and Third-Party Applications Have Been Backlogged for Years

LENGTH OF TIME PENDING (YEAR RECEIVED)	LICENSE TYPE					TOTAL REVIEWED
	CARD ROOM			THIRD-PARTY		
	EMPLOYEES	OWNERS	OTHER	EMPLOYEES	OWNERS	
180 Days or Fewer (2018)	77	18	2	650	5	752

Table 2
Many Card Room and Third-Party Applications Have Been Backlogged for Years

LENGTH OF TIME PENDING (YEAR RECEIVED)	LICENSE TYPE					TOTAL REVIEWED
	CARD ROOM			THIRD-PARTY		
	EMPLOYEES	OWNERS	OTHER	EMPLOYEES	OWNERS	
181 Days to 1 Year (2018)	49	61	0	310	6	426
< 1 Year to 2 Years (2017)	49	73	0	119	12	253
< 2 Years to 3 Years (2016)	5	34	0	59	9	107
< 3 Years to 4 Years (2015)	0	16	0	30	10	56
< 4 Years to 5 Years (2014)	0	1	0	14	3	18
< 5 Years to 6 Years (2013)	0	0	0	21	8	29
Greater Than 6 Years (2010–12)	0	0	0	16	52	68
Totals	*180*	*203*	*2*	*1,219*	*105*	*1,709*
Total Backlogged (pending more than 180 days)						*957*

Source: Analysis of bureau data on license applications it completed from January 2014 through December 2018.

The bureau has not sufficiently demonstrated the number of permanent card room and third-party licensing staff it needs to clear the backlog, prevent it from recurring, and deliver services at the lowest cost to the State. In fiscal year 2018–19, the bureau submitted a budget change proposal to Finance to make permanent the funding for the 12 positions that the Legislature approved in fiscal year 2015–16. When it did so, it provided a new estimate that it would be able to review all pending applications and thereby eliminate the backlog by June 2023. However, given its inability to meet its original goal of June 2018 and its diminishing productivity since it set that goal in 2015, we have concerns about the bureau's ability to meet this new goal.

In response to the bureau's fiscal year 2018–19 request, the Legislature chose to extend the funding for the 12 positions for an additional year rather than make it permanent. When it did so, legislative staff noted that determining the appropriate level of ongoing resources the bureau needed to eliminate the backlog and prevent future backlogs was difficult because the full impact of the positions was still unclear. Our audit indicates that adequate staffing is not the only issue hampering the bureau's efforts to address its large number of pending applications. In the previous section, we identify inefficiencies in the bureau's current approach to reviewing applications that contribute to delays. Later in this report, we discuss our review of staff time reporting, which indicates that licensing staff spend considerable amounts of time performing activities that are unrelated to reviewing applications. With the funding for all 32 additional positions expiring in June 2019, we believe it is premature to make that funding permanent.

If the bureau addresses the inefficiencies we discuss throughout this report, we estimate that it currently has a sufficient number of total staff to clear its pending applications relatively quickly. Taking into account the number of incoming applications and using the number of licensing staff as of January 2019 and the bureau's average productivity per licensing staff over the last five fiscal years, we estimate that the bureau should be able to clear about 6,600 applications each year. This amount, which represents a 19 percent increase in reviewed applications from the bureau's projection in its fiscal year 2018–19 budget proposal, would allow the bureau to clear the existing pending applications by the end of fiscal year 2020–21. Changes in the composition of the types of applications the bureau reviews and any decrease in its filled licensing positions because of staff turnover could cause the bureau's actual number of reviewed applications to be lower. The bureau will need to account for its actual future productivity by addressing its inefficiencies and developing a formal plan for reviewing the remaining backlogged applications.

Once it has cleared its pending applications, the bureau is likely to need some of the 32 positions on a permanent basis. Based on average staff productivity and the average number of incoming applications over the past five fiscal years, we estimate that it

would require permanent funding for 19 of the 32 positions. However, after the bureau addresses the inefficiencies we identify in this report, this number is likely to decrease. Once the bureau clears the existing pending applications and takes steps to improve its productivity, it can reassess how many positions it needs on a permanent basis.

Beginning in fiscal year 2017–18, the commission also received approval for three temporary positions in anticipation of the bureau's forwarding it an increased number of applications. The commission's executive director indicated that the number of applications the bureau has sent has increased; however, the commission does not currently have comprehensive data regarding the number of incoming licensing applications or the outcomes of those applications, such as how many it has denied or approved. According to the deputy director of the licensing section, the commission has thus far not needed all three temporary positions to complete its workload. However, if the bureau takes the steps we recommend, the commission will likely see an increased workload in the coming fiscal years.

The Commission's Regulatory Process for Denying Applications Has Created Delays and Inefficiencies

The commission's process for denying applications causes it to exceed regulatory time frames, which require it to approve or deny most applications within 120 days of receiving the bureau's reports. Our review of 18 applications found that the commission met the 120-day time frame for applications it approved at regular licensing meetings. However, primarily because of its practice of referring all possible denials to evidentiary hearings, it did not meet the time frame for those applications that it denied. Although the commission approves the majority of all applications, its delays in reaching denials have been significant. The commission referred seven of the 18 applications we reviewed to evidentiary hearings. Those applicants waited an average of 258 days for decisions, compared to an average of just 52 days for applicants for whom the commissioners made licensing decisions at regular meetings. According to a commission tracking document, it denies about 75 percent of all applicants it refers to evidentiary hearings.

The commission's failure to meet the required time frame is in part because of conflicting regulations that it established. In 2015 the commission amended its regulations to require hearings for all denials. When it did so, the commission established new time frames for cases it refers to hearings, requiring a minimum of 60 days' notice to an applicant in advance of a hearing and allowing up to 75 days from the hearing's conclusion to issue its decision—a total of 135 days. The allowance of 135 days introduced a potential conflict with the existing 120-day requirement. The commission's executive director told us that not updating the existing time frame when it revised its regulations related to hearings was an oversight but that it intends to make this change.

Before 2015 the commission could vote to preliminarily deny an application during its regular licensing meeting and would provide the applicant the opportunity to request a

hearing if the applicant desired one. If the applicant did not request a hearing, then the commission's preliminary decision became final. We believe this approach does not pose a due process concern for applicants because it still provides evidentiary hearings for those who request them. However, the commission's chief counsel explained that the commission amended its hearing regulations to conform to state law that requires the commission to conduct certain processes—such as taking oral evidence under oath and providing the opportunity for each party to call, examine, and cross-examine witnesses—during the meeting in which the commission approves or denies the application. To comply with this definition of a meeting, at least for denials, the commission began referring all possible denials to hearings.

Based on a review of the relevant state law, we agree that the commission's decision to require an evidentiary hearing if it contemplates a denial is reasonable, although we have concerns with the consequences of the law's requirements. Further, commission regulations still allow it to approve licenses during regular meetings; however, the law governing requirements at commission meetings does not distinguish between the requirements for approvals versus denials. Thus, by statute, both approvals and denials require an evidentiary hearing. Therefore, a clarification to the law is necessary to establish what actions the commission is authorized to take during its regular meetings so that it does not need to hold a hearing for every case.

The commission's 2015 change in approach has resulted in its use of considerable additional staff resources. Although the commission refers only a small fraction of the applications that it receives to evidentiary hearings, the frequency of evidentiary hearings has increased substantially, from 12 in 2014 to 34 in 2018. At each evidentiary hearing we reviewed, an attorney from IGLS presented the bureau's license recommendation to the commission. According to a time-reporting summary that the IGLS director provided, IGLS personnel spent nearly 4,000 hours preparing for and representing the bureau at hearings, including evidentiary hearings, during fiscal year 2017–18. Further, in addition to the IGLS attorneys and the commissioners, the commission's executive director and multiple legal staff usually attend the hearings. Considering that the evidentiary hearing is generally the second time the commission considers an application—having already seen it at one of its regular meetings—these individuals' time represents a significant additional investment.

Further, the additional resources needed to hold hearings may not provide any additional benefit in some situations. As we note previously, the commission referred seven of the 18 applicants we reviewed to evidentiary hearings. Of those seven applicants, four either informed the commission beforehand that they would not attend the hearings or stopped participating in the prehearing process. In three of these cases, the commission still held the hearings in the applicants' absence. According to its chief counsel, the commission moved forward with the hearings because the applicants did not explicitly waive their right to have a hearing. In fact, the commission does not have any official policies or procedures for determining or communicating to applicants what constitutes a formal withdrawal. We discuss the issue of holding hearings without applicants present in further detail later in this report. In addition, we see no added

benefit from requiring hearings for applicants with mandatory disqualifying events, such as felony offenses. The extent to which unnecessary hearings contribute to delays and pose additional costs to the State demonstrates the need to clarify the Gambling Act.

Recommendations

Legislature

Given that the bureau has not achieved the expected benefits from adding 32 additional positions, the Legislature should not approve any requests to make funding for these positions permanent. Instead, the Legislature should extend funding for an additional two years, during which time the bureau should be able to clear its existing number of pending applications. At that point, the Legislature should reevaluate the bureau's long-term staffing needs, taking into consideration the extent to which it has implemented the recommendations in this report.

To prevent delays and the unnecessary use of resources from requiring the commission to hold evidentiary hearings in all cases in order to deny applicants, the Legislature should amend the Gambling Act to allow the commission to take action at its regular licensing meetings rather than require it to hold evidentiary hearings.

Bureau

To avoid unnecessary delays in its licensing process, the bureau should, by November 2019, begin reviewing applications for completeness upon receiving them. If it determines that an application is incomplete, it should notify the applicant immediately.

To help it identify which portions of the background investigation process most contribute to lengthy delays, the bureau should conduct an analysis of its investigation processes by November 2019 and should implement procedural changes to improve its timeliness in processing applications.

To ensure that it approaches its remaining backlog strategically and that it establishes accountability for its use of resources, the bureau should develop and initiate a formal plan by November 2019 for completing the remaining backlogged applications. The plan should identify the license types the bureau will target and the order in which it will target them, along with its rationale for the planned approach. The plan should also include clear goals that identify the numbers of applications it will complete and its time frames for doing so.

To ensure that its licensing process is transparent and consistent, the bureau should implement formal procedures for prioritizing its completion of legal reviews of ownership applications. The procedures should specify any circumstances that justify reviewing applications out of the order in which the bureau received them.

To minimize the degree to which its process to change its regulations may result in the disparate treatment of card room owners, the bureau should temporarily approve or deny its backlogged games applications by July 2019.

Commission

To ensure that it has comprehensive licensing information to determine its ongoing workload and staffing needs, the commission should implement procedures for tracking the number of license applications it receives from the bureau each fiscal year and the outcomes of those applications, such as approvals and denials.

To prevent unnecessary delays and use of resources and to ensure its compliance with state law, the commission should, following the Legislature's amendment of the Gambling Act that we recommend, revise its regulations and policies for conducting evidentiary hearings. These revisions should specify that the commission may vote at regular meetings on a final basis to approve or deny licenses, registrations, permits, findings of suitability, or other matters and that it is not required to conduct evidentiary hearings unless applicants request that it do so.

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The Bureau and Commission Have Charged Fees That Do Not Align With Regulatory Costs, Resulting in an Excessive Surplus and Fairness Concerns

Key Points

- In possible violation of state law, the regulatory fees that the commission and bureau charge applicants, card room owners, and third-party company owners do not align with the costs of providing the related services. Specifically, the licensing revenue that the Gambling Fund receives from such fees covers less than half of the cost of processing license applications. In contrast, the other nonlicensing regulatory fees that card room owners and third-party company owners pay far exceed the costs of the related oversight.
- The balance in the Gambling Fund has doubled over the past five years, and the January 2019 Governor's proposed budget projects that its surplus will grow to more than $97 million by June 2020. This excessively high projected balance is more than five times larger than the fund's annual expenses.
- The bureau's licensing staff often charge only a small portion of the time they spend conducting background investigations against the deposits the bureau collects from applicants, and they inconsistently request additional money from the applicants to cover actual costs. In addition to underscoring concerns about the efficiency of the bureau's operations, this practice means that applicants pay different amounts for services of the same value and type.
- In fiscal year 2017–18, the bureau's licensing staff charged nearly half of their time to activities that did not directly relate to the review of licensing applications. The bureau's failure to ensure that staff devote as much time and attention as possible to reviewing applications has likely contributed to the persistent backlog.

The Fees That the Bureau and Commission Charge Do Not Align With Their Costs for Providing the Related Services

The Gambling Fund supports the costs that the bureau and commission incur while carrying out their respective duties and responsibilities. The Gambling Fund receives revenue primarily from licensing fees and other nonlicensing regulatory fees that the commission and bureau levy on license applicants, card room owners, and third-party company owners. Specifically, state law requires license applicants to pay nonrefundable application fees for all license types and refundable background investigation deposits for most license types. In addition, card rooms must also pay regulatory fees based on their number of gaming tables or gross revenue, while third-party owners pay fees based on their number of employees.[5] The Gambling Act defines the purposes of these fees broadly, stating that they shall be available upon appropriation by the Legislature to support the bureau and commission in carrying out their duties and responsibilities.

Regulatory fees must be reasonably related to the costs of the regulation involved. For example, state law requires that a license application include a deposit that is adequate to pay for the anticipated costs of the investigation and the processing of the application. In compliance with state law, the commission has adopted regulations that set nonrefundable fees for initial applications and renewals, and the bureau has established deposits to pay for the background investigations it conducts. For instance, an applicant for a card room owner license must pay a $1,000 nonrefundable application fee and submit a $6,600 deposit to cover the investigation. If

an investigation costs less than the deposit, the bureau must refund any unused portion. If an investigation costs more, the bureau may require the applicant to deposit additional sums. Table 3 shows the costs for a selection of different licensing fees and deposits.

Table 3

Licensing Application Fees and Background Investigation Deposits Vary by License Type

	INITIAL		RENEWAL	
APPLICATION TYPE	APPLICATION FEE	BACKGROUND INVESTIGATION DEPOSIT	APPLICATION FEE	BACKGROUND INVESTIGATION DEPOSIT
Card Room Owner (Individual or Entity)	$1,000	$6,600	$1,000	$725
Card Room Owner (Trust)	1,000	1,100	1,000	200
Card Room Key Employee	750	2,400	750	200
Card Room Work Permit	250	NA	250	NA
Third-Party Owner (Individual)	1,000	6,000	1,000	800
Third-Party Owner (Entity)	1,000	11,500	1,000	2,000
Third-Party Owner (Trust)	1,000	2,500	1,000	800
Third-Party Supervisor	750	2,500	750	450
Third-Party Player	500	315	500	NA
Third-Party Other Employee	500	315	500	NA
Third-Party Registrant	500	NA	500	NA

Table 3
Licensing Application Fees and Background Investigation Deposits Vary by License Type

	INITIAL		RENEWAL	
APPLICATION TYPE	APPLICATION FEE	BACKGROUND INVESTIGATION DEPOSIT	APPLICATION FEE	BACKGROUND INVESTIGATION DEPOSIT
Games Review	500	550	NA	NA

Source: Business and Professions Code; California Code of Regulations, title 4, section 12002 et seq.; California Code of Regulations, title 11, section 2000 et seq..

NA = Not applicable.

However, the current fee structure undercharges license applicants for application fees and background investigation deposits but overcharges card room owners and third-party owners for other nonlicensing regulatory fees. Further, the gap between the revenue from licensing fees and the actual costs of the bureau's and commission's licensing activities is growing, as Figure 7 shows. In fiscal year 2017–18, the Gambling Fund received $4.2 million from application fees and background deposits. In this same year, we estimated that the bureau spent $9.3 million on licensing personnel and related operating expenditures, while the commission spent $580,000. This combined total of $9.9 million in licensing expenditures exceeded fee revenue by $5.7 million.

Figure 7
The Bureau's and Commission's Licensing Expenditures Have Increasingly Exceeded Licensing Revenue

Source: Gambling Fund condition statements, fiscal years 2013–14 through 2017–18; fiscal year 2017–18 commission budget change proposal; fiscal year 2018–19 bureau budget change proposal; and analysis of staffing documentation.

Note: Expenditure amounts are estimates and do not include any licensing costs associated with staff outside of the licensing division in the bureau and commission, such as legal staff.

Even though licensing expenditures have outpaced revenue from license application fees and background deposits, the Gambling Fund's balance has continued to increase because nonlicensing regulatory fees have generated far more revenue each year than the bureau and commission have spent on the related regulatory activities, as Figure 8 shows. For example, we estimated that the bureau and commission had combined nonlicensing regulatory costs of $6.9 million in fiscal year 2017–18; however, the nonlicensing regulatory fees generated $18.9 million in revenue that year—resulting in a surplus of $12 million in fee revenue. As a result, the nonlicensing regulatory fees that card room owners and third-party owners pay each year have subsidized the bureau's and commission's licensing expenditures, indicating that these fee payers are being overcharged. As we discuss in the following section, the current imbalance is so great that it has resulted in a growing Gambling Fund surplus.

Figure 8

Nonlicensing Regulatory Fees Significantly Overcharge for the Activities They Fund

Source: Gambling Fund condition statements, fiscal years 2013–14 through 2017–18; fiscal year 2017–18 commission budget change proposal; fiscal year 2018–19 bureau budget change proposal; and analysis of staffing documentation.

The excessive revenue generated from the nonlicensing regulatory fees and the inadequate revenue generated by the licensing fees and background deposits together indicate that the commission and bureau have not aligned fee amounts with their intended purposes. When an agency uses regulatory fees to subsidize different activities because the fee structure for those activities is inadequate, the regulatory fees may be serving as taxes rather than regulatory fees—which is unlawful. Nonetheless, the commission has not updated most of its license application fees since 2008, and it last updated third-party nonlicensing regulatory fees in 2004, based on its estimates at that time of its compliance and enforcement costs. Similarly, the bureau has not evaluated the background deposits it charges since 2011 and could not provide the methodology for how it determined the deposit amounts. Given the lack of alignment that we found between fee revenue and the costs of regulation, we believe that a thorough review of the current fees is urgently needed.

The Gambling Fund's Balance Is Excessive and Expected to Increase

One effect of the lack of alignment between the current fee structure and the costs of oversight is an excessive—and still growing—surplus in the Gambling Fund. Over the last five fiscal years, the balance in the Gambling Fund has doubled. As Figure 9 shows, the ending balance for fiscal year 2013–14 was $30 million. By the end of fiscal year 2017–18, the balance was $61 million, more than three times the bureau's and commission's combined total annual expenditures of $18 million. During this five-year period, the two entities' expenditures averaged only 66 percent of the Gambling Fund's revenue. Additionally, the January 2019 Governor's proposed budget includes the State's General Fund's repayment in fiscal year 2019–20 of $29 million it received in loans from the Gambling Fund in 2008 and 2011. As a result, the proposed budget projects that the fund balance will increase to more than $97 million by June 2020—a surplus of more than five times the bureau's and commission's projected annual expenditures.

By comparison, the Government Finance Officers Association (GFOA) recommends that entities maintain fund balances of at least two months of their operating revenue or expenditures, which for the Gambling Fund would be about $3 million. Although the GFOA acknowledges that particular situations, such as having unpredictable revenue or expenditures, may require a fund balance greater than the two-month minimum, the Gambling Fund's annual revenue has been consistently increasing for years. Further, nothing in the fund's history justifies maintaining a balance that exceeds five years of the bureau's and commission's total monthly expenditures. The bureau and the commission need to take steps to reduce this fund balance to a more reasonable level. Although a balance equal to two months of expenditures may be insufficient, the fund balance should not exceed one year's worth of expenditures.

Figure 9

The Gambling Fund's Surplus Has Doubled Over the Past Five Fiscal Years

Source: Gambling Fund condition statements for fiscal years 2013–14 through 2017–18 and estimated amounts for fiscal years 2018–19 and 2019–20 from the January 2019 Governor's proposed budget.

The Bureau's Billing Practices Are Inconsistent and Potentially Unfair to Applicants

One result of the Gambling Fund's excess revenue is that it has allowed the bureau to engage in inconsistent billing practices that are inefficient and potentially unfair to applicants and other fee payers. To track costs against applicants' deposits, bureau licensing staff use a time-reporting system to report the time they spend reviewing license applications, including performing background investigations, under two categories: billable hours and nonbillable hours. The bureau uses the staff's reported billable hours to calculate the cost of each background investigation and determine whether it must return a portion of the applicant's deposit. Nonbillable hours do not count against the deposit and therefore—because the staff time still represents a cost to the bureau—must be supported by other revenue. The bureau provides descriptions of the activities that staff should report as billable hours and those they should report as nonbillable hours. However, nearly all of the activities and descriptions under billable and nonbillable hours are exactly the same, and the bureau does not have written policies or other formal guidance to assist staff in determining whether hours spent on a case are billable or nonbillable.

According to the licensing director, the proportion of nonbillable hours for a given application should be relatively small. She asserted that staff discuss allocation of hours with their managers, who determine on a case-by-case basis whether work is billable or nonbillable. The licensing director told us that as a general practice, staff report nonbillable hours for time they do not feel that the applicants should pay for, such as the hours staff spend refamiliarizing themselves with applications or completing the final steps in reviews when they have expended the entire deposit.

However, likely as a result of the bureau's weak guidance, our review of time-reporting documents found that staff reported their time in a manner inconsistent with the licensing director's expectation. Specifically, staff often reported considerable amounts of nonbillable time when performing background investigations. For 28 of the 40 license applications we reviewed—which went as far back as 2008 but which the bureau mostly completed since 2016—staff reported that at least 25 percent of the time they spent on background investigations was nonbillable. For 19 of the applications, the number of nonbillable hours equaled or exceeded the number of billable hours. For 15 applications, nonbillable hours made up 75 percent or more of total hours. As Table 4 shows, the nonbillable hours for these applications represented costs to the bureau of $198,000, compared to $110,000 in billable hours covered by application deposits. In one extreme situation, staff reported 629 nonbillable hours for the review of an application, with a cost of more than $47,000.

Its staff's use of nonbillable time represents a significant expense for the bureau. To determine the extent of the issue, we reviewed a bureau report that listed all hours that licensing staff reported during fiscal year 2017–18. The report showed that staff responsible for processing card room-related applications reported more than 38,000 nonbillable hours—more than three times the total 11,000 billable hours they reported. At the bureau's billing rate of $76 per hour, these nonbillable hours represented $2.9 million in licensing costs not covered by applicants' deposits for fiscal year 2017–18 alone. When we asked the bureau about the results of our review, the licensing director described additional examples of time that staff would report as nonbillable, such as when they prepare documents for evidentiary hearings or take over applications from another analyst, requiring them to familiarize themselves with the applications. However, apart from providing these types of examples, the bureau offered no justification for why staff reported fewer billable hours than they should have. In fact, the bureau's written guidance to its licensing staff directs them to "be productive and strive to bill a minimum of six hours, when appropriate, each day as we are a reimbursable agency."

Table 4

The Bureau Billed Many Applicants for Only a Fraction of Its Actual Background Investigation Costs

	BILLED	UNBILLED
Total hours charged	1,443	2,612
Percent of total	36%	64%
Highest number of hours charged for single case	223	629
Total cost for all cases	$110,000	$198,000

Source: Analysis of the bureau's billing reports for 40 applications.

The fact that staff have not followed the bureau's guidance—and managers have not enforced it, despite the requirement that they must approve the manner in which staff report their time—points to fundamental gaps in the bureau's oversight of its employees. Further, it helps explain why licensing revenue from applicants is significantly lower than the bureau's actual costs to review applications. As we discuss previously, total licensing expenditures were nearly $5.7 million more than licensing revenue in fiscal year 2017–18, and the bureau's expenditures account for $5.1 million of this difference. The bureau would be unable to sustain its practice of reporting so few billable hours if the revenue from nonlicensing regulatory fees that card room and third-party company owners pay was not significantly higher than it should be and thus subsidizing the bureau's inefficiencies.

As we describe above, state law allows the bureau to request additional funds from an applicant if an investigation costs more than the initial deposit it collected. In theory, the ability to request additional funds should allow the bureau to fully recover its investigation costs and to avoid accruing large amounts of nonbillable time. However, we determined that the bureau was inconsistent in requesting additional funds from applicants. Bureau staff regularly spent all initial billable hours, then proceeded to report nonbillable hours until completing an application; in fact, the bureau asked only five of the 40 applicants we reviewed for additional funds, and all five were third-party owner applicants. For the other applications, staff continued their work by reporting nonbillable hours, enabling them to avoid having to justify the need to request additional funds from the applicants. If the large proportion of hours staff have reported as nonbillable reflect duplicated or otherwise unproductive work, then this nonbillable time has likely contributed to the bureau's persistent licensing backlog.

The lack of formal policies or any other clear guidance detailing the circumstances under which the bureau will request additional funds from applicants also raises questions of fairness. For example, we reviewed two applications the bureau received for the same type of license. It charged these applicants for nearly the same number of billable hours—31.25 and 31 hours—with costs of $2,375 and $2,356, respectively. However, the first application required the bureau to perform 96.5 nonbillable hours of work, representing a cost of $7,334, while the second application included only 4.5 nonbillable hours, equivalent to just $342. In this instance, staff performed significant work for the first application for which that applicant did not pay; instead, this work was in effect heavily subsidized by card room owners' and third-party company owners' nonlicensing fees. In the absence of formal policies for handling nonbillable time and a system that ensures staff comply with those policies, the licensing costs the bureau ultimately charges to individual applicants can appear arbitrary and unfair.

The Bureau's Licensing Staff Reported Spending Nearly Half Their Time on Activities Other Than Application Review

Our review of the bureau's time-reporting documentation raised additional concerns about efficiency within the licensing division. Under the bureau's time-reporting system, staff can report time under a third category, known as noncase time. The bureau's list of time-tracking activities describes activities for which staff are to report noncase hours. The list is consistent with the licensing director's explanation that staff should charge noncase hours for activities such as filing and for time that is unrelated to background investigations, such as attending training. The licensing director confirmed that it would be reasonable to expect staff to report occasional hours for these activities. However, as Figure 10 demonstrates, the bureau's records show that licensing staff reported nearly half of their time—45,700 hours—as noncase hours in fiscal year 2017–18.

Figure 10

Bureau Licensing Staff Spend Only a Fraction of Their Time Performing Billable Activities

Source: Analysis of bureau timekeeping records for fiscal year 2017–18 and discussions with the bureau manager.

Note 1: At the bureau's rate of $76 per hour, billable time amounts to $841,000, nonbillable time to $2.9 million, and noncase time to $3.5 million.

Note 2: The bureau's written descriptions for nearly all activities it identifies under billable and nonbillable hours are exactly the same, which is why we obtained the above descriptions from discussions with the bureau's manager.

When we asked about the staff's high proportion of noncase time, the licensing director explained that staff also use noncase hours to account for work on application-related tasks that take less than 15 minutes to complete. She stated that the bureau is not able to quantify this time because doing so would require it to look through the notes in the system; further, she did not think that staff included the names of every case on which they worked for less than 15 minutes. However, we do not understand how these activities could account for such a considerable amount of total time unless staff were constantly rotating among applications. Considering the persistent backlog of applications, we are concerned that staff have reported so much of their time on activities unrelated to reviewing applications and conducting background investigations.

The licensing director added that licensing staff are allowed one hour of personal time per day for noncase tasks, such as checking voicemails, reviewing emails, entering their time into the time-reporting system, and taking breaks. She stated that an hour per day per employee accounts for 12,000 hours per year. Even allowing for this personal time, however, our review found that bureau staff still reported spending more than a third of their total time on activities not directly related to reviewing applications or to performing background investigations.

Because many applicants have been waiting years for licenses and the State has considerably increased the number of bureau licensing staff to address the backlog, the bureau must take steps to ensure that its staff spend as much time as possible reviewing applications and that they correctly report this time. Its current approach provides no such assurance. Until the bureau establishes clear protocols for how staff are to spend and report their time and ensures that managers enforce those protocols, it will be unable to demonstrate that increases in staffing or licensing fees are necessary and justified.

Recommendations

Legislature

To ensure that all fees that generate revenue for the Gambling Fund have clear, stated purposes limiting their use, the Legislature should require that when updating fee amounts, the commission and the bureau must also update their regulations to include clear statements about the need for and appropriate use of each fee type.

Bureau

To ensure that it fairly charges applicants for the cost of its licensing activities, the bureau should establish and implement policies by July 2019 requiring staff to properly and equitably report and bill time and restricting which activities staff may charge to nonbillable and noncase hours. It should also establish clear thresholds for the proportions of time staff may charge to the various categories and require the bureau's management to review compliance with the pertinent restrictions.

Bureau and Commission

To better align the revenue in the Gambling Fund with the costs of the activities that the fund supports, the bureau and the commission should conduct cost analyses of those activities by July 2020. At a minimum, these cost analyses should include the following:

- The entities' personnel costs, operating costs, and any program overhead costs.
- Updated time estimates for their core and support activities, such as background investigations.
- The cost of their enforcement activities.

Using this information, the bureau and commission should reset their regulatory fees to reflect their actual costs. Before conducting its fee study, the bureau should implement our recommendations to improve its processes for assigning applications, ensuring the completeness of applications, and developing time-reporting protocols.

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The Bureau's and Commission's Inconsistent Regulations and Practices Have Resulted in the Unequal Treatment of Applicants

Key Points

- Inconsistencies in the commission's regulations create wide-ranging differences in how it treats applicants. These differences include significant variations in the time frames in which applicants must submit their applications for review, in the extent to which applicants can reapply for licenses, and in the ability of applicants to work in the gaming industry while their applications are pending.
- The bureau has applied different levels of scrutiny to applicants without clear justification, often as the result of staff's inconsistently following bureau procedures or as a result of issues with the procedures themselves. The bureau's incomplete documentation prevented us from more fully assessing the consistency of its reviews of aspects of applicants' backgrounds.
- The commission does not have a clear, formal process for allowing applicants that it has referred to evidentiary hearings to opt out of those hearings. As a result, it may harm some applicants by unnecessarily including negative information about those applicants in the decisions it publishes.

The Commission Has Established Regulations That Result in the Inconsistent Treatment of Applicants

The commission is responsible for developing state regulations that govern most aspects of the licensing application and review process. However, the regulations it has established include inconsistencies across the different license types. These inconsistencies create unjustified differences in how applicants experience the licensing process and may also expose the public to risk. Table 5 summarizes some key differences in the commission's regulations for specific license types.

Several important differences exist in the way that regulations treat third-party applicants in comparison to other types of applicants. For example, as Table 5 demonstrates, license applicants from card rooms—such as owners, key employees, and employees requiring work permits—must submit full applications to be able to work during the time the bureau is reviewing their applications. In contrast, third-party applicants first apply for status as registrants—a temporary status for third-party applicants only—and do not submit applications for licensure until the bureau requests that they do so. The commission's regulations do not establish time frames in which the bureau must request registrants to apply for licensure, and our review found that it has waited years before making such requests.

Table 5

Commission Regulations Treat Applicants Differently Depending on Their License Types

	CARD ROOM			THIRD-PARTY		
	WORK PERMITEES	KEY EMPLOYEES	OWNERS	PLAYERS	SUPERVISORS	OWNERS
Applicant must submit full application to work	Yes	Yes	Yes	No	No	No
Bureau must notify whether application is complete	No	Yes	Yes	Yes	Yes	Yes
Time frame(s) exist for commission to issue a decision on an initial license	No	Yes	Yes	Yes	Yes	Yes
Applicant retains temporary license upon bureau recommendation to deny initial license	No	No	NA	Yes*	Yes*	Yes*
Applicant is eligible for license if previously denied	Yes	Yes	Yes	No	No	No

Source: California Code of Regulations, title 4, section 12002, et seq.; and bureau documentation.

NA = Not applicable. Regulations do not discuss the circumstances under which a card room owner retains or loses a temporary license.

* If the bureau recommends the denial of an initial license, regulations require the cancellation of the applicant's card room temporary license. However, under similar circumstances, a third-party applicant retains his or her temporary status pending a noticed hearing and determination to cancel by the commission.

In considering whether to grant registrant status, the bureau reviews an applicant's criminal history to identify any disqualifying criminal convictions. However, the bureau does not consider—nor does it require the applicant to provide—any of the other elements of a full background investigation, such as the applicant's previous employment or financial history. As a result, all the third-party applicants we reviewed who ultimately submitted full applications were allowed to work for some time in card rooms with only minimal background investigations. One third-party owner ran a gaming business for more than two and a half years before the bureau requested that he submit a full application. Notably, that investigation resulted in the bureau recommending the denial of the application in part because the applicant failed to disclose full and true information, and the commission ultimately concurred. Allowing individuals to work in the industry for long periods before even submitting full license applications may create risks for the public in instances when the applicants are ultimately deemed dishonest or otherwise unsuitable for licenses.

The registrant process also leads to the disparate treatment of applicants in other ways. Although card room applicants lose their temporary working status when the bureau recommends denial to the commission, third-party applicants maintain their ability to work until the commission actually denies their license applications because regulations require the commission to hold a hearing to cancel a third-party registration. As a result, third-party applicants can continue to work in the industry even if the bureau determines they are unsuitable for licenses. In one case we reviewed, a third-party applicant was convicted of a disqualifying criminal offense during his time as a registrant but was allowed to continue working until the commission eventually held a hearing two years and eight months later. When we reviewed eight applications that the commission ultimately denied, we found that the third-party registrants worked with temporary status more than twice as long, on average, as the card room employees.

Other differences in the regulations affect applicants' experiences both during and after the application process. For example, regulations require the bureau to notify most applicants within specific time frames whether their applications are complete. However, as the second row of Table 5 shows, no such requirement exists for applicants seeking card room work permits. Work permit applications are also not subject to the commission's decision time frames, as the third row of the Table demonstrates. Further, the regulations are inconsistent about denied applicants' eligibility for licenses in the future. As the bottom row of the Table shows, applicants whose licenses the commission denies are permanently ineligible for third-party licenses; in contrast, the regulations do not restrict denied applicants' ability to later apply for card room licenses.

These inconsistent standards foster the unequal treatment of people working in or applying to work in the gaming industry, and they do so without sufficient justification. When we asked why the regulations treat third-party applications differently from other types of applications, the commission's executive director explained that she was not working for the commission at the time it developed the regulations. However, she speculated that the commission might have taken the approach it did because it began regulating the third-party industry after it was already in existence. According to the

executive director, the commission may have allowed third-party owners and employees to continue in the gaming industry with minimal background reviews to avoid significant disruptions to the gaming industry while it began licensing this large group of individuals. However, given that the regulations have now been in place for more than a decade, this rationale for treating third-party owners and employees differently from card room applicants is no longer valid. Other inconsistencies, such as those excluding work permit applications from time frame and notification requirements, have no apparent justification.

The commission's executive director told us that the commission has been working for a couple years to update its regulations to make them more consistent across license types. She estimated that it would take roughly another year before the commission would be prepared to submit the updated regulations to the Office of Administrative Law to begin the public review process. As the commission moves forward, it must consider both fairness to applicants and the public's interest in ensuring that individuals working in the gaming industry are vetted in a timely, appropriate manner.

The Bureau's Procedures and Practices Lead to Inconsistencies in Background Investigations and the Documents Retained to Support Them

Given the broad discretion the bureau has in processing license applications and determining applicants' suitability for licenses, it is important that it has procedures for conducting background investigations that demonstrate that it treats all applicants and licensees fairly and consistently. It is also critical that staff follow those procedures. We reviewed 18 application files to determine the extent to which the bureau has such procedures and follows them. Although we found that the bureau adequately supported all of its licensing recommendations to the commission, we also identified instances when the bureau treated applicants inconsistently and unequally during background investigations without justification. Further, this inconsistent and unequal treatment affected the content of the reports the bureau issued to the commission with its licensing recommendations. The types of inconsistencies we identified included differences in the procedures the bureau performed, the questions it asked, and the information it included in its recommendation reports to the commission for some applicants.

The bureau's procedures for conducting background investigations subject applicants to different levels of scrutiny without clear justification. The bureau's licensing division has separate units for processing each license type, and each unit has its own procedures for completing its background investigations. We expected that the bureau would subject applications for some types of licenses, such as card room owners, to more thorough levels of review than others, such as work permits, because of the positions' higher levels of responsibility. However, we also expected that most units would share the same basic procedures. Nonetheless, as Table 6 shows, the bureau's background investigation procedures vary considerably for different types of licenses and do not always reflect the associated level of responsibility.

For example, the background investigation procedures for all license types except card room owners require staff to note in its reports to the commission when an applicant has failed to appear in court when required to do so. Similarly, the background investigation procedures for most license types include specific directions to submit inquiries to the International Criminal Police Organization, the National Law Enforcement Telecommunications System, and other databases. However, the procedures do not require all such inquiries for card room owners and third-party players. The bureau acknowledged some of the discrepancies we observed and provided additional documentation in response to others. However, that documentation did not address the inconsistencies in the procedures that Table 6 lists.

Table 6

The Bureau's Procedures Inconsistently Require Background Investigation Steps

	LICENSE TYPE					
	CARD ROOM			THIRD-PARTY		
	LEVEL OF RESPONSIBILITY					
	LOW	MEDIUM	HIGH	LOW	MEDIUM	HIGH
STEP IN BACKGROUND INVESTIGATION PROCESS	WORK PERMITEES	KEY EMPLOYEES	OWNERS	PLAYERS	SUPERVISORS	OWNERS
Check absent-parent report	✔	✔	X	X	✔	✔
Request police reports for arrests subsequent to filing an application	✔	✔	X	X	X	X
*Submit all applicable database inquiries**	✔	✔	X	X	✔	✔

Table 6

The Bureau's Procedures Inconsistently Require Background Investigation Steps

	LICENSE TYPE					
	CARD ROOM			THIRD-PARTY		
	LEVEL OF RESPONSIBILITY					
	LOW	MEDIUM	HIGH	LOW	MEDIUM	HIGH
STEP IN BACKGROUND INVESTIGATION PROCESS	WORK PERMITEES	KEY EMPLOYEES	OWNERS	PLAYERS	SUPERVISORS	OWNERS
Review disclosure of military history	X	✔	✔	✔	✔	✔
Include failures to appear in court in the report to the commission	✔	✔	X	✔	✔	✔
Include unresolved failure to pay fines in report to the commission	✔	✔	X	✔	✔	✔
Include real property holdings in the report to the commission	NA	NA	X	NA	NA	✔

Source: Bureau background investigation procedures.

✔ = Included in procedures.

X = Not included in procedures.

NA = Not applicable to application type.

* Examples of databases include the Department of Motor Vehicles, the International Criminal Police Organization, the National Law Enforcement Telecommunications System, and the Association of Law Enforcement Intelligence Units Gaming Index.

Perhaps in part because of these inconsistent procedures, we also identified inconsistencies in the questions that staff asked applicants and the information that the bureau included in its recommendation reports to the commission. For example, the bureau's procedures for investigating third-party supervisor applicants instruct staff to obtain statements from applicants who have suspended driver's licenses describing how they get to and from work. However, the bureau's procedures for investigating third-party player applicants do not include an equivalent instruction. In one of the 18 applications we reviewed, the bureau recommended denial of a third-party player license solely because the applicant admitted to driving with a suspended license at the time she filed her application; the commission ultimately denied that application because the applicant did not attend her hearing and did not provide evidence in favor of granting a license. Because the bureau uses driving with a suspended license as a reason to recommend denial of a license application, we would expect all of the bureau's investigation procedures to include this question to ensure that it treats applicants fairly and consistently.

An inconsistency in the bureau's procedures also resulted in it including negative information in reports for two of the 18 applications we reviewed while not including similar negative information in its report for a third application. Consistent with its procedures, one of the bureau's licensing units cited as a concern that the first two applicants failed to file for their permanent key employee licenses within 30 days of receiving their temporary permits, as state regulations require. However, another licensing unit did not admonish the third applicant for working in a card room for nearly three years before submitting his application for a work permit or for working in a card room while younger than the legal minimum age of 21.

When we asked about the inconsistent handling of these cases, the licensing director acknowledged that staff should have asked questions about the third applicant's age and work history during the background investigation. However, the bureau's procedures for that license type do not require staff to ask those questions. Because they did not do so, the bureau's report to the commission makes no reference to issues that were more serious than those raised during the review of the other two applications. The commission approved the third applicant's license as the report recommended approval with no concerns cited. Although the commission approved the license of one of the other two applicants, it did not approve the other. In this last case, the bureau cited the late filing of the application among its reasons for recommending denial.

Similarly, we noted an instance in which the bureau asked one third-party owner applicant about real property purchases subsequent to his application but did not ask the same questions of another third-party owner applicant.[6] When the bureau asked the first applicant about purchases he made subsequent to filing his application, the applicant did not disclose a purchase, and the bureau used his response as one of several reasons to deny his license. The bureau also became aware of the second applicant's real property purchases subsequent to his filing his application through a review of his financial statements, but it did not ask the second applicant whether he made those purchases—as it did with the first applicant. As a result, unlike with the first applicant, the bureau did not put the second applicant in a position in which he might fail to disclose information. By failing to ensure that it followed similar steps in its background investigations with respect to the questions it asked, the bureau risked subjecting the applicants to different levels of scrutiny and producing different—and possibly unjustified—outcomes.

In addition, we identified a report to the commission that included information that the bureau had requested from the applicant but that the applicant was not required to disclose. Specifically, the report included the applicant's two bankruptcies that were more than 10 years old, even though the bureau's procedures for this license type instruct staff to only report on bankruptcy filings within the past 10 years. Although the licensing director stated that the bureau includes bankruptcies older than 10 years when applicants have had more than one bankruptcy, this explanation is inconsistent with the written procedures.

By failing to ensure that its procedures subject applicants to equal treatment and that staff consistently follow those procedures, the bureau risks subjecting some applicants to greater scrutiny than others without justification. The bureau's recommendations carry significant weight, as the commission often concurs with the bureau when making licensing decisions that may result in denial and may bar individuals from reapplying in the future. Consequently, it is crucial that the bureau take all steps necessary to demonstrate that it treats all applicants consistently and fairly.

In addition, the bureau's inconsistent handling of records limits its ability—and ours—to determine the extent to which it has performed background investigations in accordance with its policies. We performed a detailed review of 11 of the 18 application files to determine whether the bureau had consistently performed a selection of background investigation procedures. However, six of these 11 files were missing documentation showing that investigators completed one or more required steps. For example, one application file did not contain tax returns documenting the bureau's required review of the applicant's financial history. Another file lacked a required DMV report to demonstrate that staff comprehensively reviewed the applicant's driving history. We also reviewed a renewal application that contained a checklist on which bureau staff indicated that they requested and reviewed various database reports to ensure that the applicant had incurred no new infractions since her last approval. However, because the file did not contain any of the database reports, we were unable to verify that this review took place.

When we asked about missing documentation, staff provided a list that showed that the bureau is supposed to retain only some of the documentation that staff collect and review when conducting background investigations. However, we found that staff have inconsistently followed that policy, with different staff retaining varying levels of documentation for completed cases. When we asked about the rationale for not retaining certain documentation, the licensing director said that a lack of available space in the file room might have been an issue at one time but that she was unable to determine why the bureau adopted its current approach of purging certain documentation after completing its review. Not retaining key documentation and the inconsistent manner in which staff do retain records negatively affect the bureau's ability to demonstrate that it has applied its background investigation process consistently across applicants. Therefore, we believe the bureau should reevaluate the documentation it retains and its rationale for doing so. The licensing director stated that the bureau intends to conduct such a reevaluation in the near future.

The Commission's Lack of Policies for Allowing Applicants to Opt Out of Hearings May Cause Unnecessary Harm

The commission does not have a clear, formal process for allowing applicants that it has referred to evidentiary hearings to opt out of those hearings. As a result, when it denies certain applications, the commission publishes decisions that may harm some applicants by unnecessarily providing criminal background information. As we previously discuss, the commission either approves applications at its regular meetings—as happens for the majority of applicants—or refers the applications to evidentiary hearings for further review. The current regulations require the commission to hold evidentiary hearings when denying applications and to publish its decisions either approving or denying applications within 75 days of the conclusions of hearings. In its written decisions, the commission includes the details of each side's arguments as support for its approval or denial. The commission held 34 of these hearings in 2018.

As we discuss earlier, the commission referred seven of the 18 applications we reviewed to evidentiary hearings, and in four instances, the applicants elected not to attend their hearings. After deciding to hold a hearing, the commission sends a form asking the applicant to formally request or waive the right to a hearing. The form explains that the waiver of an evidentiary hearing may result in the commission making a default decision based on the bureau's recommendation report, as well as any supplemental reports or other documentation that the bureau provides. The form also states that the hearing may occur as scheduled, even if the applicant does not request a hearing.

We found that the amount of negative information the commission included in its written decisions varied among applicants who did not attend their evidentiary hearings. Two of the applicants returned the forms requesting hearings but later informed the commission that they no longer wanted to attend. Although these applicants informed the commission at least two weeks in advance, the commission held the evidentiary hearings in both cases and, in doing so, asked the IGLS attorney to present the

bureau's evidence against the applicants. The commission denied these two applications, and its written decisions cited the basis of the denials as the applicants' failure to attend the hearings or provide any evidence in favor of granting the applications. However, the written decisions also included the criminal background information about the two applicants that IGLS had presented at the hearing. Although the commission did not rely on the criminal background information in its reasons for denying the applications, the commission included it in the written decisions as a result of the hearings taking place. Therefore, holding evidentiary hearings when applicants do not participate may cause harm by leading to the unnecessary publication of negative information.

We found the outcomes for the remaining two cases more reasonable. Specifically, the commission's written decision for the third applicant who did not attend his hearing included significant detail. However, the commission denied this applicant because of a disqualifying criminal offense, and in such instances, the commission may need to include details about an applicant's background in its written decision to show the basis for that decision. The fourth applicant did not return the form and the commission elected not to hold an evidentiary hearing. In its written decision, the commission cited the applicant's failure to attend the default hearing—which took place at a regular commission meeting—or provide any evidence in favor of granting the application as causes for denial. This is the same reasoning it used for the two cases discussed above. However, the commission did not include any details from the bureau's background investigation in the decision. This approach is more efficient than holding an evidentiary hearing when the applicant does not want one, and it protects applicants from unnecessary disclosures of any negative findings from background investigations.

The varying degree of detail in the commission's written decisions for these four applicants creates concerns about applicants' ability to withdraw from the hearing process, particularly in light of the public nature of the commission's decisions. The commission posts its decisions on its website, where the content could negatively affect the applicants' future employment and other opportunities. The commission's chief counsel confirmed that the level of detail the commission includes depends in part on whether the commission has held an evidentiary hearing or not.

When we asked why the commission holds evidentiary hearings after applicants inform it—even in writing—that they will not be attending, the chief counsel explained that to cancel scheduled evidentiary hearings, the commission requires the applicants to explicitly waive their rights to that hearing. However, we noted that the regulations allow the commission to hold hearings even in cases when applicants have formally waived their rights. Further, the commission has not established any formal procedures to guide staff on how to handle instances when applicants opt out of the hearing process before the hearings occur, nor for providing explicit instructions to applicants on how to opt out. Given that holding unnecessary hearings is inefficient, may pose harm to applicants, and may raise questions of fairness, we believe that the commission should ensure that all applicants are given ample opportunity to forgo evidentiary hearings if they desire to do so and that it should cancel the hearings if applicants chose not to attend.

After we shared our concerns with the commission, its executive director informed us that it is taking steps to provide specific direction to applicants about their ability to withdraw from the process, as well as to develop internal procedures for handling instances in which applicants waive their hearing rights. However, in order for the commission to take such actions without being in conflict with state law, the Legislature will need to amend the law to allow the commission more flexibility when denying applicants, a recommendation we make in the first section of this report.

Recommendations

Bureau

To ensure that its level of review is commensurate to license type, the bureau should review and revise each of its background investigation procedures as needed by November 2019.

To ensure that it treats applicants consistently, the bureau should begin conducting periodic reviews by November 2019 to determine whether staff are following procedures when conducting background investigations for applicants for all license types.

To ensure that it has the ability to justify the results of its background investigations, the bureau should develop a formal record retention policy for application documentation by November 2019. This policy should include rationales for retaining types of documents and should establish a process for ensuring staff compliance.

Commission

To increase uniformity in the licensing process, the commission should revise its current regulations and submit them to the Office of Administrative Law for public review by May 2020 to address the following areas of inconsistency:

- Application processes and time frames.
- The ability to work during the application process.
- The ability to reapply after denial.

In revising its regulations, the commission should increase consistency across application types while minimizing risk to the public.

To ensure that it does not hold hearings that may cause applicants unnecessary harm, the commission should, following the Legislature's amendment to state law that we previously recommend, establish and implement formal protocols for informing applicants how to withdraw their requests for hearings and for guiding commission staff when discontinuing the hearing process at the request of applicants.

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OTHER AREAS WE REVIEWED

To address the audit objectives approved by the Audit Committee, we reviewed the subject areas in Table 7. These areas include the bureau's compliance section's time reporting and expenditures and the commission's compliance with open meeting laws and other legal issues. The Table indicates the results of our review and presents any associated recommendations that we have not already discussed in the other sections of this report.

Table 7
Other Areas Reviewed as Part of This Audit

The Bureau's Failure to Ensure Its Employees Allocate Their Enforcement Activities to the Appropriate Funding Sources Has Contributed to the Gambling Fund's Surplus

In addition to the current fee structure, another factor has inappropriately contributed to the Gambling Fund surplus. Specifically, the bureau has not ensured that employees in its enforcement section align their activities with the funding sources for their positions. When reviewing the enforcement section's time-reporting data, we identified many instances in which employees in positions funded by the Special Distribution Fund—which supports the regulation of tribal casinos—reported performing card room-related activities. Although we also noticed instances when employees funded by the Gambling Fund reported performing tribal casino enforcement activities, the overall effect was greater on the Special Distribution Fund, which funded more than 27,000 hours of card room-related enforcement work over the last three fiscal years. According to the assistant director who heads the compliance unit, the bureau is aware that its employees are not charging their time in accordance with their positions' funding sources, and it is currently taking steps to address this problem. With the exception of two quarters in fiscal year 2018–19, the bureau has not taken steps to reconcile and reimburse the funds to date.

Recommendations

- *To ensure that it compensates the Special Distribution Fund for the card room-related enforcement activities for which that fund has paid, the bureau should reconcile the hours due to the Special Distribution Fund for at least the last three fiscal years by November 2019. Moving forward, the bureau should ensure that it*

provides prompt reimbursement when employees in positions that are funded by one source perform activities that should have been funded by another source.

- *To ensure that its employees allocate their activities to the correct funding sources, the bureau should by July 2019 formalize policies and procedures that provide clear guidelines to employees when reporting time spent on activities that relate to funding sources other than the funding sources for their positions.*

The Bureau Closely Monitors Enforcement Agents' Funds But Could Better Track Where These Employees Spend Their Time

- Justice's law enforcement policy requires monthly audits to track amounts that enforcement agents spend in the field, and the bureau's auditors perform these audits consistently. The bureau allots $5,000 to $10,000 per month for agents in each of its two regional offices to use during their investigations. Our review of expenditures from the past three years found that each regional office generally spent considerably less than the allotted amounts and that the expenditures were consistent with Justice policy. We observed that the agents primarily used the funds for gambling while working undercover. The offices also used the funds to store, purchase, access and transport evidence; to pay informants; to purchase undercover phones; and to obtain online gambling profiles. Our testing found that the reported expenses were consistent with bureau policy and that supervisors reviewed expenditures in line with that policy.
- The audit objectives directed us to determine how much time the bureau's employees—including special agents—spend in each card room and casino when testing those establishments' compliance with state laws and regulations. However, the bureau's current approach to tracking its enforcement employees' hours prevented us from being able to analyze their time at this level of detail. Staff confirmed that the bureau's time-reporting system does not track the specific card rooms in which its employees work. The bureau has the ability to transfer some but not all of this information into the time-reporting system from a separate database that tracks specific criminal investigations, and in some cases, this information may identify a card room by name. However, even when the bureau had transferred information from the database to the time-reporting system, we found that in many cases the data were not sufficiently detailed to identify the card rooms in which employees worked.

Recommendation

To ensure that it can provide useful and accurate data on the locations where enforcement employees spend their time, the bureau should equip its time-reporting system by November 2019 with the capacity to track all hours employees spend at each card room and casino.

The Commission Generally Complies With Open Meeting Laws

- Our review indicates that the commission has substantially complied with key requirements of the Bagley-Keene Open Meeting Act. We identified minor issues in its open meeting notices, such as incomplete contact information, as well as minor procedural discrepancies related to publicly reconvening after closed

meetings. However, these issues do not pose serious threats to the transparency of the commission's proceedings. We brought these issues to the commission's attention, and it is taking steps to resolve them.

- We did not find any evidence of activities that would pose conflicts of interest for commission attorneys during the meetings and hearings we reviewed.

We Did Not Identify Legal Due Process Concerns

State and federal law guarantee both substantive and procedural due process. Substantive due process protects against arbitrary government action. It prevents government from taking action that is arbitrary, discriminatory, or lacks a reasonable relation to a proper legislative purpose. The threshold for demonstrating a violation of substantive due process is extremely high. Governmental action constituting abuse must "shock the conscience." Such behavior can include that which is outrageous, egregious, truly irrational, intended to injure in some unjustifiable way, or conducted with deliberate disregard of the state's fundamental processes. Substantive due process concerns could conceivably apply to both the commission's hearing procedures and the bureau's investigative procedures. Procedural due process ensures a fair adjudicatory process before a person is deprived of life, liberty, or property. An adjudicative process that meets due process standards must, at minimum, provide reasonable notice and an opportunity to be heard.

We reviewed the hearing and investigation procedures set forth in the Gambling Control Act and related regulations. These statutes and regulations govern the substantive grounds for granting or denying a gambling-related license or work permit, and prescribe the commission's procedures for hearings and general meetings on applications. For example, title 4, section 12060 of the regulations governs the Commission's process for holding evidentiary hearings, including providing notice to the applicant in advance of a scheduled hearing. Applying the same principle and high threshold described above, our review of the relevant statutes and regulations did not identify a policy or procedure that would, by itself, serve as a basis for a due process violation.

The Same Attorney Representing Both the Bureau and the Commission Does Not Pose a Conflict of Interest or Violate the Law

The audit objectives directed us to assess whether the same attorney representing both the bureau and commission is a conflict of interest or violates the Judicial Code of Ethics or the Administrative Procedures Act (APA). The APA applies the Judicial Code of Ethics to the commission and presiding officers at commission hearings, not to attorneys appearing before the commission or representing the bureau or commission. In addition, a conflict-of-interest concern surrounding an attorney who represents multiple parties arises when the attorney obtains confidential information from one client that the attorney then uses against the client on behalf of another client. Guided by these principles, we did not find evidence of a conflict of interest in the practice of an attorney representing the bureau during a commission hearing and subsequently representing the commission upon an applicant's appeal of the commission's decision.

We conducted this audit under the authority vested in the California State Auditor by Government Code 8543 et seq. and according to 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 findings and conclusions based on our audit objectives specified in the Scope and Methodology section of the report. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Respectfully submitted,

ELAINE M. HOWLE, CPA
California State Auditor

Date: May 16, 2019

Footnotes

[4] These applications include requests from card rooms to offer new games, as well as to change the rules of existing games. Go back to text

[5] These card room fees are set in the Gambling Act as well as in the commission's regulations. Go back to text

[6] The bureau reviews real property purchases as a part of its financial review of third-party owner applications. The bureau's procedures for conducting background investigations of owners are the most financially focused of its procedures for third-party applicants because owners possess the greatest level of responsibility of these license types. Go back to text

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