

PERFORMANCE AUDIT REPORT

Pennsylvania Gaming Control Board

February 2016



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General

This page left blank intentionally



Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen
www.PaAuditor.gov

EUGENE A. DEPASQUALE
AUDITOR GENERAL

February 16, 2016

The Honorable Tom Wolf
Governor
Commonwealth of Pennsylvania
Harrisburg, PA 17120

Dear Governor Wolf:

This report contains the results of the Department of the Auditor General's special performance audit of the Pennsylvania Gaming Control Board (PGCB). This audit covered the period July 1, 2013, through September 30, 2015, unless otherwise noted. This audit was conducted under the authority of Sections 402 and 403 of The Fiscal Code, 72 P.S. §§ 402-403, and in accordance with applicable 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. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our special performance audit had five objectives, from which we report six findings and 11 recommendations (one recommendation is directed to the General Assembly). Briefly, our objectives covered the following: (1) a review of the local law enforcement grant (LLEG) program, (2) whether the PGCB operates efficiently and has implemented our previous audit recommendations, (3) whether the number of jobs created from the addition of table games has met expectations, (4) the adequacy by which PGCB ensures table game integrity, and (5) PGCB's effectiveness in investigating and responding to patron complaints.

We found that the LLEG program, which was designed to combat illegal gambling activities in Pennsylvania, had \$8 million of available funds transferred to the General Fund. Despite this transfer, the LLEG program continues to receive more funds than there are applicants who apply for grants. On a positive note, grants that we reviewed were found to be in compliance with program guidelines, although the timeliness of the grant closeout process should be improved.

The Honorable Tom Wolf

February 16, 2016

Page 2

We also found that PGCB has improved its operating efficiency, even after adding new responsibilities, involving table gaming at PGCB-licensed casinos. Many of our previous audit recommendations have been implemented; however, as I discuss below, more needs to be done to ensure PGCB members are implementing our recommendations.

With respect to job creation emanating from the 2010 statutory authorization of table gaming at PGCB-licensed casinos, we found that the actual job creation figures fell short of original estimates made by the casino industry.

On a positive note, we found that PGCB has implemented testing procedures to ensure integrity before table games are authorized for play, and PGCB has established an internal audit function to monitor casino compliance with PGCB table game rules and regulations. Further, regarding PGCB's complaint handling procedures, we found that PGCB thoroughly investigated and responded to complainants who had experienced issues at a PGCB-licensed casino; however, it lacked formal policies and procedures to guide its operations. These positive customer-service aspects should go a long way in ensuring Pennsylvania's successful oversight of the casino industry.

As I mentioned previously, there are aspects of PGCB's internal operations that require your immediate attention. Specifically, we found that despite our 2010 objections to the PGCB's use of an "enhanced" per diem for board members traveling on PGCB-related business, board members continue to avail themselves of this privilege—even after banning its use for other eligible employees, such as PGCB executive staff. According to the PGCB, a Commonwealth Executive Board resolution in 2006 allowed board members to claim these enhanced rates. We believe that the PGCB should abandon the per diem provisions of the 2006 resolution and implement policies and procedures to hold board members to the same per diem rates that apply to all other PGCB staff and Commonwealth employees.

In closing, I want to thank PGCB for its cooperation and assistance during the audit. PGCB is generally in agreement with the findings and recommendations. We will follow up at the appropriate time to determine whether and to what extent all recommendations have been implemented.

Sincerely,



Eugene A. DePasquale
Auditor General

PA Gaming Control Board



**Table
of
Contents**

Executive Summary	ii
Introduction and Background	1
Finding One – <i>Local Law Enforcement Grant Funds totaling \$8 million intended to combat unlawful gaming transferred to the General Fund.</i>	5
Recommendations	11
Finding Two – <i>PGCB operating efficiency has improved, since implementing many of our previous audit recommendations.</i>	12
Finding Three – <i>PGCB members continued to use “enhanced” travel reimbursements for their travel, which has led to unreasonable subsistence reimbursements—a violation of Act 1 of 2010.</i>	18
Recommendations	25
Finding Four – <i>The number of jobs created by the addition of table games is 40 percent less than the estimates provided to the General Assembly by the gaming industry.</i>	26
Recommendations	31
Finding Five – <i>The PGCB ensures the integrity of table games by authorizing and regulating all table games played in Pennsylvania, as well as conducting audits of all Pennsylvania’s licensed casinos.</i>	32
Finding Six – <i>PGCB lacked formal policies and procedures for handling casino patron complaints, but complaints appear to be thoroughly investigated.</i>	37
Recommendations	41
PGCB’s Response and Auditors’ Conclusions	42
Appendix A – <i>Objectives, Scope, and Methodology</i>	55
Appendix B – <i>PGCB Membership</i>	61
Appendix C – <i>PGCB Organization Chart</i>	62
Appendix D – <i>Distribution List</i>	63

PA Gaming Control Board

Executive Summary

The Pennsylvania Gaming Control Board (PGCB) is responsible for protecting the public's interest and ensuring the integrity of casino gambling. These responsibilities have grown since Pennsylvania added "table games" to include legalized table gaming in 2010. Today, the PGCB oversees 12 licensed casinos, with two additional licenses potentially to be awarded.

Our special performance audit had five audit objectives. Listed below is an overview of our five objectives and the results of our audit work. Our audit contains six findings and makes 11 recommendations, including one recommendation for the General Assembly. Overall, PGCB agrees with the audit report and its recommendations, and it pledges to implement our recommendations.

OBJECTIVE 1

Finding 1: \$8 million in grant funds transferred to the General Fund.

In our first objective, we reviewed the PGCB's administration of the Local Law Enforcement Grant (LLEG) program, which is aimed at combating illegal gambling in Pennsylvania. We found that the grant program is overfunded—in fact, in 2014, owing to budget shortfalls, \$8 million dollars was transferred from this grant program to help balance the General Fund. The PGCB has tried various outreach efforts, but despite these efforts, the program continues to have more funds available to it than there are applicants who apply. On a positive note, based on our review of selected grants, PGCB ensured grantees used the funds as intended, although the timeliness by which PGCB closed out the grants should improve.

OBJECTIVE 2

Finding 2: Nearly all previous audit recommendations have been implemented, and operating efficiency has improved.

Finding 3: The Board should mirror staff policy for expense reimbursement.

In December 2010, we released a performance audit on PGCB's expenses for contracts, travel, and materials/supplies. In our second objective, we looked at PGCB's operating efficiency, which included a follow-up to PGCB's implementation of our 2010 audit recommendations. In Finding 2, we discuss our results, which showed that PGCB has implemented nearly all of these recommendations; thus, helping to improve PGCB's operational efficiency. However, as we discuss in Finding 3, a companion finding related to this objective, PGCB must stop allowing its Board members to claim "enhanced" per diem reimbursements when they travel on PGCB business. This issue was identified in our 2010 audit report—and while the PGCB has taken steps to reform some of its practices in this regard—it must do more. We believe that Board members who claim these enhanced per diem rates may be violating Act 1 of 2010, which requires that expenses be reasonable.

PA Gaming Control Board**OBJECTIVE 3**

Finding 4: 10,100 direct jobs estimated to be created from adding table game to Pennsylvania’s licensed casinos—in reality, just 6,156 direct jobs were created.

Because Pennsylvania expanded legalized table gaming in 2010 based on the idea of creating new jobs, in our third objective we determined the extent to which those expectations were met. We found that the casino industry commissioned a study that indicated that as many as 10,100 direct jobs could be created from legalized table gaming. As a result, the General Assembly passed the legislation. The legislation required casinos to petition PGCB before being authorized to offer table games. As part of the petition, casinos were required to estimate the number of jobs that would be created from adding table games. We reviewed these petitions and found that among all casinos, the total direct jobs estimated to be created was just 5,414 direct jobs — approximately half of what the earlier commissioned study estimated. In reality, as of June 2015, direct jobs created from table gaming totaled 6,156 jobs, which is well short of the study’s 10,100 direct jobs expectation, but it exceeds the 5,414 jobs that were petitioned to be created by the casinos.

OBJECTIVE 4

Finding 5: PGCB has implemented thorough policies and procedures to ensure table game integrity.

With the legalization of table gaming at PGCB-licensed casinos, in our fourth objective, we determined the adequacy by which PGCB ensures the integrity of table game operations. In this regard, PGCB has instituted thorough policies and procedures before and after a game is offered on the casino floor. These reviews ensure that the games are mathematically accurate and conform to regulations, rules of play, and other requirements necessary to ensure the games’ integrity. Additionally, PGCB conducts periodic audits at each casino, which measure how well each casino is complying with PGCB regulations. We reviewed a selection of these audits and found that PGCB is adequately conducting audits to ensure the integrity of table games.

OBJECTIVE 5

Finding 6: Based on a review of selected patron complaints, PGCB effectively investigated and resolved the complaints, but some improvements could be made.

In our final objective, we evaluated PGCB’s effectiveness in investigating and responding to complaints from casino patrons. We found PGCB uses a database to help track complaints and logs any necessary investigatory notes into this database. In our review of a selection of 25 complaints, we found PGCB effectively investigated and resolved complaints; however, some improvements could be made. Specifically, we recommend that PGCB establish formal written policies and procedures to ensure complaints are investigated and resolved consistently, timely, and to ensure proper segregation of duties is present.

PA Gaming Control Board

This page left blank intentionally

PA Gaming Control Board**Introduction
and
Background**

The Department of the Auditor General conducted this special performance audit in order to provide an independent assessment of the Pennsylvania Gaming Control Board (PGCB, or Board) and its mission to provide regulatory oversight of licensed casinos.¹

We conducted our work under the authority of Sections 402 and 403 of The Fiscal Code² and in accordance with applicable *Government Auditing Standards* as issued by the Comptroller General of the United States.³

This audit is our third special performance audit of PGCB. Our first audit was released in May 2009 and evaluated PGCB's hiring practices. Our second audit was released in December 2010, and focused on PGCB's expenses for contracts, travel, and materials/supplies. Copies of these audits may be obtained from our website at www.paauditor.gov.

Our current audit had five audit objectives (see *Appendix A – Objectives, Scope, and Methodology* for more information). Our objectives were as follows:

- § Determine whether PGCB ensures that the Local Law Enforcement Grant Program funds are properly awarded and used for their intended purpose.
- § Determine whether PGCB is operating in an efficient manner, which will include follow up to our December 2010 special performance audit entitled *Expenses for Professional Services Contracts, Travel, and Materials/Supplies*.
- § Determine whether the number of jobs created as a result of adding table game operations⁴ at PGCB licensed casinos met expectations.
- § Determine the adequacy by which PGCB ensures the integrity of table game operations at PGCB licensed casinos.

¹ The primary objective of the Pennsylvania Race Horse Development and Gaming Act (Act 71 of 2004, as amended) is to “**protect the public** through the regulation and policing of **all activities involving gaming and practices that continue to be unlawful**.” [Emphases added.] See 4 Pa.C.S. § 1102(1).

² 72 P.S. §§ 402-403.

³ *Government Auditing Standards*, December 2011 revision, issued by the Comptroller General of the United States, United States Government Accountability Office, Washington D.C.

⁴ 4 Pa.C.S. § 13A02 *et seq.* (Act 1 of 2010).

PA Gaming Control Board

§ Evaluate PGCB's effectiveness in investigating and responding to complaints it receives from casino patrons.

In the sections that follow, we present background information about the Board. Additional information about the Board can be found at its website, <http://gamingcontrolboard.pa.gov/>.

Background information on the Pennsylvania Gaming Control Board

Creation of the Board

The Board was created by Act 71 of 2004, entitled the Pennsylvania Race Horse Development and Gaming Act (Gaming Act), to ensure the integrity of casino gambling in Pennsylvania, thereby protecting the public interest.⁵

Of particular significance to our audit, in January 2010, the Gaming Act was amended allowing the Board to authorize slot machine licensees to conduct table games, including table game contests and tournaments, and to operate a system of wagering associated with the conduct of table games at the slot machine licensee's licensed facility.⁶

Board organization and structure

The Board⁷ is comprised of a ten-member governing board—seven voting and three non-voting ex officio members (see appendix B). The Governor appoints three members, and the heads of each chamber of the General Assembly appoint the remaining four members.⁸ The three non-voting ex officio members are Pennsylvania's Secretary of Revenue, Secretary of Agriculture, and State Treasurer⁹ or their

⁵ 4 Pa.C.S. § 1202(a)(1).

⁶ 4 Pa.C.S. § 13A11 *et seq.*

⁷ The Board was established as “an independent board which shall be a body corporate and politic.” *See* 4 Pa.C.S. § 1201(a).

⁸ 4 Pa.C.S. § 1201(b). The seven voting Board members' general and specific powers are outlined in Section 1202 of the Gaming Act, 4 Pa.C.S. § 1202. In general, the members have responsibility to ensure “the integrity of the acquisition and operation of slot machines and associated equipment and have sole regulatory authority over every aspect of the authorization and operation of slot machines.” *See* 4 Pa.C.S. § 1202(a)(1).

⁹ 4 Pa.C.S. § 1201(e).

PA Gaming Control Board

designees¹⁰ (ex officio members serve by virtue of holding their positions).

As established by the Gaming Act, salaries of the seven voting members are set by the Commonwealth's Executive Board, which includes the Governor and the heads of six administrative departments as designated by the Governor.¹¹ As we noted in previous audit reports, the salaries for PGCB commissioners are some of the highest state salaries for a regulatory board in the Commonwealth.¹² Specifically, PGCB paid an annual salary of \$150,006 to the chairman, while the six other voting board members each received annual salaries of \$145,018.¹³ Commissioners are also eligible for participation in the State Employees Retirement Commission (SERS).¹⁴

Commissioner responsibilities are part-time employment. Gaming Act amendments enacted in January 2010, through Act 1 have since restricted outside employment for Board members, who may hold such employment only if the pay is 15 percent or less than their gross annual salary as Board members.¹⁵ According to PGCB representatives, the Board does not actively monitor compliance with this requirement and instead leaves it to the individual members and their appointing authorities to ensure they comply with the limitation. However, Board members are required to annually sign PGCB's "Code of Ethics" which outlines the limitation on outside income.

An Executive Director is responsible for the direction, execution and coordination of all activities related to the regulation of gaming. To that end, the Executive Director is also responsible for the oversight of

¹⁰ Each designee must be a "deputy secretary or an equivalent position within the agency."

¹¹ 4 Pa.C.S. § 1201(i)(1).

¹² By way of comparison, we note that the Liquor Control Board members are paid approximately \$75,000 per year. Pennsylvania Turnpike Commissioners are paid \$26,000 annually. Game Commissioners and Fish and Boat Commissioners receive no salary. In our research, we found that only Public Utility Commissioners have salaries similar to PGCB Commissioners (\$145,025).

¹³ Our 2009 audit report highlighted that gaming entities in 20 other states had a governing board, and only seven of those 20 states paid their governing board members a salary. In updating information for this report, we found that four of these seven boards were part-time boards, and three of the seven were full-time boards. Of those three states with full-time boards, none paid as much as Pennsylvania does for its part-time board.

¹⁴ This provision was included under Act 135 of 2006, which included the following: "(3) Members shall be eligible for retirement under the State Employees' Retirement Code and shall, if the member elects to participate, be considered a State employee for the purposes of 71 Pa.C.S. Pt. XXV (relating to retirement for State employees and officers)." See 4 Pa.C.S. § 1201(i)(3).

¹⁵ 4 Pa.C.S. § 1201(h)(4.1). Under this new section brought about by Act 1 of 2010, outside employment pay includes salary, compensation, or fees for services rendered. Certain exceptions are permitted, including: passive or unearned income, health care benefits or retirement payments, amounts received from a family-controlled trade or business, and director's fees attributable to a corporate or nonprofit body.

PA Gaming Control Board

six bureaus and seven specialized offices (see organizational chart in Appendix C of this report). As we note in Finding 3, the Executive Director works for, and answers to, the seven member Board. As such, the Executive Director does not establish policies governing the Board members themselves, but establishes policies governing all other employees of the Board.

Number of casinos and revenue generated

The PGCB oversees a casino industry that continues to be the nation's second largest, behind only Nevada. Pennsylvania generates more tax revenue than any other state with casinos paying more than \$1.4 billion in taxes.¹⁶

As of June 30, 2015, Pennsylvania had 12 licensed casinos. Collectively, these 12 casinos employed 17,482 individuals. Through the end of fiscal year 2014-15, the total amount of tax revenue from the play of slot machines and table games reached more than \$11.4 billion since the opening of the first casino in November 2006.¹⁷

Funding and expenses

The PGCB is funded by the licensing fees and assessments paid by gaming entities. The Board does not receive any funding from the state's General Fund.

As with most state agencies, salaries and benefits for employees are the largest line item cost for PGCB expenses. We noted in our 2009 prior audit report that salaries at the Gaming Board were generally higher than the salaries of other comparable state government employees. As of June 30, 2015, personnel costs, which included salaries, benefits, and other personnel-related costs were \$32.1 million, or 87 percent of PGCB's expenditures totaling \$36.9 million. Since our last audit report in 2010, the PGCB has reduced its salary complement from 319 to 300 as of December 15, 2015.¹⁸

¹⁶ 2014-15 PGCB *Annual Report*, p. 2.

¹⁷ *Ibid.*

¹⁸ PennWATCH, accessible at www.pennwatch.gov.

PA Gaming Control Board

Finding

1

Local Law Enforcement Grant Funds totaling \$8 million intended to combat unlawful gaming transferred to the General Fund.**More funds are available than applicants who apply for funding.**

In addition to regulating Pennsylvania's licensed casinos, the PGCB is responsible for awarding grants under the Local Law Enforcement Grant (LLEG) program. The LLEG program provides funding to combat unlawful gaming.¹⁹ Grants are available to eligible local police departments, district attorneys' offices, the state police, and multi-jurisdictional law enforcement groups.

PGCB officials indicated that the LLEG program is overfunded in relation to the number of applications it receives. These officials explained that they have tried to expand participation by reaching out to eligible applicants through statewide meetings of police chiefs and district attorneys; however, the PGCB still does not receive as many applications as it has funds to distribute.

PGCB officials stated that there is no single reason for the inability to distribute all available LLEG funding, although they believe the limitation on the use of the funds to combat solely unlawful gaming may be a factor. According to the PGCB, many agencies find it difficult to dedicate law enforcement personnel specifically to just one specialized task like unlawful gaming. As a result, law enforcement agencies are reluctant to apply for the limited scope grants in light of other more pressing law enforcement challenges.

Additionally, we note that the Pennsylvania State Police (PSP) is limited in funding it can receive from the LLEG program because the statute specifically restricts grants to unlawful gambling enforcement and prevention activities in municipalities without local police departments. The PSP's Bureau of Liquor Control Enforcement is the lead agency for enforcing laws in establishments licensed to sell liquor, including bars where the majority of illegal slots and video

¹⁹ Under Act 71 of 2004, which authorized slots gaming, the PGCB received an annual appropriation of \$5 million to award grants to combat unlawful slots gaming. With the expansion of table gaming in 2010 (Act 1), the annual appropriation was reduced to \$2 million and the funding purpose was expanded to include all unlawful gaming. See 4 Pa.C.S. § 1408(c).

PA Gaming Control Board

poker machines could be operating.²⁰ In 2010, the PSP turned down LLEG funds due to the restrictions placed on these funds.

PGCB officials noted that the LLEG program guidelines were amended in August 2014 to allow capital expenditures of up to 15 percent of the total grant and extended the grants from one year or two years, but despite these changes, the PGCB still does not receive as many applications as it has funds to distribute.

Our analysis found agreement with the PGCB's assessment that the LLEG program is overfunded. We found that for the period July 1, 2013, through May 26, 2015—a period of approximately two years—there have been just six grants awarded. These six grants totaled just \$1,041,500, or only 26 percent of the \$4 million in gaming funds allocated to the LLEG program during that same period.

In light of this overfunding, during FY 2014-15, \$8 million of available funds were transferred from the LLEG appropriation to the Commonwealth's General Fund per the General Appropriations Act of 2014.²¹ Even after this transfer, we found that as of April 2015, the LLEG program still had a balance of more than \$1.9 million.

LLEG program overview.

According to current program guidelines, LLEG funds may be used in three specific project categories as follows:

²⁰ *Pittsburgh Tribune*, "Millions Meant to Combat Illegal Gaming in PA Shuffled to General fund", December 26, 2015.

²¹ Section 2112 of Act 1A of 2014 enacted July 10, 2014, Expenditure Symbol Notification Number 14-025.

PA Gaming Control Board

LLEG Project Categories

Categories	Description
Identification, Prevention, and Deterrence	Attending education and training events sponsored by authoritative agencies for the purpose of training officers, investigators, or attorneys in techniques appropriate to the enforcement of unlawful gambling.
Prevention, Enforcement, Investigation, and Prosecution	Defray costs related to assigning officers or investigators to prevent, deter, enforce, or investigate unlawful gambling. Grants may be awarded to defray costs of prosecuting crimes involving unlawful gambling.
Other Prevention and Enforcement Programs	Any other programs that address prevention and enforcement of unlawful gambling within the Commonwealth.

Source: Developed by Department of the Auditor General staff from LLEG program guidelines.

Grants can be awarded for up to a two-year period. Grant funds may be used for up to 100 percent of the total program and activity costs; however, grants may not exceed 10 percent of the local law enforcement agency’s budget. Capital equipment purchases (e.g., computers, surveillance equipment, etc.) are limited to 15 percent of the total grant award. Grants may not be used to purchase vehicles, real estate, or buildings. No grant may exceed \$250,000 per year.

As applications are submitted, a PGCB attorney works with applicants to ensure that grant requests meet program guidelines and are within required budgetary limits. Once any amendments or modifications agreed to by the applicant are completed, the PGCB attorney presents the application to the full Board for its consideration with a recommendation to award grant funds. According to PGCB officials, the Board has never denied a grant request.

Once approved, the grant agreement is executed and the full amount of the grant is advanced to the grantee. To ensure that the grant funds are used as intended, PGCB also requires the grantee to submit a final report which documents expenditures, supporting documentation, and measurements of success.²² Additionally, if the grant exceeds \$150,000, within 120 days after the grant’s end date, an audit

²² This report is required within 60 days of the grant’s end date.

PA Gaming Control Board

conducted by a certified public accountant (CPA) must be submitted to the PGCB.

PGCB legal staff review all materials for completeness and adherence to guideline requirements. A second review is then conducted by the PGCB audit manager, who if satisfied with the documentation recommends the file be closed.

PGCB awarded LLEG funds in accordance with program guidelines.

To evaluate whether PGCB properly awarded LLEG funds, we reviewed two of the six grants awarded during the period July 1, 2013, through May 26, 2015. For the two selected grants, we reviewed the grants for compliance with the application requirements, including that the project description, goals, itemized budget, and performance measures conformed to the intent and requirements of the LLEG program. We also ensured the application was properly approved by the Board.

Based on our test work, we found that both grants complied with PGCB's application and award requirements and were properly approved by the Board. Therefore, PGCB appears to have appropriately awarded LLEG funds during the audit period.

PGCB ensured LLEG funds were used as intended; however, grantees failed to submit close-out information timely.

To evaluate whether PGCB ensured that the grantees used the LLEG funds as intended, we obtained a list of 27 grants with awards totaling \$3,171,230 that PGCB closed out during the period July 1, 2013, through May 26, 2015. Only \$1,869,453 of the total awards were expended with the remaining unspent funds of \$1,301,777 returned to the PGCB.

We selected five of these 27 grants as follows:

- § Three of 10 grants were selected because the grants required an outside audit (i.e., the dollar amount was more than \$150,000).

PA Gaming Control Board

We selected these grants from across the state (e.g., one from the west, one from the central, and one from the east).

§ Two of 17 grants were selected because no outside audit was required (i.e., grant amount was less than \$150,000).

For the five grants selected, we evaluated whether PGCB ensured the LLEG funds were used as intended by the grantee. We reviewed the selected grantee files to ensure the following five key requirements were met:

1. The applicant maintained full and accurate records with respect to the project, including invoices of material and services, time sheets, and other relevant data and records.
2. If there were unused grant funds, the grantee returned the funds to the PGCB no later than thirty (30) days after the close of the contract activity period.
3. The grantee provided a final report documenting its expenditures, no later than sixty (60) days after the close of the contract activity period.
4. If required, the grantee provided an independent audit of the entire grant within 120 days after the close of the contract activity period.
5. The PGCB legal counsel and/or the PGCB audit manager reviewed the grantee file to ensure that the grantee complied with the program guidelines.

Our results were as follows:

§ Four of the five grantees kept the required records for the PGCB. One grantee could not supply requested timesheets. However, in lieu of the requested timesheets, the grantee supplied signed affidavits from the district attorney and county controller, which met the PGCB's request for information.

§ Four of the five grantees were required to return a total of \$210,360 of unspent funds to the PGCB. All four grantees returned those funds; however, only one of the four grantees returned the funds within the required 30 days. The other three grantees returned unspent funds totaling \$127,011 from

PA Gaming Control Board

approximately three months to over two years after the required timeframe.

§ All five grantees submitted the required close out expenditure reports. However, only one of the five grantees supplied the closeout expenditure report within 60 days. The other four grantees submitted the closeout expenditure reports from approximately 1.5 months to over six years after the required timeframe.

§ All three grantees that were required to have an independent audit completed submitted an audit report. However, only one grantee submitted the audit within the required 120 days. The one grantee submitted the audit 15 days late and the other grantee submitted the audit more than two years after the required timeframe. No findings were noted in any of the three audits reviewed.

§ All five grant files were appropriately reviewed by PGCB staff for completeness and to ensure that the LLEG funds were used as intended and required by the law.

Additionally, of the 27 grants closed out during the audit period, 19 had been approved by PGCB in 2007 or 2008; therefore, in these instances PGCB did not close out the grant for approximately four or more years after the grant ended. This is untimely when all the documentation is to be submitted within 120 days after the grant end date. We found that the PGCB does not have formal procedures for following up with grantees when information is not submitted on time. Our test work noted that the timing of PGCB's follow-up with grantees was varied when attempting to obtain closeout information that was months to years late. Additionally, PGCB needs to timely review the close out information once received in order to assess whether the grant was used as intended.

In summary, based on our test work, PGCB ensured that grantees used the funds as intended. However, in certain instances, it took several years to complete the process, due, at least in part, to the grantees not timely submitting required close-out information.

Without receiving grantee close-out information by deadlines and the PGCB performing timely review of this information, risk increases that LLEG funds may not be used in compliance with the program guidelines, with funds unreturned, and go undetected for years.

PA Gaming Control Board

Recommendations

The PGCB should:

1. Amend LLEG program guidelines to increase the number of applications and awards, such as to allow for a higher percentage of funds that can be used for capital expenditures.
2. Ensure that grantees meet all filing deadlines and that required closeout documentation is obtained in a timely manner.
3. Develop and implement formal procedures to follow-up with grantees when closeout information is not received by deadlines, including specific timeframes for follow-up such as 15 days after the due date has passed.
4. Once all closeout documentation is received, perform the closeout review in a timely manner.

The General Assembly should:

5. Amend the Gaming Act to give the PGCB more flexibility over how LLEG funds may be utilized. For example, removing restrictions on where the PSP can use the funds.

PA Gaming Control Board

Finding 2**PGCB operating efficiency has improved after implementing many of our previous audit recommendations.**

In 2010, we released an audit report titled, *Expenses for Professional Services Contracts, Travel, and Materials/Supplies*. Our audit report contained three finding areas and made 17 recommendations for improvement.

As part of our current audit, we reviewed the Board's operating efficiency by comparing its costs from our last audit report to the most current year available, fiscal year ended June 30, 2015 (FY 2014-15). We also reviewed the extent to which PGCB implemented our 17 previous recommendations. We found that PGCB implemented nearly all of our prior audit recommendations, which helped to improve the Board's operating efficiency. However, with respect to board member travel reimbursements, we found some members claimed unreasonable subsistence reimbursements. The Gaming Act requires Board members and employees to be reimbursed for only actual and reasonable expenses.²³ This issue is discussed further in Finding 3.

PGCB's operating expenditures have significantly declined in most reporting categories.

PGCB receives its funding from taxes levied on Pennsylvania's licensed casinos. PGCB receives no funding from the Commonwealth's General Fund.

As shown in the table that follows, we compared PGCB's operating expenses for FY 2008-09 and FY 2014-15.²⁴ For ease of comparison, we categorized PGCB expenses into various groupings.

²³ See 4 Pa.C.S. § 1202.2(a).

²⁴ We obtained expenditure information from the Commonwealth's SAP system, which contains audited financial information and has been determined to be a reliable source for agency financial information. As such, we determined this data source to be sufficiently reliable for comparative purposes.

PA Gaming Control Board

PGCB Expenditure Comparison

FY 2008-09 and FY 2014-15

Expenditure Category	FY 2008-09	FY 2014-15	Percentage + or -
Travel	\$ 590,716	\$ 266,534	-54.9
Training	84,520	58,613	-30.6
Utilities/communications	660,802	481,889	-27.1
Services	82,123	63,280	-22.9
Rentals/leases	1,879,305	1,658,169	-11.8
Supplies	185,508	109,227	-41.1
Equipment	4,049	36,775	808.1
Operating Subtotal	3,487,023	2,674,487	-23.3
Salaries, Wages, and Overtime	20,524,481	21,714,662	5.8
Benefits	<u>6,335,362</u>	<u>11,985,722</u>	<u>89.2</u>
Personnel Subtotal	26,859,843	33,700,384	25.5
Total	<u>\$ 30,346,866</u>	<u>\$36,374,871</u>	<u>19.9</u>

Source: Developed by Department of the Auditor General staff from review of PGCB expenditure information obtained from the Commonwealth's SAP system.

As shown above, with the exception of equipment expenses, PGCB has significantly reduced its operating expenses. Overall, operating expenses (not including personnel) have been reduced by 23 percent since FY 2008-09. The large increase in equipment expenses was attributable to purchases for computer hardware and related software. In our estimation, these costs were reasonable.

Personnel costs increased by 25.5 percent; however, it should be noted that PGCB has reduced its staff despite adding new responsibilities involving table game regulation. Since our last audit report, PGCB has reduced its salaried complement from 319 to 300 positions, as of December 15, 2015.²⁵ Many of the costs can be attributed to required salary increases for staff covered by a collective bargaining agreement. Benefit costs (i.e., healthcare, retirement, and other non-salary/wage costs) have significantly impacted PGCB, with an 89 percent increase to the agency. Within the benefit cost category alone, health benefits increased by 54 percent, and retirement costs have increased by 604 percent.

Our prior year recommendations addressed many of the above listed expenditure categories, as addressed in the next section.

²⁵ PennWATCH, accessible at www.pennwatch.gov.

PA Gaming Control Board

PGCB has implemented many of our 2010 audit recommendations.

Our 2010 audit report focused on three key areas: contracting, expenses for materials and supplies, and travel expenses. These areas are discussed further below.

Recommendations related to PGCB contracting.

With respect to contracting, our audit report made five recommendations to address deficiencies we noted in how PGCB awarded contracts. The most significant finding was that, in most cases, the board did not award contracts in open public meetings in noncompliance with the Sunshine Act. We also identified instances where the Board did not complete justification forms for sole source contracts as required by the Procurement Code.

We found that the PGCB has implemented all of our recommendations related to contracting. Specifically, we reviewed Board meeting minutes and agendas, which showed discussion of contracts at public meetings. We also found that contracting policies had been updated to include language that appropriate documentation must be maintained in contract files. Further, since the 2010 audit report, only one case of sole source and emergency procurement of legal services has occurred. Supporting justification documents per the Department of General Services' *Procurement Handbook* were included in the contract file.

Recommendations related to PGCB expenditures for materials/supplies.

Our 2010 audit report contained four discussion points related to the Board's spending for materials and supplies. Specifically, we noted that the Board paid for meals and gifts that represent questionable uses of Board resources; misclassified some expenses in accounting records as "office supplies;" did not maintain supporting documentation for 25 percent of the expenses that we selected for review; and paid for several cell phones and other electronic devices when there were periods of non-use.

PA Gaming Control Board

In our follow-up review, we found that PGCB has taken action to address our recommendations. Specifically, we found that a new “purchase request/justification form” is used for agency personnel, which requires a description of any item to be purchased as well as a listing of the business reason/justification for the purchase. The misclassification of expenses resulted from PGCB’s use of agency purchasing (credit) cards that automatically coded purchases as “office supplies.” Since that time, the PGCB reduced the number of agency credit cards and implemented procedures to ensure proper coding of expenses.

Further, we found that the Board has implemented new guidelines and procedures for the use of agency purchasing cards. Under this policy, each cardholder receives a monthly statement for the use of his/her respective card. The cardholder is required to review each purchase reflected in the statement, attach the corresponding Purchase Request/Justification Form, and attach the necessary receipts/invoices. The materials are signed as accurate and consistent with policy by the cardholder, then reviewed and approved by the PGCB budget analyst and ultimately approved by the Director of the Budget Office. The PGCB indicated that its review process also includes ensuring that expenses are properly classified.

We reviewed PGCB’s compliance with its new purchasing card policies and procedures by selecting one of the six purchasing cards and reviewing all expenses for two months (one month from FY 2013-14 and one month from FY 2014-15). We also interviewed the cardholder and verified that the procedures performed complied with the PGCB’s new guidelines and procedures. Our review found that all expenses had the appropriate justification form (including signatures), contained the necessary receipts/invoices, and had been appropriately coded.

Regarding wireless communications devices, the PGCB informed us that it has reduced the number of cell phones from 246 in June 2010 to 118 as of November 2015. We obtained and reviewed the list of the 118 PGCB employees assigned wireless communication devices and reviewed expenditure information evidencing that the costs to PGCB for these devices was reduced significantly between 2010 and 2015.

PA Gaming Control Board

Recommendations related to PGCB travel expense reimbursement procedures.

We presented five discussion points in 2010 about excessive travel expenses incurred by the Board. For example, board members and some top staff claimed allowable, but unnecessary, meal reimbursements at two and one-half times more than the state's standard rates; four board members and one executive staffer spent \$33,000 for a trip to Rome; board members stayed at expensive hotels without documenting the justification for such stays; board members incurred excessive parking expenses; and board members were reimbursed for leased cars.

We found that PGCB did take some action to implement our recommendations. As noted previously, PGCB travel expenses are down--due in large part to a reduction in travel by board members and staff. Further, as positive improvement we found the following:

- § **Travel receipts and justifications.** We obtained and reviewed a PGCB policy that requires receipts to be included for all expenses.²⁶ We also found that the PGCB now uses standard Commonwealth travel justification forms for travel requests and approvals.
- § **Standardization in travel booking.** PGCB also uses the Commonwealth's online booking tool and employees only receive reimbursement of actual expenses incurred within prescribed maximums (see Finding Three regarding unreasonable per diem maximums for board members). Further, we found that PGCB prohibits "the personal use of travel rewards points or any promotion or offer obtained in the course of official Commonwealth business."
- § **Vehicle expenses.** We found that PGCB discontinued the policy of providing leased vehicles to its board members. We reviewed current financial reports and confirmed that the PGCB no longer has expenditures related to vehicle leases for its board members.
- § **Lodging.** We reviewed four board members' lodging expenses submitted for a six-month period. We found that all four board

²⁶ While PGCB established such policy, it should be noted that under 4 Pa.C.S. § 1202.2(b) receipts are required for any expense in which reimbursement is sought. Further, as we report in Finding 3, this policy only applies to PGCB staff, not Board members.

PA Gaming Control Board

members' lodging was reasonable and within prescribed maximums outlined by standard Commonwealth travel procedures.²⁷ In each case where a lodging expense was incurred, appropriate justification was included on the traveler's expense report to support the expense.

§ **Parking Expenses.** We found that the board members are reimbursed for parking costs incurred for business-related travel. PGCB uses some available parking spaces for its Board members in designated areas in Strawberry Square, Harrisburg, PA. These spaces are provided under the terms of the building lease.

While we note the above as significant improvements, we found PGCB still has not fully addressed our recommendation related to subsistence reimbursements for its board members. As discussed in Finding 3 that follows, PGCB's failure to fully implement our recommendation continues to lead to unreasonable subsistence expenses being reimbursed by PGCB.

²⁷ We did note an occasion where the lodging exceeded the suggested maximum; however, the travel was deemed an emergency basis. Justification for the discrepancy was included on the travel documentation.

PA Gaming Control Board

Finding

3

PGCB members continued to use “enhanced” travel reimbursements for their travel, which has led to unreasonable subsistence reimbursements—a violation of Act 1 of 2010.

Act 1 of 2010 imposed new reimbursement requirements.

In our 2010 audit report, we reported on PGCB’s wasteful practices that permitted enhanced meal allowances for board members and certain executive staff. These practices originated from a 2006 Executive Board²⁸ resolution that exempted these individuals from Commonwealth management directives that prescribed maximums for meal reimbursements.²⁹

As we cited in our prior report, board members (and certain staff) who were required to travel for PGCB-related business purposes could charge up to 2.5 times the standard per diem³⁰ rate applicable to typical Commonwealth employees who were traveling on Commonwealth business.³¹ Worse still, these enhanced per diems were reimbursable without receipts, which provided no transparency as to the reasonableness of the expenses.

In our current audit, we found that board members continue to follow provisions of the 2006 Executive Board resolution, which allow the “enhanced” reimbursement rate. However, owing to reforms brought about by Act 1 of 2010³² (Act), new travel reimbursement practices have been implemented. Specifically, the Act specified that individuals may only be reimbursed for actual and *reasonable* expenses (emphasis added).³³ Further, receipts are now required for

²⁸ Continued by Section 204 of the Administrative Code of 1929, the Executive Board is empowered to establish uniform standards and regulations within the Executive branch. It sets standard qualifications for employment, job classification, and compensation among other duties. The Governor is chairman of the Executive Board, and he appoints the heads of six administrative departments to fill the other positions. *See* 71 P.S. §§ 64 (*Adm. Code* § 204) and 249 (*Adm. Code* § 709).

²⁹ Executive Board Resolution #BD-06-011, dated January 26, 2006.

³⁰ A per diem is a daily allowance provided by an employer to an employee to cover expenses incurred by the employee while traveling for business-related purposes.

³¹ This information was according to representatives from the Office of the Budget, Bureau of Commonwealth Payroll Operations.

³² Act 1 was enacted on January 7, 2010 and became effective immediately. In addition, Section 1201(i)(2) of the original Gaming Act (Act 71 of 2004), provides that: “[m]embers shall be reimbursed for all necessary and actual expenses.” *See* 4 Pa.C.S. § 1201(i)(2).

³³ 4 Pa.C.S. § 1202.2(a).

PA Gaming Control Board

reimbursement for all “individuals,”³⁴ and the PGCB must post its monthly travel-related expenses to its Internet website.³⁵ As discussed later in this finding, PGCB has complied with these statutory requirements, but issues remain with the PGCB’s reimbursement policy for its Board members.

Board member travel expenses.

For the period July 1, 2013, through September 30, 2015, we reviewed Commonwealth SAP reports for board member travel expenses. Our results are listed in the table that follows:

PGCB Member Travel Expenses July 1, 2013 – September 30, 2015

PGCB Commissioner	Lodging Expenses ^{1/}	Subsistence Expenses	Mileage	Other ^{2/}	Total
A	\$ 13,039	\$ 3,599	\$ 11,709	\$ 682	\$ 29,029
B	852	467	541	559	2,419
C	4,687	1,908	10,994	1,408	18,997
D	1,083	266	1,258	546	3,153
E	4,326	1,969	5,098	237	11,630
F	5,231	1,399	17,741	2,412	26,783
G	426	191	452	90	1,159
H	725	287	1,560	134	2,706
I	852	483	1,396	2,715	5,446
Unassigned ^{3/}	(358)	(77)	(21)	6,830	6,374
Total	\$ 30,863	\$ 10,492	\$ 50,728	\$ 15,613	\$ 107,696

Notes:

1/ As noted in Finding 2, our review of lodging expenses found that all expenses contained appropriate justification and were within prescribed Commonwealth maximums.

2/ Included within this category are: conference registrations, incidental expenses, out-service training, etc.

3/ These expenses were not assigned to any specific member, but rather the collective board. Negative amounts reflect reimbursements to PGCB.

Source: Developed by Department of the Auditor General staff from review of Commonwealth expenditure reports obtained from the SAP accounting system.

³⁴ 4 Pa.C.S. § 1202.2(b). These individuals include members and employees of the Board, employees of the Pennsylvania Department of Revenue and the Office of Attorney General, and troopers and employees of the Pennsylvania State Police.

³⁵ 4 Pa C.S. § 1211(a.3).

PA Gaming Control Board

Some key aspects of these expenses include the following:

- § Mileage costs represented approximately half (47 percent) of the total commissioner travel expenses.
- § Lodging expenses represented 29 percent of total commissioner travel expenses.
- § Subsistence costs represented 10 percent of total commissioner travel expenses over the audit period.

As we reported in Finding 2, collectively as an agency, travel expenditures are down. As for the board itself, travel-related expenses are also down. For FY 2008-09, board members were reimbursed \$91,738 for travel-related expenses. For FY 2014-15, board travel expenses were \$38,696, or a 58 percent reduction from FY 2008-09.

PGCB implemented a new travel policy, but failed to ensure that the governing board followed that policy.

On April 11, 2012, the PGCB adopted Policy Number 407, “Travel Expenses and Approval.” This policy requires PGCB employees to follow standard Commonwealth reimbursement practices for employees traveling on PGCB business.³⁶ As a result, enhanced reimbursement practices for executive staff, although technically allowable under the 2006 Executive Board Resolution, are no longer permitted under the travel policy, which mirrors the Commonwealth’s reimbursement policies and procedures.³⁷

³⁶ The PGCB is an independent board of the Commonwealth, which is not subject to certain provisions regarding the classification and compensation of Commonwealth employees as provided for in the Administrative Code of 1929 (71 P.S. §§ 51-732). In fact, Section 1202(a)(4) of the Gaming Act (Act 71 of 2004) states, in part: “[t]he board...**shall not be subject** to the provisions of the Act of April 9, 1929 (P.L. 177, No. 175), known as The Administrative Code of 1929, as to classification and compensation for its employees and conduct its activities consistent with the practices and procedures of Commonwealth agencies.” [Emphasis added.] See 4 Pa.C.S. § 1202(a)(4). As a result, the PGCB is not required to follow these standard policies and procedures; however, according to the PGCB it chooses to do so “to facilitate the processing of travel related reservations, expenses, and reimbursements to employees in order to assure accountability, economy, and efficiency.”

³⁷ Commonwealth Management Directive 230.10 *Amended* (effective January 1, 2012) dictates the policy for employees who travel in an overnight capacity while conducting official business for the Commonwealth. The Directive’s companion piece, Commonwealth Manual 230.1, outlines the procedures to be followed in claiming reimbursement for travel-related expenses. For example, there are prescribed maximums for lodging, subsistence (meals), and other travel-related expenses, all of which mirror guidance provided by the U.S. General Services Administration (GSA). These amounts also vary by geographic location (e.g., Philadelphia and Pittsburgh have higher maximums than Harrisburg or Erie). In addition, these procedures involve the use of standard reimbursement

PA Gaming Control Board

We asked PGCB if its new travel policy applied to board members. The PGCB informed us of the following:

The Executive Director works for, and answers to, the seven member Board. As such, the Executive Director does not establish policies governing the Board members themselves. The policies of the agency which the Executive Director implements on behalf of the Board typically apply to the bureaus and employees of the Board as setting the overall expectations of the workforce.

The Board follows Commonwealth Management Directive 230.10 subject to the corollary Executive Board resolution dated January 26, 2006 as to the policy for reimbursement of Board member expenses. Moreover, under that Management Directive, the Office of the Budget, Office of Comptroller Operations, Bureau of Commonwealth Payroll Operations reviews the submissions for compliance with Commonwealth travel reimbursement policies and approves all reimbursements for Board members based upon the actual costs incurred and receipts submitted. There are no other formal published or written policies as to this issue.

Management Directive 230.10 permits the Commonwealth's Executive Board to exempt agency officials, including board members and commissioners from the standard per diem reimbursement rates. The Executive Board's exemption to Board members has not been altered or otherwise rescinded by the Executive Board and remains in place consistent with that extended to cabinet officers and department heads of Commonwealth agencies by the Commonwealth's Executive Board.

In other words, the PGCB's revised travel policy, which mandates compliance with prescribed and reasonable travel maximums for PGCB staff, is still not used as a governing document for the actions of the board members.

forms, known as Travel Expense Vouchers (TEV). These procedures establish strict controls to ensure that business travel-related costs are minimized and reasonable.

PA Gaming Control Board

Because PGCB failed to implement our previous recommendations, unreasonable meal expenses for board members continue to be reimbursed at PGCB's expense.

We reviewed expenses for four of the nine board members who served during our audit period.³⁸ Our review included six months that we selected from the period July 1, 2013, through September 30, 2015. We sought to determine the following:

1. Did board member travel expenses follow the recommendations in our previous audit.
2. Did board members restrict expense reimbursements to those which are reasonable and supported by receipts, in accordance with Act 1 of 2010.

In reviewing travel expenses, we obtained and reviewed Travel Expense Vouchers (TEV), which are standard reimbursement forms used by PGCB. We tested travel expenses related to subsistence³⁹ and associated receipts. The results are summarized in the tables that follow.

³⁸ During the period reviewed, July 1, 2013, through September 30, 2015, nine different individuals served on the seven member board. We obtained copies of all Travel Expense Vouchers (TEV) for the selected board members during the selected months. To ensure that we obtained all expense vouchers, we compared the dollar amounts submitted on TEVs to monthly Commonwealth SAP expenditure reports for PGCB. We also compared the TEVs (on a random basis) to expense amounts, which are required to be posted to the PGCB's website. Based on this test work, we concluded that our evidence was sufficiently reliable for our review of board member expenses.

³⁹ Subsistence (meal) reimbursement is based on a per diem basis. Allowances for subsistence are not flat rates and only amounts actually expended (with a receipt) may be claimed.

PA Gaming Control Board

How frequently did selected board members claim subsistence rates that exceeded PGCB's travel policy?

Board Member	TEVs having meal reimbursement ^{1/}	No. of days with a meal expense ^{2/}	No. of days that subsistence exceeded policy ^{3/}
A	14	26	7
B	6	11	3
C	9	10	6
D	7	13	2
Total	36	60	18

Notes:

1/ In total 62 TEVs were submitted. Not all TEVs included meal reimbursement. Some TEVs included only mileage reimbursement.

2/ This column represents the number of days covered by the corresponding TEV. One TEV may cover multiple days of travel.

3/ This column represents the number of days in which per diems claimed exceeded the standard Commonwealth per diem rate.

Source: Developed by Department of the Auditor General staff from review of Board member travel expense vouchers.

As shown on the previous table, when traveling on PGCB-related business, Board members exceeded daily per diems 30 percent of the time (18 of 60 days).

We also examined the receipts submitted by board members to determine whether the meals submitted for reimbursement conformed to a similar reasonableness test (i.e., was the meal expense within suggested Commonwealth guidelines).⁴⁰ It is important to note that no maximums are established per meal; however, the Commonwealth suggests as a guideline that a day's subsistence per diem be distributed according to the following percentages:

- § Breakfast – 22 percent
- § Lunch – 22 percent
- § Dinner – 56 percent

We used the same TEVs and determined whether there were meals claimed for reimbursement that exceeded the suggested meal guidelines. We noted the following exceptions:

⁴⁰ Reasonableness is not defined in the Gaming Act. However, it is expected that "reasonable" travel expenses would conform to the provisions of Commonwealth Manual 230.1, and especially so because the board, through the Executive Director, has established this criteria as being reasonable for its staff.

PA Gaming Control Board

Number of meal charges that exceeded Commonwealth suggested guidelines.

Board Member	Days with a meal expense	Meals that exceeded the suggested guideline		
		Breakfast	Lunch	Dinner
A	26	0	3	13
B	11	2	2	5
C	10	1	2	7
D	<u>13</u>	<u>2</u>	<u>3</u>	<u>3</u>
Total	60	5	10	28

Source: Developed by Department of the Auditor General staff from review of Board member travel expense records.

From our analysis, we also noted that board members in 13 of 28 instances submitted dinner reimbursement for amounts that exceeded—not only the Commonwealth’s suggested allotment for dinner—but that entire *day’s* per diem. For example, when the board had meetings in Harrisburg, we found dinner reimbursements that were as much as \$64—when the day’s total maximum per diem for the Harrisburg-area was just \$51.

We found this situation occurred outside of Harrisburg as well. For example, during board hearings in Pittsburgh (daily per diem \$71) a board member submitted meal reimbursement for dinner at a restaurant advertised as an “upscale steak house.” The total bill for his dinner alone was \$89.62, which exceeded the \$71 daily per diem by more than \$18.

In our opinion, the above examples constitute unreasonable expense reimbursements. It is perfectly acceptable for these members to patronize these restaurants, but it is unreasonable to expect the public to pay for their excess expenses over the prescribed (and reasonable) maximums. Further, given that the board has established a travel policy for its staff, it should lead by example and claim only reasonable expenses that complies with that policy.

To the PGCB’s credit, itemized receipts were included on all respective TEVs. Further, members did not seek reimbursement for alcohol, and appropriate deductions were made for meals that were paid for by the member but were apparently unrelated to PGCB business.

PA Gaming Control Board

When we reported this issue in 2010, board officials were quick to point out that they are not funded by state-appropriated tax dollars, but rather by licensee-paid gaming dollars. As was the case then, and still today, this aspect is true. However, such explanations fall well short of what is expected of prudent government officials, and especially so, given the specific reforms mandated by Act 1 of 2010.

The PGCB's continued extravagances further calls for the board to fully implement our 2010 audit recommendations by adopting a policy covering Board members. Further, this policy must be in alignment with Commonwealth Management Directive 230.10 *Amended* to ensure that expenses are reasonable and in compliance with Act 1 of 2010.

Recommendations

We recommend that the PGCB:

1. Eliminate the practice of allowing board members to exceed the Commonwealth's policy for subsistence simply because of their position as board members.
2. Establish a board policy—specifically for governing board members—that outlines that all travel-related expenses must be in accordance with established policy under Commonwealth Management Directive 230.10 *Amended* and its associated procedures under Commonwealth Manual 230.1.

PA Gaming Control Board

Finding

4

The number of jobs created by the addition of table games is 40 percent less than the estimates provided to the General Assembly by the gaming industry.

Job creation as a basis for legislative amendments to expand legalized gambling to table gaming.

On January 7, 2010, Act 1⁴¹ was enacted, which expanded legalized gambling to include table games at licensed casinos. In the months leading up to this legislation's passage, considerable debate ensued on the expected benefits table games could bring to Pennsylvania's economy.⁴² Primary among these benefits were increased tax revenue and job creation as the gaming industry expanded its workforce to meet the new gaming demand.⁴³

In promoting support for table gaming expansion, Pennsylvania's licensed slot operators put forth varying estimates on new job creation. Specifically, in 2009, the gaming industry commissioned a "technical memorandum" (study) from The Innovation Group⁴⁴ to assess the potential gaming revenue and employment impact from the introduction of table games. The study results were submitted to the Pennsylvania House Gaming Oversight Committee (HGOC) in June 2009.

At the HGOC hearing, the study's authors testified that based on their economic models, 10,100 direct jobs⁴⁵ would be created as a result of introducing table games.⁴⁶ Further, the authors projected that an

⁴¹ 4 Pa.C.S. § 13A02 *et seq.* (effective immediately).

⁴² See 4 Pa.C.S. § 1102(2.1), which states: "[t]he authorization of table games in this part is intended to supplement slot machine gaming by increasing revenues to the Commonwealth and providing new employment opportunities by creating skilled jobs for individuals related to the conduct of table games at licensed facilities in this Commonwealth."

⁴³ The Innovation Group, *PA Tables Game Impact Technical Memorandum*, April 2009, p. 21. Unlike slots gaming in which patrons are primarily interacting with electronic devices, table games require casino employees to control the gaming flow; consequently, table games are a more labor intensive operation as compared to slots play. For example, the study's authors estimated that a casino with 100 table games would require 540 positions, while a casino with 3,000 slot machines requires just 145 positions.

⁴⁴ The Innovation Group markets itself as the "premier provider of consulting services for the gaming, entertainment and hospitality industries." <http://www.theinnovationgroup.net/about.asp> accessed on January 11, 2016.

⁴⁵ Direct jobs include dealers, supervisory personnel, casino cage staff, support personnel, and security/surveillance personnel. Note: Ancillary positions, such as construction jobs, were not included in this projection. The study's authors did not breakout the positions by full time, part time, or full time equivalent.

⁴⁶ See *PA Tables Game Impact Technical Memorandum*, April 2009, p. 23.

PA Gaming Control Board

additional 6,266 jobs could be created from “induced and indirect” spending related to table games expansion.⁴⁷ In total, the study estimated that the Commonwealth could expect as many as 16,366 jobs from table games expansion.⁴⁸

In arriving at the above estimate, the study’s authors made the following assumptions:

- § All 12 Pennsylvania licensed slot properties are operating.
- § No limit on the number of table games permitted.
- § Terms and conditions of table games regulations similar to other major markets that offer table games, such as Atlantic City and Las Vegas.
- § A 12 percent gaming tax is established.
- § Casino operators will build out facilities to accommodate table games, including adding additional amenities needed to be competitive with other markets.

As table gaming legislation progressed through the legislative process, the casino industry’s study became the de facto standard for job creation estimates from the introduction of table games to PGCB licensed casinos.

We reviewed meeting minutes from the Pennsylvania Senate Community, Economic, and Recreational Development Committee when it discussed table gaming expansion in September 2009, and found references to the expectation of “16,000 jobs being created.”⁴⁹ Further, we reviewed the *House Legislative Journal* from January 2010, when it debated the table gaming legislation and similarly found references to House members citing the possibility of creating at least 16,000 jobs from table gaming expansion.⁵⁰

⁴⁷ Ibid.

⁴⁸ Although the study provided estimates on jobs that would be created, the study also provided a disclaimer that the expectations while believed to be reasonable may prove to be incorrect.

⁴⁹ The president of one casino testified that a “higher tax rate means less tables and less jobs.” Additionally, he referenced The Innovation Group’s study that a tax rate of 12 percent would generate more than 16,000 new jobs. This total of 16,000 jobs figure included both direct and indirect jobs.

⁵⁰ One state representative spoke during floor debates regarding the table game legislation that the legalization of table games could create 16,000 jobs. The representative did not specifically cite his source for the total of 16,000 job estimate.

PA Gaming Control Board

PGCB position on estimated job creation from introducing table game operations.

We asked the PGCB about the Innovation Group's study and the expected job creation from table gaming operations at Pennsylvania's licensed casinos. The PGCB stated the following:

In preparing its [study]...the Innovation Group's audience was the General Assembly. The Innovation Group's clients were casino operators and their objective was to persuade the General Assembly to authorize table game play in Pennsylvania. Therefore, it was expected and understood that the [study] would assert very high, maybe even excessive, projections in the areas of gross table game revenue, incremental slot revenue, and job creation estimates.

Additionally, the [study's] projection of 10,100 employment opportunities was too high to be relied upon given the targeted audience and the unrealized assumptions that formed the foundation for the projection.

In support of the PGCB's view about "unrealized assumptions," it should be noted that two of the study's assumptions did not materialize. These unmaterialized assumptions included the following:

1. *Gaming tax.* The study assumed a 12 percent tax on casinos. In reality, table gaming revenues are taxed at 14 percent for the first two years of a casino's operation; then 12 percent thereafter.⁵¹
2. *Table game limits.*⁵² The study assumed no limit on table games. In reality, PGCB category three licensees are held to a limit of no more than 50 table games.⁵³ According to the

⁵¹ Additionally, a two percent tax is shared between county and local government. Under economic models used by the study's authors, a higher tax rate has a negative impact on job creation. See *PA Tables Game Impact Technical Memorandum*, April 2009, p. 20.

⁵² Under 4 Pa.C.S. § 13A11(b), category one and two licensees were restricted to a maximum of 250 table games; however, six months after the date of commencing table games, these licensees could petition to increase the number of table games. Category three licensees are restricted to a maximum of 50 table games and may not petition to increase from that amount.

⁵³ There are currently two category three licensees: one in the southwest and one in the southeast.

PA Gaming Control Board

PGCB, this limitation has restricted one of the casinos in the southeast in terms of table game revenue and table game employment needs.

Actual job creation from the introduction of table game play.

Act 1 of 2010 does not require casino operators to hire any specific number of employees in order to operate table games. Instead, the law requires casino operators to file a petition with the PGCB outlining the expected jobs (both full-time and part-time positions) that will be created by adding table games.⁵⁴ The PGCB also requires operators to file an “updated hiring plan” pursuant to the labor hiring preferences of the Pennsylvania Race Horse Development and Gaming Act (Gaming Act) as amended by Act 1.⁵⁵

While there is no specific statutory mandate to create new jobs from table games, it is interesting to note that unlike the industry’s study, which projected 10,100 direct jobs from table games—when casino operators were required to make official job estimates in their petitions to PGCB—collectively, those estimates totaled just 5,414 employees or approximately half of the initial study’s projections.

We requested PGCB to provide us the total number of table game jobs created by each casino. PGCB requested from each casino the total number of jobs created for the operation of table games, which is presented on the table that follows:

⁵⁴ See 4 Pa.C.S. §13A12(b)(4), which requires the petitioner to estimate the number of full-time and part-time employment positions that will be created at the licensed facility if table games are authorized.

⁵⁵ Ibid. See 4 Pa.C.S. §1510(a), which states that “[e]ach licensed gaming entity shall prepare a hiring plan for employees of its respective licensed facility which promotes a diverse work force, minority participation and personnel from within the surrounding geographical area. The hiring plan shall be approved by the board and shall be consistent with the goals outlined in sections 1212 and 1304(a) and shall be updated annually.” In addition, see also 4 Pa.C.S. §13A04(a), which sets as a goal (for table game employment) that the casinos reach and maintain an employment rate of 85 percent Pennsylvania residence by their third year in business in Pennsylvania. The hiring plan helps ensure that the casinos are aware of this requirement and is part of the tracking process used by the PGCB to ensure casinos are in compliance with the Gaming Act. We did not audit casino compliance with the residency requirement goal as it was outside the scope of the audit objective. See also *Appendix A – Objectives, Scope, and Methodology*.

PA Gaming Control Board

Table Game Jobs, as of June 1, 2015
(Unaudited)

Licensed Operator	No. of Table Game Jobs Created
Sands Bethlehem	1,107
Parx Casino	942
Valley Forge	673
Rivers Casino	617
Harrah's Philadelphia	539
Sugar House	505
Mohegan Sun	409
Mount Airy	389
The Meadows	332
Hollywood Casino	247
Presque Isle	213
Lady Luck Casino	183
Total	6,156

Source: Developed by Department of the Auditor General staff from PGCB obtained data from each casino.

PGCB compiles the total number of jobs created annually and includes this number in its annual report. However, the annual report does not categorize the number of jobs created by type of employment (table games, slots, etc.) Categorizing this information would better inform members of the General Assembly and the public on matters related to job creation from table gaming expansion.

With regard to the number of table game jobs created, PGCB asserts that “the 6,156 jobs that were created at the 12 operating casinos attributed to table game operations [as of June 1, 2015] meets all reasonable expectations.”⁵⁶ It has exceeded the job estimates identified in the casinos’ petitions by 742 jobs.

Further, PGCB stated that a number of casinos will be permitted to expand operations as financial viability is demonstrated to PGCB. As an example, the PGCB pointed to a recent expansion at a Philadelphia-based casino, which was expected to add an additional 275 jobs directly related to table games in December 2015.⁵⁷

⁵⁶ The PGCB staff also noted that all casino employees are required to be credentialed through the PGCB’s Bureau of Licensing before the employees are permitted to work at a casino. As a result, the PGCB believes it has a reasonable basis to trust the casino-reported data as accurate and complete.

⁵⁷ As of January 13, 2016, only 35 of these positions have been added and an additional 15 are awaiting approval. The casino reportedly expects to continue hiring as its expansion progresses.

PA Gaming Control Board

To summarize, the casino industry commissioned a study that indicated that as many as 10,100 direct jobs and 6,266 indirect jobs (totaling 16,366 jobs) could be created from legalized table gaming. As a result, the General Assembly passed the legislation. However, when the licensed casinos petitioned to add table games, the estimated jobs to be added totaled only 5,414 direct jobs—approximately half of what the commissioned study estimated. In reality, as of June 2015, direct jobs created from table gaming totaled 6,156, which is well short of the study’s 10,100 direct job expectation, but it exceeds the 5,414 jobs that were petitioned to be created by the casinos.

Recommendations

We recommend that PGCB:

1. On an annual basis obtain and maintain the table game job creation numbers from each casino and document its procedures to verify the accuracy of that information.
2. Report table game job creation statistics on an annual basis in PGCB’s annual report and on PGCB’s website.

PA Gaming Control Board

Finding

5

PGCB ensures the integrity of table games by authorizing and regulating all table games played in Pennsylvania, as well as conducting audits of all Pennsylvania’s licensed casinos.

With the authorization of table game play at Pennsylvania’s licensed casinos, new responsibilities were entrusted to PGCB.⁵⁸ Primary among these responsibilities was ensuring that table games would be operated in accordance with established rules of play.⁵⁹ Additionally, PGCB needed to ensure that licensed casinos operated in accordance with established regulations pertaining to table games.⁶⁰

We found that PGCB ensures the integrity of table games by testing and reviewing proposed table games before the games are offered on a casino’s gaming floor. We also found that the PGCB established an audit process in which it conducts periodic audits of licensed casinos to ensure the casino is following PGCB’s regulations.

Overall, we found no issues of non-compliance in how PGCB ensures the integrity of table games. In the segments that follow, we provide the reader with additional information on how PGCB ensures the integrity of table gaming.

PGCB ensures the integrity of table games by testing all table game submissions, promulgating regulations, and reviewing all rules of play before authorizing a casino to play a new game.

Any table game played in a licensed casino requires approval from PGCB. Before granting this approval, the PGCB follows three key steps:

1. Testing the mathematical accuracy of the submitted table game.

⁵⁸ 4 Pa.C.S. § 13A02 *et seq.*

⁵⁹ Also known as table game rules.

⁶⁰ For example, the Board was required to promulgate regulations that would establish “standards and rules to govern the conduct of table games and the system of wagering associated with table games, including the conduct of table games and the system of wagering on electronic gaming tables and fully automated electronic gaming tables.” See 4 Pa.C.S. § 13A02(2).

PA Gaming Control Board

2. Creating specific regulations that govern the table game play.
3. Reviewing each casino's rules of play, table layout, and gaming guides for each table game.

We selected 4 of 11 table games that were newly authorized during the period July 1, 2013 through October 25, 2014. Each game is, or was at some point, played at licensed casinos in Pennsylvania.⁶¹ We found that for three of the four proposed table games, the Bureau of Gaming Laboratory Operations performed an analysis of the game submission, which cleared the game as mathematically accurate. PGCB made this determination by testing various combinations of dice or cards used in the proposed game and calculating that the game met the requirements of the numerical analysis they perform. The Bureau of Gaming Laboratory Operations will also test any devices used in the game including for instance, dice, unique card shufflers, etc. The fourth game closely resembled a game previously implemented in July 2010, and therefore, testing by the Bureau of Gaming Laboratory Operations was not necessary.

After a table game passes PGCB's numerical analysis, PGCB creates regulations that prescribe how the game must be played. For example, the regulation may specify that a dealer must stand on certain card combinations, or in dice-based games, a certain numerical value on the dice may trigger a win, loss, or some other action.

Once the regulations are adopted, the casinos are notified of the new game's availability. If a casino wishes to offer the new game, the casino must submit proposed rules of play⁶², proposed table layouts⁶³, and gaming guides to the PGCB's Bureau of Gaming Operations (BGO). The BGO reviews all the casino's submitted documents to ensure that the casino intends to play the table game as the PGCB authorized the game to be played in its regulation.

During the review process there may be several revisions until the BGO is satisfied with the proposed table game submissions. We found

⁶¹ The selected games included: Asia poker, free bet blackjack, three dice football, and criss/cross poker.

⁶² Every casino must offer a gaming guide. These documents are available at the casino and on the casino's website. Gaming guides inform the gaming patron of what games are offered, and the how the table game is played.

⁶³ Table layouts dictate how the game table will appear to the gaming patron. The layout specifies the size of the table, where wager areas will be designated, any permissible side wagers, as well as other relevant aspects specific to that game.

PA Gaming Control Board

that submissions from the casinos for all four games we selected were properly reviewed and approved by BGO.

Once PGCB authorizes a casino to offer a new table game, the BGO also notifies the assigned PGCB Casino Compliance Representatives (CCR) at the casino.⁶⁴ The CCRs are notified that a new game has been authorized and are provided with the revised gaming floor map, as well as game guides. On a daily basis, the CCRs ensure that casinos offer only authorized table games, and that those authorized table games are played in compliance with established rules of play and regulations.

PGCB ensures the integrity of table games by conducting regular audits at each of the licensed casinos.

As a means of evaluating casino compliance with established regulations, the PGCB conducts periodic audits at each licensed casino. Through the PGCB's Bureau of Gaming Operations' Audit Unit, three types of audits are conducted: Full scope, Limited scope/Player credit, and Follow-up audits.

Full scope audits

Full scope audits encompass all casino operations and PGCB's goal is to schedule these audits on a three-year cycle. Under a full scope audit, casino operations are evaluated in 12 topic areas as follows:

- § Restricted Area Access/Sensitive Keys
- § Administrative
- § Cashier's Cage & Accounting Controls
- § Title 31
- § Table Games (inspection of tables, cards, dice, training standards, etc.)
- § Surveillance & Security
- § Jackpot Payouts, payout machines, voucher machines
- § Compulsive & Problem Gambling and Underage Gaming – review compulsive and problem gambling plans, training programs, and compliance at each casino.
- § Slots Operations

⁶⁴ As discussed in our Finding 6, casino compliance representatives are PGCB employees that maintain 24/7 coverage at the casino. CCRs monitor casino compliance on a daily basis, as well as assist in responding and resolving patron complaints. CCRs have independent access to a casino's surveillance system.

PA Gaming Control Board

- § Slot Drop and Count
- § Table Drop and Count
- § Accounting and Internal Controls

Limited scope audits

Under a Limited scope/Player Credit audit, the casino is audited on key areas on a rotating basis. Several examples of topic areas include:

- § Sensitive Keys and Restricted Area Access, Administrative Requirements, Cage Controls, and Title 31 Suspicious Activity and Currency Transaction Reporting.
- § Table Games – Part I, Surveillance, Jackpot Payouts, and Compulsive and Problem Gambling.
- § Table Games – Part II, Gaming Guidelines, Slot Operations, Drop and Count, and Financial Accounting & Player Comps.
- § Player Credit.
- § Promotions.

Follow-up audits

Follow-up audits are typically conducted in conjunction with the audit team's next scheduled audit of the casino, but no sooner than 60 days after the initial audit, unless a pressing need warrants a follow-up sooner. The follow-up audits focus on the recommendations made in the previous audits and are meant to ensure that the casino management implemented PGCB recommendations.

Our review of PGCB conducted audits

We obtained PGCB's schedule of audits conducted since the inception of table games in July 2010. We found that while PGCB did not conduct an audit at all 12 casinos every year after implementation of table games, every casino has had several audits over the cycle of years. These included full scope, limited scope/player credit, and follow-up audits that covered topic areas related to table game integrity.

We randomly selected three casinos and reviewed all 11 audits completed at those casinos during the period July 1, 2013 through

PA Gaming Control Board

September 30, 2015. We found that four limited scope/player credit audits and seven follow-up audits were completed.

Of the four limited scope audits reviewed, three audits, including one at each of the three casinos selected, had topic areas directly related to table game integrity. The fourth was an audit of player credit not related to table games. The audits included various findings related to table games from minor issues, such as a casino not using the correct approved forms, to more significant issues, such as a casino not conducting playing card inspection procedures properly. We found that casino management was in agreement with all findings in the respective audits. As of the date of our test work, October 5, 2015, PGCB files showed casino management had resolved all findings for two of the audits and has begun to take corrective action in the other two audits at the respective casinos.

The seven follow-up audits covered a total of nine previously conducted audits. In total, these nine audits contained 29 PGCB recommendations for improvement. Of the 29 recommendations, 7 appeared directly related to table games, 16 recommendations had an indirect impact on table games, and 6 had no impact on table games. The three respective casinos had implemented all 29 recommendations reviewed in the follow-up audits without exception.

In conclusion, we found that PGCB is properly reviewing and approving table games prior to implementation at the casinos and adequately conducting audits to ensure the integrity of table games being played at each of the 12 casinos. Additionally, the continual presence of the CCRs at each casino assists to ensure only authorized table games are being played in compliance with the established rules and regulations.

PA Gaming Control Board

Finding 6**PGCB lacked formal policies and procedures for handling casino patron complaints, but complaints appear to be thoroughly investigated.**

Staff from the respective casino resolve most patron complaints. However, some patrons file complaints directly with PGCB.⁶⁵ PGCB receives these complaints either from its website, by telephone, in writing, or even in person. Complaints that may involve criminal allegations are referred to the Pennsylvania State Police, which has personnel stationed at each casino. PGCB uses a database to aid in tracking, investigating, and resolving patron complaints.

A PGCB casino compliance representative (CCR) is stationed at each licensed casino. These PGCB employees maintain a 24-hour, seven day-a-week presence at each casino. CCRs have a multitude of responsibilities designed to ensure that the casino follows applicable laws and regulations. One important CCR responsibility is to ensure that patron complaints filed with PGCB are investigated and resolved appropriately and in a timely manner.

According to the PGCB, it received 772 complaints during the period July 1, 2013, through June 11, 2015.⁶⁶ These complaints are broken out (by licensed casino operator) on the table that follows:

⁶⁵ According to management, PGCB defines a “complaint” as a difference of opinion between the licensed gaming entity and the patron, which does not involve money or items of value. Conversely, a “dispute” is a claim for a specific amount of cash or merchandise, which is believed to be owed to the patron.

⁶⁶ This total includes complaints and disputes.

PA Gaming Control Board

**Complaints by Licensed Operator
July 1, 2013 – June 11, 2015**

Licensed Operator	No. of Complaints
The Meadows	176
Parx Casino	121
Presque Isle	92
Rivers Casino	85
Sugar House	66
Sands Bethlehem	48
Hollywood Casino	44
Mount Airy	37
Mohegan Sun	36
Harrah's Philadelphia	28
Valley Forge	20
Lady Luck Casino	19
Total	772

Source: Developed by Department of the Auditor General staff from unaudited information obtained from the PGCB.

The PGCB lacked formal policies and written procedures for handling complaints.

According to PGCB representatives, there are no formal policies or procedures that establish criteria for how quickly, or the means by which, a complaint is resolved. In lieu of formal complaint policies and procedures, PGCB staff stated that CCRs receive approximately three weeks of on-the-job training, which includes complaint handling practices and procedures.

An adequate system of management controls includes the development of written policies and procedures for operational processes to include the complaint resolution process. While a complaint-tracking system is beneficial, it does not relieve PGCB management of its responsibility to establish the rules employees must follow. Additionally, there should be procedures developed to monitor to ensure that the written policies and procedures are being followed as intended.

From the listing of 772 complaints filed with the PGCB, we selected 25 complaints for further review. Our criteria in selecting these 25 complaints included the following:

PA Gaming Control Board

- 1) Given there were no formal policies and procedures for complaint handling, we believed that 90 days was a reasonable timeframe to have a complaint investigated, resolved, reviewed, and approved and closed. Accordingly, we selected all complaints that took longer than 90 days to be closed (11 complaints).
- 2) In reviewing complaint data, we found three complaints had been opened and closed by the same individual. Because this condition was indicative of a lack of segregation of duties and, therefore, a weakness in management controls, we selected these three complaints for review.
- 3) After excluding the above complaints, we selected the remaining eleven complaints randomly to evaluate a selection of complaints that were not part of the other two areas that were considered to be higher risk.

Results of our testing of 25 complaints.

The results described below should be considered with the caveat that we did not perform procedures to verify the completeness or accuracy of PGCB's list of 772 complaints. Furthermore, the results of our evaluation of the complaints selected randomly should not be projected to the population for the same reason.

Eleven complaints not closed within 90 days.

Based on the documentation provided, we determined that the PGCB investigated and effectively resolved most complaints within a few days. However, according to PGCB, the complaints were not closed within 90 days because of the following:

- § Two complaints were held open for a few months, while unsuccessfully trying to contact the complainant to report the result of the investigation.
- § Eight complaints were not reviewed and closed out at the time the complaint was resolved. These complaints should have been closed sooner.

PA Gaming Control Board

§ One complaint was held open because it was part of a larger investigation involving promotions conducted by the casino.

Three complaints investigated and closed by the same individual.

Of these three complaints, PGCB was able to provide us evidence that one of the three was not investigated and closed by the same individual. The remaining two complaints were investigated and closed by a Casino Compliance Senior Supervisor. In one case, according to PGCB, due to limited staff, the senior supervisor investigated a complaint that came in through the hotline and was assigned to him by the director.

The second case, according to PGCB, was the senior supervisor being stopped on the floor of a casino by a patron for a customer service problem and not a regulatory issue. As such, PGCB indicated that because the complaint was not regulatory in nature, no review or resolution was needed by the PGCB, and therefore the senior supervisor closed the complaint. We concluded that the complaints appeared to have been properly investigated and resolved. However, the lack of a management control that required complaints to be reviewed and closed by an individual other than the individual that investigated the complaint represents a lack of segregation of duties and, therefore, a weakness in management controls.

Eleven randomly selected complaints.

Based on the documentation provided, we determined that PGCB investigated and effectively resolved these eleven complaints in an appropriate and timely manner.

Conclusion

Although it appears that PGCB thoroughly investigates and resolves complaints, in some circumstances PGCB could improve. Specifically, how long complaints should be left open if a complainant cannot be contacted is an area where PGCB could improve.

Additionally, under no circumstances should the same individual investigate and approve/close out a complaint. PGCB should establish

PA Gaming Control Board

controls to ensure the proper segregation of duties are present, even if a senior supervisor investigates the complaint.

Without formal policies and procedures, complaints may not be investigated and resolved consistently, or reviewed and closed out in a timely manner. It is important for casino customers to have these aforementioned assurances. Detailed written policies and procedures will provide greater assurance of the consistent application of appropriate procedures. Further, the formalization of these policies and procedures will provide CCRs with materials necessary to aid them in their job duties.

Recommendations

We recommend that PGCB:

1. Establish formal policies and procedures for receiving, recording, investigating, resolving, and reporting patron complaints. These policies and procedures should include, but not be limited to, the following:
 - a. Assigning employees to investigate the complaint.
 - b. Recording the complaint into the database.
 - c. Providing practices to follow when investigating the complaint.
 - d. Establishing who is to review and approve the complaint to ensure adequate segregations of duties.
 - e. Establishing timeframes for investigating, resolving, reporting, reviewing, and closing out the complaints, including when a complainant cannot be contacted.
 - f. Requirements for documenting the investigation, resolution, and reporting of the complaint.
 - g. Minimum standards for reporting investigation results back to the complainant.
2. Once formal complaint handling policies and procedures exist, assign management external to the complaint handling process to periodically monitor the effectiveness of the application of these policies and procedures to ensure that complaints are resolved in accordance with PGCB's formal policies and procedures. These monitoring procedures should be documented in a manner sufficient to determine which complaints were evaluated during the monitoring process and the results of the monitoring procedures.

PA Gaming Control Board

Agency Response and Auditor Conclusion



Prior to this audit report's release, we provided a draft copy of our report to PGCB for its review. On the following pages, we present PGCB's response to that draft report in its entirety. Our conclusion follows PGCB's response.

PA Gaming Control Board



PENNSYLVANIA GAMING CONTROL BOARD
P.O. Box 69060
HARRISBURG, PA 17106

KEVIN F. O'TOOLE
Executive Director
P.O. Box 69060
Harrisburg, PA 17106-9060
Phone: (717) 346-8300
Fax: (717) 346-8350
Email: keotoole@pa.gov

February 1, 2016

Chairman
DAVID M. BARASCH

Commissioners
GREGORY C. FAJT
RICHARD G. JEWELL
KEITH R. MCCALL
ANTHONY C. MOSCATO
WILLIAM H. RYAN, JR.
DAVID W. WOODS

Ex-Officio Members
EILEEN H. MCNULTY
RUSSELL C. REDDING
TIMOTHY A. REESE

Confidential

The Honorable Eugene A. DePasquale
Auditor General
Department of Auditor General
Room 229 Finance Building
Harrisburg, PA 17120

**RE: Special Performance Audit of the Pennsylvania Gaming Control Board ("PGCB")
PGCB's Response to the Auditor General Report**

Dear Auditor General DePasquale:

Thank you for the opportunity to respond to the Findings contained in your Special Performance Audit Report of the Pennsylvania Gaming Control Board. Attached you will find the PGCB's responses to each of the Findings in the Report.

The PGCB has worked diligently since its formation to lay the foundation for the development of a vibrant industry for Pennsylvanians that has created thousands of jobs, and we continue to be committed to refining our regulatory environment. Throughout this learning process, the agency has used its experiences to re-evaluate and improve our operations, policies and procedures for the better. It is the stated goal of the agency to continue to make progress in our mission to protect the public through the strict regulation of gaming.

Sincerely,

A handwritten signature in black ink that reads "Kevin F. O'Toole".

Kevin F. O'Toole
Executive Director

KFO/smk

Attachment

PA Gaming Control Board

**Commonwealth of Pennsylvania
Pennsylvania Gaming Control Board
February 1, 2016**

**Subject: 2016 Performance Audit Report
Department of the Auditor General**

**To: The Honorable Eugene A. DePasquale
Auditor General**

From: Pennsylvania Gaming Control Board

The Department of the Auditor General has conducted a special performance audit of the Pennsylvania Gaming Control Board during the 2015-16 year, culminating in a Performance Audit Report (February 2016). The current special performance audit is the Auditor General's third performance audit.

The Pennsylvania Gaming Control Board has had the opportunity to review in advance a draft of the Performance Audit Report and to provide responses to the various findings and recommendations. The PGCB appreciates the efforts and professionalism with which the Auditor General's staff has approached this matter as well as the efforts to develop a comprehensive report. The PGCB's response is contained below.

FINDING 1 – Local Law Enforcement Grant Funds totaling \$8 million intended to combat unlawful gaming transferred to the General fund

Finding 1 notes that due in part to statutory limitations on the use of the Local Law Enforcement Grants, the PGCB does not receive applications for all available grant funds on an annual basis resulting in all funds not being expended. In addition, the Audit Report indicates that in a number of instances, grantees did not submit grant close out documents in a timely

PA Gaming Control Board

fashion and that the Board did not have formal procedures in place to follow up with grantees. The Audit Report acknowledges that the PGCB has already made changes to its grant guidelines to expand access to the grant program as well as to aid grantees in the continuation of law enforcement initiative by permitting multi-year grants.

The Audit Report contains four Recommendations applicable to the PGCB and a fifth recommendation to the General Assembly in regard to amending the statutory criteria for Local Law Enforcement Grants. The PGCB responds to each recommendation as follows:

The PGCB should:

1. Amend LLEG program guidelines to increase the number of applications and awards, such as to allow for a higher percentage of funds that can be used for capital expenditures.

The PGCB will examine its guidelines to determine how they can be amended to increase law enforcement agencies' participation in the grant program for the available funds.

2. Ensure that grantees meet all filing deadlines and that required close-out documentation is obtained in a timely manner.

The PGCB has worked diligently over the last year to eliminate the backlog in closing out grants due to grantees not timely submitting documentation. Currently, all grants previously issued have been closed. The PGCB will explore mechanisms to aid obtaining required documents from grantees to permit the closing of the grant within a reasonable time period.

3. Develop and implement formal procedures to follow-up with grantees when close-out information is not received by deadlines, including specific timeframes for follow-up such as 15 days after the due date has passed.

As noted, the PGCB has now closed out all prior grants for which the grant period has concluded. The PGCB will establish a more formal process with time frames for follow-up to aid in the timely close out of grants.

PA Gaming Control Board

4. Once all close-out documentation is received, perform the close-out review in a timely manner.

The PGCB agrees that the grant close out review should be conducted in a timely manner and anticipates such will be done now that the backlog has been eliminated. The PGCB will include in its formal policy a goal for close out reviews to be conducted subject to factors beyond the PGCB's control.

The General Assembly should:**5. Amend the Gaming Act to give the PGCB more flexibility over how LLEG funds may be utilized. For example, removing restrictions on where the PSP can use the funds.**

The PGCB is in agreement that amendment of the Gaming Act with respect to statutory proscriptions on the use of grant funds would be necessary to accomplish that goal.

FINDING 2 - PGCB operating efficiency has improved after implementing many of our previous audit recommendations.

The Audit Report at Finding 2 recognizes that the PGCB has implemented nearly all of the Auditor General's prior recommendations and that the PGCB's operating expenditures have significantly declined in most reporting categories including significant decreases in the areas of travel, training, communications, services, rentals and supplies. In fact, the only areas of significant increase are in equipment due to the recent need to replace computer hardware and software during the past fiscal year, as well as in relation to benefit costs attributed to health care and retirement contribution obligations which have had similar effects on all Commonwealth agencies.

The Board appreciates the recognition of significant advances in Board practices regarding contracting, expenditures on materials and supplies, lodging rates, parking and vehicle expenses as well as the use of standard Commonwealth practices and procedures regarding travel booking and

PA Gaming Control Board

reimbursement procedures which the Audit Report characterizes as “positive improvement”.

While there are no specific recommendations regarding Finding 2, the PGCB is committed to continuing to promote efficiencies already realized in each of these areas.

FINDING 3 - PGCB members continue to use “enhanced” travel reimbursements for their travel, which has led to unreasonable subsistence reimbursements – a violation of Act 1 of 2010

The Audit Report Finding 3 focuses on the amounts of reimbursements for meals obtained by board members while on official business. The Audit Report recites that Board members’ expenses in FY 2014-15 have been reduced by 58% from FY 2008-09. However, it also notes that Act 1 of 2010 establishes that Board members may only be reimbursed for actual and *reasonable* expenses. The Audit Report concludes that the Board members reimbursements are not reasonable due to the fact that Board members have been exempted by the Commonwealth’s Executive Board from Commonwealth Management Directive 230.10 resulting in the standard daily per diem amount of reimbursement not being applicable to them.

The Audit Report acknowledges that Management Directive 230.10 permits the Commonwealth’s Executive Board to exempt agency officials from the Management Directive’s application. In fact, the Executive Board has done so for the Governor, Lt. Governor, cabinet officials, and executive level officials of a multitude of Commonwealth Boards and Commissions. In practical effect, an individual who is subject to the exemption has a higher “reasonable” reimbursement rate than someone who has not been exempted from Management Directive 230.10’s application. The Audit Report contends that the Board members’ reimbursement for expenses at any level higher than the Management Directive’s standard rate is *per se* ‘unreasonable’.

Additionally, the Audit Report cites to a travel policy of the Board adopted April 11, 2012 which requires Board employees to abide by the daily

PA Gaming Control Board

reimbursement rate but that the travel policy does not apply to the Board members themselves. The Audit Report's examination of expense reimbursements indicated that Board members' reimbursements were within the standard daily rates 70% of the time and exceeded the daily rate 30% of the time.

Two recommendations are provided for in relation to Finding 3.

We recommend that the PGCB:**1. Eliminate the practice of allowing board members to exceed the Commonwealth's policy for subsistence simply because of their position as board members.**

The PGCB is committed to examining and considering this recommendation.

While considering such, the PGCB is grateful that the draft report acknowledges that the PGCB requires receipts for all individuals in order to obtain reimbursement for travel related expenses and that the Board posts all travel-related expenses on its website. The PGCB's actions in this regard enhance transparency in ways not experienced by other Commonwealth agencies.

Moreover, to be clear, the PGCB feels compelled to respond to the assertion that the Board members are in violation of the governing statute or Commonwealth policy. The issue within Finding 3 is the Auditor General's disagreement with the Commonwealth's current policy with respect to daily subsistence – a policy which applies to Commonwealth agencies throughout the Commonwealth and not just the PGCB. For instance, while the draft report refers to “enhanced” reimbursements, the reimbursements of Board members are, in every instance, pursuant to present Commonwealth Policy.

Management Directive 230.10 specifically states: **SCOPE**. This directive applies to all departments, boards, commissions, and councils (hereinafter referred to as “agencies”) under the governor's jurisdiction, and to all other agencies subject to *Section 216* of the *Administrative Code* **that have not been exempt by the Executive Board**. This includes board members,

PA Gaming Control Board

commissioners, and any other individuals reimbursed for official commonwealth travel. (emphasis added)

The Board follows Commonwealth Management Directive 230.10 subject to the corollary Executive Board resolution dated January 26, 2006 as to the policy for reimbursement of Board member expenses. Under that Management Directive, the Office of the Budget, Office of Comptroller Operations, Bureau of Commonwealth Payroll Operations reviews the submissions for compliance with Commonwealth travel reimbursement policies and approves all reimbursements for Board members based upon the actual costs incurred and receipts submitted.

With that clarification that Board members are not violating the Statute or Commonwealth policy in that regard, the Board nevertheless will consider the recommendation to voluntarily exclude itself from the “exempt” statute of Management Directive 230.10 despite its continuing application to other agencies.

2. Establish a board policy—specifically for governing board members—that outlines that all travel-related expenses must be in accordance with established policy under Commonwealth Management Directive 230.10 *Amended* and its associated procedures under Commonwealth Manual 230.1.

See response to Recommendation 1, above.

FINDING 4 -- The number of jobs created by the addition of table games is 40% less than the estimates provided to the General Assembly.

Finding 4 focuses on the expansion of legalized gambling in Pennsylvania in 2010 to include the offering of table games at Pennsylvania’s licensed casinos. The Audit Report indicates that the projections relating to the number of table games jobs to be created has fallen short of what has actually materialized. The report notes that the projections were based upon some assumptions which time has shown were not fully realized.

PA Gaming Control Board

The PGCB generally agrees with the Audit Report on Finding 4. In addition to the unrealized assumptions in early projections, the PGCB also notes that two casinos (a Category 2 in Philadelphia and a yet to be awarded Category 1 license) have not yet been built and commenced operations. Those two facilities which were included in the projections would significantly increase the number of table game employees in Pennsylvania. Second, we note that at the time the projections were made, New Jersey was the only neighboring state which had table games. Since that time, other surrounding jurisdictions have expanded their gaming options to include table games which likely has had some impact on the rate of expansion in Pennsylvania.

Overall, however, the PGCB is quite pleased with the expansion of gambling to include table games. Currently more than 6,000 table game employees are working in Pennsylvania's casinos and contributing to its tax base. We have seen an ongoing effort of Pennsylvania casinos to evaluate their player base and patron demand to expand the number of tables and the types of games offered in a measured approach appropriate with the economic conditions and uncertainty as to the effects of neighboring competition.

The Audit Report provides two recommendations in relation to Finding 4 as follows:

1. On an annual basis, obtain and maintain the table game job creation numbers from each casino and document its procedures to verify the accuracy of that information.

The PGCB agrees with this recommendation. The PGCB agrees to consolidate its various present day procedures utilized to verify the accuracy of information that it obtains and maintains on table game employment numbers. Currently, multiple Bureaus and Offices within the PGCB perform daily job related functions utilized to verify the accuracy of employment information at each licensed facility within the Commonwealth. The PGCB agrees to establish consolidated formal procedures as it relates to the table game employment numbers that it obtains and maintains on a quarterly basis and reports in its Annual Diversity Report.

PA Gaming Control Board

2. Report table game job creation statistics on an annual basis in PGCB's annual report and on PGCB's website.

The PGCB agrees with this recommendation. The PGCB agrees to report table game job creation statistics in a more prominent fashion in its Annual Report on the PGCB's website. Currently, the PGCB reports table game employment numbers in its Annual Diversity Report. The PGCB also maintains an interactive link from its Annual Report to its Annual Diversity Report. The PGCB agrees to place table game job creation statistics in print in its Annual Agency Report as well as its Annual Diversity Report.

FINDING 5 - The PGCB ensures the integrity of table games by authorizing and regulating all table games played in Pennsylvania, as well as conducting audits of all Pennsylvania's licensed casinos.

The Audit Report reviews the processes which are in place at the PGCB for auditing casinos' compliance with Board regulations in order to assure the integrity of gaming in this Commonwealth. There were no issues identified in the Audit Report which are deficient or otherwise requiring attention.

The PGCB is quite proud of the efforts of its staff to develop and implement internal control regulations and to execute audit protocols related thereto in order to maintain a high level of integrity for the Commonwealth and the casino patrons who patronize Pennsylvania's casinos.

FINDING 6 – PGCB lacked formal policies and procedures for handling casino patron complaints, but complaints appear to be thoroughly investigated.

Finding 6 examines the PGCB's process for handling a wide variety of patron complaints received. Although all complaints examined were found to have been investigated and handled appropriately, the Audit Report finds there are not formal written policies related thereto which include items such as time frames for various actions, segregation of function providing greater management review and

PA Gaming Control Board

control – areas which the Audit Report concludes could improve the handling of the complaints.

The Audit Report makes two recommendations to address this topic.

1. Establish formal policies and procedures for receiving, recording, investigating, resolving, and reporting patron complaints. These policies and procedures should include, but not be limited to, the following:

- a. Assigning employees to investigate the complaint.**
- b. Recording the complaint into the database.**
- c. Providing practices to follow when investigating the complaint.**
- d. Establishing who is to review and approve the complaint to ensure adequate segregations of duties.**
- e. Establishing timeframes for investigating, resolving, reporting, reviewing, and closing out the complaints, including when a complainant cannot be contacted.**
- f. Requirements for documenting the investigation, resolution, and reporting of the complaint.**
- g. Minimum standards for reporting investigation results back to the complainant.**

The PGCB agrees with this recommendation. The PGCB's legislative mandate and primary responsibility to which all others are secondary is the protection of the public. As a result, the PGCB is in agreement that the establishment of formal policies and procedures for receiving, recording, reviewing/investigating, resolving, and reporting patron complaints will serve to further cement the PGCB's daily function of protecting the public. As a result, the informal policies and procedures for handling patron complaints will be formalized in a manner that a novice will understand the patron complaint/dispute process and will include procedures for: employee assignment; complaint recordation; general practices to follow during the review/investigation process; appropriate controls to ensure segregation of duties; general timeframes for reviewing/investigating,

PA Gaming Control Board

resolving, reporting, and closing out complaints (some of which may be subject to longer timeframes as a result of the prosecutorial discretion of the Office of Enforcement Counsel and/or adjudicatory function of the Board); the documentation of the reporting, review/ investigation, and resolution of the patron complaint; and the minimum standards for reporting results back to the patron who lodged the complaint.

2. Once formal complaint handling policies and procedures exist, assign management external to the complaint handling process to periodically monitor the effectiveness of the application of these policies and procedures to ensure that complaints are resolved in accordance with PGCB's formal policies and procedures. These monitoring procedures should be documented in a manner sufficient to determine which complaints were evaluated during the monitoring process.

We agree with this recommendation. Management external to the complaint process will periodically monitor and document the effectiveness of the application of these policies and procedures to ensure patron complaints are resolved in accordance with the PGCB's formal policies and procedures. The documentation will allow the reader to determine which patron complaints were evaluated during the monitoring process and the results or effectiveness of monitoring procedures. Currently, external management within the Office of Enforcement Counsel monitors the process in an informal manner and informally addresses any issues that may arise. Documented review of the formal policies and procedures will be established as the PGCB is committed to protecting the public.

PA Gaming Control Board

Auditor Conclusion

Overall, PGCB agreed with the report's findings, and it has agreed to implement many of the recommendations contained herein. We are pleased with PGCB's cooperative attitude in addressing our concerns.

With regard to PGCB's response, two items require further comment:

- 1. PGCB member travel expenses (Finding 3).** PGCB asserts that because its Board is exempt from Management Directive 230.10, its expenses are reasonable, as long as the expenses fall within the granted exemption (i.e., 2.5 times the ordinary maximum) provided for in the authorizing 2006 Executive Board resolution. We disagree. The Executive Board resolution, which PGCB claims to give its board members greater latitude in "reasonable" expenses, predates Act 1 of 2010 by four years. PGCB acknowledges that Act 1 of 2010 requires expenses to be reasonable. This conclusion is consistent with the Statutory Construction Act, which provides that the General Assembly's reference to terms like "reasonable" are to be interpreted by "common and approved usage" and not to be considered technical terms. As a result, "reasonable expenses" would be those that fall within prescribed maximums that apply to all other Commonwealth employees—not an enhanced rate that applies to a choice class of employees and which requires an "exemption" to be applicable in the first place. Further, supplying receipts for expenses and posting such expenses to its web site, while providing transparency, does not make those expenses reasonable. Therefore, our finding stands as presented.
- 2. Estimated job creation figures (Finding 4).** PGCB generally agrees with this finding; however, it notes that two additional casinos have not been built and have not yet commenced operations. The original job creation estimates, which were used by the General Assembly as a basis for passing table game legislation, included 12 casinos. While the mixture of those licensees (i.e., category 1, 2, or 3) has varied from present conditions, there were 12 casinos licensed and operating as of June 2015. We agree that additional licensed casinos would create additional employment over the 6,156 jobs that were created as of June 2015; however, these figures are currently unknown. Therefore, our finding stands as presented.

PA Gaming Control Board

Appendix A

Objectives, Scope, and Methodology

The Department of the Auditor General conducted this special performance audit in order to provide an independent assessment of the Pennsylvania Gaming Control Board.

We conducted this audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Objectives

Our audit objectives were as follows:

1. Determine whether the PGCB ensures that Local Law Enforcement Grant Program funds are properly awarded and used for their intended purposes.
2. Determine whether the PGCB is operating in an efficient manner, which will include follow up to our December 2010 Special Performance Audit titled, *Expenses for Professional Services Contracts, Travel and Materials/Supplies*.
3. Determine whether the number of jobs created as a result of adding table game operations at PGCB licensed casinos met expectations.
4. Determine the adequacy by which PGCB ensures the integrity of table game operations at PGCB licensed casinos.
5. Evaluate the PGCB's effectiveness in investigating and responding to complaints it receives from casino patrons.

PA Gaming Control Board

Scope

Unless otherwise stated, our audit covered the period July 1, 2013, through September 30, 2015, with updates as necessary through the report's release.

PGCB management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the PGCB licensed casinos are in compliance with applicable laws, regulations, contracts, grant agreements, and administrative policies and procedures.

In conducting our audit, we obtained an understanding of relevant internal controls, including any information systems controls, if necessary, as they relate to those requirements and that we considered to be significant within the context of our audit objectives.

For those internal controls that we deemed determined to be significant within the context of our audit objectives, we also assessed the effectiveness of the design and implementation of those controls as discussed in the Methodology section that follows. Any deficiencies in internal controls that were identified during the conduct of our audit—and determined to be significant within the context of our audit objectives—are included in this report.

Methodology

To address our audit objectives, we performed the following:

Objective 1

- § Reviewed statutory provisions that created the Local Law Enforcement Grant (LLEG) program (Act 71 of 2004) and Act 1 of 2010, which amended aspects of the LLEG program.
- § Obtained and reviewed the LLEG program guidelines and application to gain an understanding of the program.
- § Conducted interviews with the PGCB Chief Counsel and Assistant Chief Counsel assigned to administer the LLEG program.
- § For the period July 1, 2013, through May 26, 2015, obtained a listing of all open and closed LLEG grants.

PA Gaming Control Board

- § Tested a judgmental selection of LLEG grants awarded (2 of 6 during the period July 1, 2013, through May 26, 2015) to ensure the grants complied with application requirements, including that the project description, goals, itemized budget, and performance measures conformed to the intent and requirements of the LLEG program, and that the Board properly approved the award.
- § Tested a judgmental selection of closed LLEG grants (5 of 27 during the period July 1, 2013, through May 26, 2015) and reviewed files to determine whether funds were used by the grantee as intended and that the grantee maintained accurate records, returned unused grant funds, provided a final report documenting expenditures, completed an independent audit report (if required), and whether PGCB legal counsel and/or a PGCB audit manager reviewed the file for compliance with program guidelines.
- § Reviewed the General Appropriation Act of 2014, which authorized the transfer of LLEG funds to the General Fund.

Objective 2

- § Requested and reviewed updated responses from PGCB management regarding the current implementation status of the 17 recommendations made in our 2010 special performance audit report.
- § Where PGCB management indicated it had implemented our recommendation, we conducted limited tests necessary to validate PGCB's response.
- § Reviewed and compared PGCB operating expenses from fiscal year 2008-09 to fiscal year 2014-15.
- § Obtained and reviewed PGCB complement reports and PGCB expenditures related to benefit costs.
- § Obtained and reviewed a 2006 Executive Board resolution, which exempts board members from standard Commonwealth travel expense per diems.
- § Reviewed provisions of Act 1 of 2010 related to expense reimbursement requirements for PGCB and others.

PA Gaming Control Board

- § Verified certain PGCB expense reimbursement procedures with the Office of the Budget, Bureau of Commonwealth Payroll Operations.
- § For the period July 1, 2013, through September 30, 2015, obtained and reviewed PGCB member travel expenses from the PGCB web site and from Commonwealth expenditure reports obtained from the SAP accounting system. Compared the expenses for agreement.
- § Obtained and reviewed PGCB travel policies that were in effect during the audit period. Reviewed the applicability of these policies to PGCB board members. Additionally, obtained and reviewed Commonwealth Management Directive 230.10 *Amended* to determine reasonable per diem allowances.
- § For the period July 1, 2013, through September 30, 2015, judgmentally selected four of nine board member's travel-related expenses for six different months. Reviewed the four members' travel expenses to determine compliance to statutory requirements contained within Act 1 of 2010 and Commonwealth Management Directive 230.10. Included in this review was a date-by-date review of all submitted receipts, including lodging and subsistence expenses.

Objective 3

- § Reviewed Act 1 of 2010 provisions related to table game employment requirements. Discussed aspects of this legislation with PGCB management.
- § Obtained and reviewed the Innovation Group's *PA Tables Game Impact Technical Memorandum*.
- § Conducted research of House and Senate legislative journals to determine the number of jobs that the General Assembly anticipated would be created by legalizing table game operations.
- § As of June 1, 2015, obtained employment statistics related to table game employment from the 12 PGCB licensed casinos.
- § Compared the above June 1, 2015, table game employment figures to the Innovation Group's estimates, and to the table

PA Gaming Control Board

game employment figures that were petitioned to the PGCB by each respective licensed casino.

Objective 4

- § Conducted informational meetings with the PGCB Executive Director and the Director of the Bureau of Gaming Operations to gain an understanding of how the PGCB regulates table games.
- § Conducted an on-site visit to a casino to obtain an understanding of the daily duties of a casino compliance supervisor and a casino compliance representative.
- § Interviewed the PGCB Audit Manager to discuss the PGCB's internal audit process, including the type of audits completed and the timing by which audits are completed and reviewed.
- § Obtained and reviewed PGCB internal audit programs and audit schedule.
- § For the period July 1, 2013, through September 30, 2015, reviewed all PGCB internal audits (11) at three randomly selected casinos. We reviewed the audits to ensure coverage of table game integrity and to identify if PGCB audit recommendations were being implemented by the casinos.
- § Interviewed the PGCB's Director of Bureau of Gaming Laboratory to obtain an understanding of how the PGCB tests various table games and related devices. Additionally, toured the PGCB's gaming laboratory to witness how PGCB conducts tests on various gaming devices (card shufflers, dice, etc.).
- § Obtained and reviewed all regulations for PGCB authorized table games.
- § For the period July 1, 2013, through October 25, 2014, (last date when a newly created table game was authorized), judgmentally selected four of eleven approved table games and reviewed the PGCB's process for verifying the integrity of the game.

PA Gaming Control Board

Objective 5

- § Interviewed the Director of the Bureau of Casino Compliance and two Casino Compliance Supervisors to discuss how PGCB receives and investigates complaints from casino patrons.
- § Toured a casino facility and met with the assigned PGCB casino compliance representative to understand how complaints are received, entered, and investigated within PGCB's complaint handling database.
- § Obtained and reviewed table layouts and flowcharts for the PGCB database used to log and track patron complaints.
- § For the period July 1, 2013, through June 11, 2015, obtained an electronic file of all patron complaints (772) filed with PGCB. Performed basic tests on this data (record counts and corroborative inquiries) to verify the data was reliable for our purposes.
- § Selected 25 of 772 complaints for further testing. Our selection process included: 1) all 11 complaints that took longer than 90 days to resolve; 2) all three complaints that were entered and closed by same individual; and 3) after excluding the previous two categories, 11 randomly selected complaints. We reviewed the selected complaints to see how timely and effectively the complaint was resolved.

PA Gaming Control Board

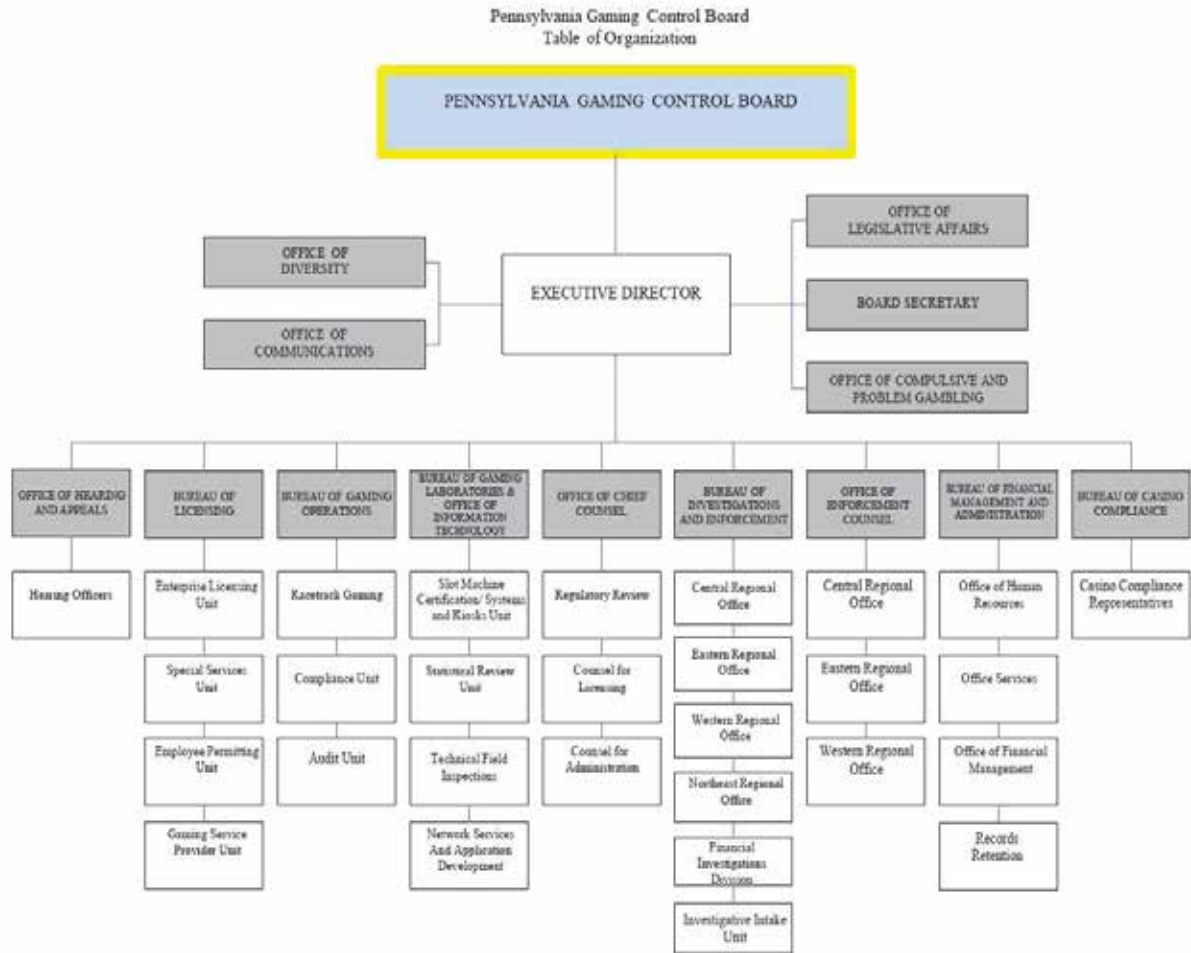
Appendix B

PA Gaming Control Board Members

Name	Appointing Authority
David M. Barasch, Chairman	Governor (Wolf)
Gregory C. Fajt, Commissioner	Senate Democratic Leader
Richard G. Jewell, Commissioner	Speaker of the House of Representatives
Keith R. McCall, Commissioner	House Democratic Leader
Anthony C. Moscato, Commissioner	Senate President Pro Tempore
William H. Ryan, Jr, Commissioner	Governor (Corbett)
David W. Woods, Commissioner	Governor (Corbett)
<i>Ex Officio Members (non-voting)</i>	
Russell C. Redding	Secretary, Department of Agriculture
Timothy Reese	State Treasurer
Eileen H. McNulty	Secretary, Department of Revenue

PA Gaming Control Board

Appendix C PA Gaming Control Organization Chart



PA Gaming Control Board

Appendix D

Distribution List

Upon its release, this report was distributed to the following Commonwealth officials:

The Honorable Tom Wolf
Governor

The Honorable Randy Albright
Secretary of the Budget
Office of the Budget

The Honorable Timothy Reese
State Treasurer
Treasury Department

The Honorable David M. Barasch
Chairman
PA Gaming Control Board

Mr. Kevin O' Toole
Executive Director
PA Gaming Control Board

The Honorable Kathleen G. Kane
Attorney General
Office of the Attorney General

The Honorable Sharon Minnich
Secretary of Administration
Office of Administration

The Honorable Kim L. Ward
Republican Chair
Senate Community, Economic, and
Recreational Development Committee

The Honorable Lawrence M. Farnese
Democratic Chair
Senate Community, Economic, and
Recreational Development Committee

The Honorable John D. Payne
Republican Chair
House Gaming Oversight Committee

The Honorable Nick Kotick
Democratic Chair
House Gaming Oversight Committee

Ms. Mary Spila
Collections/Cataloging
State Library of Pennsylvania

Mr. Brian Lyman, CPA
Director, Bureau of Audits
Office of Comptroller Operations

This report is a matter of public record and is available online at www.PaAuditor.gov. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 229 Finance Building, Harrisburg, PA 17120; via email to: news@PaAuditor.gov.