



Michigan
Office of the Auditor General
REPORT SUMMARY

Performance Audit

Michigan Gaming Control Board

Department of Treasury

Report Number:
27-900-02

Released:
December 2003

The Michigan Gaming Control Board (MGCB) was created as an autonomous entity within the Department of Treasury by Act 69, P.A. 1997, the Michigan Gaming Control and Revenue Act, which substantially amended Proposal E, a voter initiative approved in November 1996. Among its other provisions, the Act authorized up to three commercial casinos in Detroit and vested MGCB with exclusive authority to license, regulate, and supervise casino gaming in the three commercial casinos.

Audit Objectives:

1. To assess MGCB's effectiveness in ensuring that the commercial casinos and the tribal casinos submitted the required amounts to the School Aid Fund and the Michigan Strategic Fund, respectively.
2. To assess the effectiveness and efficiency of MGCB's regulation and enforcement activities.
3. To assess the effectiveness of MGCB's processes for issuing casino licenses, casino supplier licenses, and occupational licenses.

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Audit Conclusions:

1. We concluded that MGCB could significantly improve its effectiveness in ensuring that the commercial casinos and the tribal casinos submitted the required amounts to the School Aid Fund and the Michigan Strategic Fund, respectively.

2. We concluded that MGCB's regulation and enforcement activities were conducted with limited effectiveness and efficiency.
3. We concluded that MGCB's processes for issuing casino licenses, casino supplier licenses, and occupational licenses were generally effective.

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Noteworthy Accomplishments:

MGCB designed and implemented a thorough and effective casino licensing methodology. This methodology included the creation of an interagency council that combined the expertise of several government agencies. Also, MGCB contracted with two nationally recognized gaming consultants for construction and finance expertise.

The interagency council developed a Background Investigation Protocol to assess casino license applicants' eligibility and suitability in the areas of identity, honesty and integrity, regulatory

compliance, financial ability and viability, business probity, political influence, and public interest. The use of this investigatory protocol resulted in all three commercial casinos restructuring their ownership prior to casino licensure.

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Material Conditions:

MGCB's Audit Section's efforts did not provide full assurance that the casinos had developed and implemented controls regarding the reliability of financial reporting and compliance with applicable laws and regulations (Finding 1).

MGCB's tribal gaming oversight efforts did not effectively ensure that applicable tribal casinos submitted the required amounts to the credit of the Michigan Strategic Fund from their revenues generated by electronic games of chance (Finding 2).

MGCB's Regulation and Compliance Section needs to improve the effectiveness of its casino monitoring process (Finding 3).

MGCB's executive director needs to continue to seek multiple exceptions to the Statewide hiring freeze (Finding 4).

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Other Conditions:

MGCB had not provided sufficient training for its staff to help ensure the uniform, equitable, effective, and efficient oversight of casino gaming throughout the State (Finding 5).

MGCB needs to establish a comprehensive continuous quality improvement process to monitor and improve its effectiveness in licensing, regulating, and overseeing casino gaming (Finding 6).

MGCB's Casino Employee Licensing Section had not completed investigations of casino employee applicants in a timely manner (Finding 7).

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Agency Response:

The audit procedures included examining MGCB's records and activities primarily for the period January 1, 1999 through January 31, 2003. Since this time period, MGCB has reported the development of several significant initiatives to enhance management's oversight and administration strategies. These initiatives address the conditions contained in this report, including those identified as material conditions. Actions taken to address the material conditions include the hiring of five new auditors; implementation of an Indian Gaming Section comprehensive oversight, auditing, and compliance policy and procedure; implementation of a case management system that allows the real time tracking of incident reports; and creation of a new organizational plan for the Enforcement Division.

The audit report includes 7 findings and 7 corresponding recommendations. The agency preliminary response indicated that MGCB agreed with all 7 recommendations.

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A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: www.state.mi.us/audgen/



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