



# MICHIGAN

OFFICE OF THE AUDITOR GENERAL

## AUDIT REPORT



THOMAS H. MCTAVISH, C.P.A.  
AUDITOR GENERAL

The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.

– Article IV, Section 53 of the Michigan Constitution

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Michigan  
*Office of the Auditor General*  
**REPORT SUMMARY**

*Performance Audit*

*Michigan Gaming Control Board*

*Department of Treasury*

Report Number:  
271-0900-06

Released:  
June 2007

*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. Among its provisions, the Act authorized up to three commercial casinos in Detroit and vested MGCB with the exclusive authority to license, regulate, and enforce the system of casino gambling in the three commercial casinos. MGCB also has oversight authority over compliance with the tribal and State gaming compact provisions for 11 Native American tribes in the State.*

***Audit Objective:***

To assess the effectiveness of MGCB's regulatory and enforcement activities for the three commercial casinos in Detroit.

***Audit Conclusion:***

MGCB's regulatory and enforcement activities were moderately effective for the three commercial casinos in Detroit. We noted three reportable conditions (Findings 1 through 3).

***Reportable Conditions:***

MGCB was not effective in completing compliance audits and issuing audit reports to commercial casinos (Finding 1).

MGCB had not developed procedures to monitor the Detroit commercial casinos' compliance with 33% of the required internal control standards presented in Michigan's Minimum Internal Control Standards, nearly half of which MGCB considered high risk (Finding 2).

MGCB should enhance its gaming lab controls by conducting periodic reviews of

the evaluations completed by its gaming lab engineers (Finding 3).

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***Audit Objective:***

To assess the effectiveness of MGCB's monitoring activities for tribal gaming to ensure compliance with tribal and State gaming compacts, federal law, and related consent judgments.

***Audit Conclusion:***

We concluded that MGCB's monitoring activities for tribal gaming to ensure compliance with tribal and State gaming compacts, federal law, and related consent judgments were effective. However, we noted two reportable conditions (Findings 4 and 5).

***Reportable Conditions:***

MGCB did not effectively complete tribal gaming compliance inspections and review tribal criminal background checks. Also, MGCB could improve the effectiveness of its periodic on-site audits (Finding 4).

MGCB did not obtain audited tribal financial reports prepared annually by independent certified public accounting firms for all Native American tribes (Finding 5).

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**Agency Response:**

Our audit report includes 5 findings and 6 corresponding recommendations. MGCB's preliminary response indicates that it agrees with all 6 recommendations.

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June 28, 2007

Mr. Damian S. Kassab, Chairman  
Michigan Gaming Control Board  
Cadillac Place  
Detroit, Michigan  
and  
Mr. Richard S. Kalm, Executive Director  
Michigan Gaming Control Board  
Abbott Center  
East Lansing, Michigan  
and  
Mr. Robert J. Kleine  
State Treasurer  
Richard H. Austin Building  
Lansing, Michigan

Dear Mr. Kassab, Mr. Kalm, and Mr. Kleine:

This is our report on the performance audit of the Michigan Gaming Control Board, Department of Treasury.

This report contains our report summary; description of agency; audit objectives, scope, and methodology and agency responses and prior audit follow-up; comments, findings, recommendations, and agency preliminary responses; four exhibits, presented as supplemental information; and a glossary of acronyms and terms.

Our comments, findings, and recommendations are organized by audit objective. The agency preliminary responses were taken from the agency's responses subsequent to our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

We appreciate the courtesy and cooperation extended to us during this audit.

AUDITOR GENERAL



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## Description of Agency

The mission\* of the Michigan Gaming Control Board (MGCB) is to ensure the conduct of fair and honest gaming to protect the interests of the citizens of the State of Michigan.

### Commercial Casinos\*

In November 1996, Michigan voters approved Proposal E, which authorized the development of up to three licensed, commercial casinos in Detroit. In July 1997, the Legislature implemented Act 69, P.A. 1997, the Michigan Gaming Control and Revenue Act. Among its provisions, the Michigan Gaming Control and Revenue Act:

- Authorized up to three commercial casinos in Detroit (MGM Grand Detroit licensed in July 1999, MotorCity Casino licensed in December 1999, and Greektown Casino licensed in November 2000).
- Created MGCB as an autonomous entity within the Department of Treasury and vested MGCB with the exclusive authority to license, regulate\*, and enforce\* the system of casino gambling in the three commercial casinos, including manufacturers and distributors of gaming equipment and other casino suppliers, and casino and supplier employees.
- Authorized and imposed certain State and city casino wagering taxes on casinos and various fees for casino, casino supplier, and occupational licenses. The Act also required the deposit of State casino wagering tax revenue in the School Aid Fund.
- Created the State Services Fee Fund to provide for all casino regulatory and enforcement costs, compulsive gambling programs, casino related programs and activities, casino related legal services provided by the Department of Attorney General, and the casino related expenses of the Michigan Department of State Police.

\* See glossary at end of report for definition.

The State imposed an 8.1% casino wagering tax on the adjusted gross revenue\* (gaming receipts less winnings paid to wagerers) received by each commercial casino from authorized gaming operations. Act 306, P.A. 2004, amended the Michigan Gaming Control and Revenue Act, increasing the casino wagering tax to 12.1%. Of the additional 4.0%, 3.5% is deposited in the State's General Fund and .5% is deposited in the Michigan Agriculture Equine Industry Development Fund. The casino wagering tax paid by the three commercial casinos for calendar year 2005 totaled \$148,653,810 (see Exhibit 1). Since the first casino was licensed and began operations in July 1999, the School Aid Fund had received a total of \$535,606,751 from casino wagering taxes paid by the three commercial casinos through the end of calendar year 2005.

MGCB regulation officers and auditors have a daily presence in the three commercial casinos in Detroit to identify noncompliance with the Acts, the *Michigan Administrative Code*, the casinos' established internal control system requirements, and MGCB's established minimum internal control standards. MGCB also has the ability to enforce the requirements of the Acts, rules, and other requirements by imposing fines and non-monetary penalties against the three commercial casinos in Detroit.

### Tribal Casinos

The Governor of Michigan officially designated and authorized MGCB as Michigan's representative to conduct inspections of tribal class III gaming\* facilities and records in accordance with the provisions of the various tribal and State gaming compacts\* to conduct tribal class III gaming on Indian lands in Michigan. Because the Native American tribes are sovereign nations, the State does not have general regulatory and enforcement authority over tribal casinos; however, the State does have oversight\* authority over compliance with compact provisions. This oversight authority includes:

- Conducting financial reviews to ensure that applicable tribal casinos are paying 8% and 2% of net win\* from electronic games of chance\* to the credit of the Michigan Strategic Fund and to local municipalities, respectively, in accordance with compact provisions and related consent judgments\*.
- Inspecting tribal facilities and documents to ensure compliance with compact provisions and related agreements.

\* See glossary at end of report for definition.

The State has entered into compacts with 11 Native American tribes, 9 of which are currently operating tribal casinos. These 9 compacts have produced 17 tribal casinos located throughout the State (see Exhibit 5 for Statewide listing and map of casino locations). At the time of our audit, additional compacts and associated tribal casinos were in various stages of negotiation.

While MGCB has regulatory and enforcement authority over the three commercial casinos, the compacts provide MGCB with oversight authority only. Each compact requires the tribe to prominently display notice that the facility is regulated by one or more of the following: the National Indian Gaming Commission, the Bureau of Indian Affairs of the U.S. Department of the Interior, and/or the tribe's government.

MGCB does not license or regulate the tribal casinos, its employees, or its suppliers. Section 4 of the compacts provides the tribes with the regulatory authority, including licensure, operation, and regulation requirements pursuant to the compacts, tribal law, the Indian Gaming Regulatory Act, and all other applicable federal law. Section 4 also identifies tribal gaming records that must be maintained for a minimum of three years, including:

- Revenues, expenses, assets, liabilities, and equity by gaming location.
- Daily cash transactions and credit instruments (markers, IOUs, and returned checks) at each location.
- Game records to reflect statistical drop and statistical win, or other means that show the total amount wagered and the total prizes won.
- Audits prepared by or on behalf of the tribe.
- Personnel information on all class III gaming employees or agents, including background checks.

Section 4 further allows the State to inspect all tribal class III gaming facilities and all tribal records related to class III gaming subject to conditions relating to the amount of time and method of serving notice to the tribe prior to gaining access to the records. MGCB does not have the authority to impose fines or nonmonetary penalties against

the tribes. If an agreement cannot be reached between MGCB and the tribe to resolve a dispute, the State will seek corrective action through the federal court system.

For the fiscal year ended September 30, 2005, MGCB expended approximately \$16.1 million. As of July 31, 2006, MGCB had 100 employees.

## Audit Objectives, Scope, and Methodology and Agency Responses and Prior Audit Follow-Up

### Audit Objectives

Our performance audit\* of the Michigan Gaming Control Board (MGCB), Department of Treasury, had the following objectives:

1. To assess the effectiveness\* of MGCB's regulatory and enforcement activities for the three commercial casinos in Detroit.
2. To assess the effectiveness of MGCB's monitoring activities for tribal gaming to ensure compliance with tribal and State gaming compacts, federal law, and related consent judgments.

### Audit Scope

Our audit scope was to examine the program and other records of the Michigan Gaming Control Board. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances. Our audit procedures, performed from March through August 2006, generally covered the period January 1, 2004 through August 4, 2006.

As part of our audit, we prepared supplemental information (Exhibits 1 through 4) that relates to our audit objectives. Our audit was not directed toward expressing an opinion on this information and, accordingly, we express no opinion on it.

Our audit scope did not include an evaluation of the contents of the tribal and State gaming compacts. The Native American tribes negotiated 11 compacts with the State (7 in 1993 and 4 in 1998) for 20-year periods that cannot be modified or terminated without the written agreement of both parties. MGCB did not have a direct role in the negotiation of the compacts.

\* See glossary at end of report for definition.

## Audit Methodology

To establish our audit objectives, we conducted a preliminary review of MGCB's operations. This included discussions with key central office staff and on-site interviews with MGCB's casino licensing, audit, and regulation staff regarding their functions and responsibilities. Also, we reviewed program and financial records and applicable gaming statutes and associated administrative rules.

To accomplish our first audit objective, we obtained an understanding of MGCB's regulatory and enforcement activities for commercial casinos. We analyzed the effectiveness of MGCB's regulatory and enforcement activities by evaluating MGCB's efforts to regulate and audit the casinos. We reviewed completed regulatory and enforcement activity documentation to determine compliance with established requirements, benchmarks, and time lines. We also reviewed the content of MGCB's regulatory and enforcement tests and documentation to ensure that identified risk areas were addressed. We observed MGCB regulation officers as they conducted regulatory and enforcement inspections at the three commercial casinos. We evaluated the gaming lab's processes, controls, and scope of work to ensure the integrity of electronic games of chance within the casinos.

We obtained an understanding of MGCB's processes for issuing commercial casino licenses, casino supplier licenses, and occupational licenses. We reviewed a random sample of license applications, including license renewal applications, to assess the efficiency\* and thoroughness of MGCB's determinations of applicants' eligibility and suitability for licensure. Also, we assessed the timeliness of MGCB's licensure process.

We assessed MGCB's revenue reconciliation and wagering tax computation verification processes for the commercial casinos. We reviewed a sample of daily tax return reviews performed by MGCB staff to help ensure the accuracy of the financial information used to calculate the wagering tax payments made by the three commercial casinos.

To accomplish our second audit objective, we obtained an understanding of MGCB's monitoring activities for tribal gaming. We evaluated MGCB's monitoring efforts to ensure that applicable tribal casinos submitted appropriate payments to the Michigan

\* See glossary at end of report for definition.

Strategic Fund and local municipalities based on the casinos' reported revenues generated by electronic games of chance. We also examined completed tribal gaming reviews to determine the reasonableness of the review coverage as well as the timeliness of the review completion. We also gained an understanding of MGCB's on-site monitoring inspection process, which was temporarily suspended and reestablished during our audit period. We gathered information from other states regarding their tribal gaming monitoring activities.

We use a risk and opportunity based approach when selecting activities or programs to be audited. Accordingly, our audit efforts are focused on activities or programs having the greatest probability for needing improvement as identified through a preliminary review. By design, our limited audit resources are used to identify where and how improvements can be made. Consequently, our performance audit reports are prepared on an exception basis.

#### Agency Responses and Prior Audit Follow-Up

Our audit report includes 5 findings and 6 corresponding recommendations. MGCB's preliminary response indicates that it agrees with all 6 recommendations.

The agency preliminary response that follows each recommendation in our report was taken from MGCB's written comments and oral discussion subsequent to our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and Department of Management and Budget Administrative Guide procedure 1280.02 require the Department of Treasury to develop a formal response to our audit findings and recommendations within 60 days after release of the audit report.

We released our prior performance audit of the Michigan Gaming Control Board, Department of Treasury (#2790002), in December 2003. Within the scope of this audit, we followed up all 7 of the prior audit recommendations. MGCB had complied or substantially complied with all 7 of the prior audit recommendations.

COMMENTS, FINDINGS, RECOMMENDATIONS,  
AND AGENCY PRELIMINARY RESPONSES

## **EFFECTIVENESS OF REGULATORY AND ENFORCEMENT ACTIVITIES AT DETROIT CASINOS**

### **COMMENT**

**Audit Objective:** To assess the effectiveness of the Michigan Gaming Control Board's (MGCB's) regulatory and enforcement activities for the three commercial casinos in Detroit.

**Conclusion:** We concluded that MGCB's regulatory and enforcement activities were moderately effective for the three commercial casinos in Detroit. Our assessment disclosed reportable conditions\* related to the completion of compliance audits, monitoring of internal control standards, and periodic review of gaming lab evaluations (Findings 1 through 3).

The inherent risks of gaming operations are such that while regulatory and enforcement activities performed by MGCB and management controls implemented by commercial casinos should have a positive effect on limiting fraud and abuse, such controls would not always detect all errors or fraudulent activities of patrons, casino vendors, or casino employees.

### **FINDING**

1. **Completion of Compliance Audits**

MGCB was not effective in completing compliance audits and issuing audit reports to commercial casinos. Failure to complete audits and issue timely audit reports increases the risk that commercial casino noncompliance could go undetected for extended periods and have a negative impact on gaming activities. Also, continued noncompliance could result in unreliable financial reporting that could negatively affect the amount of commercial casino wagering tax due the State.

Section 432.204a(1)(p) of the *Michigan Compiled Laws* (a section of the Michigan Gaming Control and Revenue Act) requires MGCB to "conduct periodic audits of casinos authorized under this act." MGCB developed annual compliance audit plans over specific activities at each of the three commercial casinos to evaluate the casinos' compliance with the rules and regulations of the Michigan Gaming Control and Revenue Act and the *Michigan Administrative Code*. Compliance

\* See glossary at end of report for definition.

audits cover gaming topics such as electronic games of chance, table games, card games, cashier cage and vault, and casino-issued credit, as well as nongaming topics such as accounting, purchasing, key control, and currency transaction reporting.

Our review disclosed that MGCB had not issued audit reports for 14 (61%) of 23 compliance audits that it performed during fiscal years 2003-04 and 2004-05. Subsequent to the completion of the audit fieldwork, MGCB informed us that it needed to perform additional audit procedures before any of these 14 audits was sufficiently complete. Rather than performing the necessary additional audit procedures, MGCB suspended these audits and proceeded to other planned audits. These 14 compliance audits represented a significant use of MGCB resources that, if not completed and reported on, could result in a duplication of MGCB efforts on future compliance audits.

MGCB informed us that it intends to conduct additional audit procedures to complete the 14 compliance audits conducted during fiscal years 2003-04 and 2004-05 and issue a report for each audit to commercial casino management. MGCB noted that in fiscal year 2003-04, the compliance audit manager was new to the position and spent a considerable amount of time training the compliance audit staff, which reduced time available to ensure the proper completion of ongoing audits.

### **RECOMMENDATION**

We recommend that MGCB complete compliance audits and issue audit reports to commercial casinos.

### **AGENCY PRELIMINARY RESPONSE**

MGCB agrees and informed us it has assigned additional staff to complete the outstanding audits and issue audit reports for the 14 audits that were not issued an audit report for the time period of fiscal years 2003-04 and 2004-05. MGCB will strive to complete audits and issue reports in a timely manner on an ongoing basis.

## **FINDING**

### **2. Monitoring of Internal Control Standards**

MGCB had not developed procedures to monitor the Detroit commercial casinos' compliance with 33% of the required internal control standards presented in Michigan's Minimum Internal Control Standards (MICS), nearly half of which MGCB considered high risk. Incomplete monitoring increases the risk of incorrect gaming tax payments to the State and compromises gaming integrity at the casinos.

MGCB designed MICS to provide a basic framework for casinos in establishing their internal control systems. MGCB requires the casinos to comply with both MICS and the casinos' documented internal control systems procedures. MGCB conducts a variety of regulatory and enforcement monitoring procedures to assess the casinos' compliance with the MICS and each casino's internal control system. These procedures include monitoring inspections (slot machine hopper fill, table game fill and drop); compliance and operational audits (cashier cage and vault procedures); field tests (testing of electronic gaming devices after placement on gaming floor); surveillance (on-site observation and video assisted); investigations (usually involving suspected criminal activity); and special assignments (patron disputes, casino management requests).

Although MGCB had made substantial progress in its regulatory and enforcement monitoring procedures from the prior audit, we noted that MGCB had not developed monitoring procedures for an entire MICS compliance area relating to electronic gaming devices, table games, and count room computerized systems. Specifically, this MICS compliance area covered the casinos' automated slot monitoring system and currency counting equipment, focusing on access controls, application controls, system back-up and recovery, and annual test procedures.

## **RECOMMENDATION**

We recommend that MGCB continue to develop procedures to monitor the Detroit commercial casinos' compliance with all internal control standards presented in Michigan's MICS.

## **AGENCY PRELIMINARY RESPONSE**

MGCB agrees and informed us that it has performed an analysis of the MICS noted in the finding and will have monitoring procedures created by December 31, 2007 for all areas.

## **FINDING**

### **3. Periodic Review of Gaming Lab Evaluations**

MGCB should enhance its gaming lab controls by conducting periodic reviews of the evaluations completed by its gaming lab engineers. Without this additional review, MGCB has limited assurance that its gaming lab engineers completed all initial evaluations accurately. Also, a periodic review of evaluations of new and modified electronic gaming devices would provide MGCB with additional assurance that devices are operating as designed and allow engineers the opportunity to learn from methodologies implemented by other gaming lab engineers.

*Michigan Administrative Code R 432.1842(5)* states that all new and modified electronic gaming devices must be reviewed and approved by gaming lab engineers to ensure their effective operations and compliance with State regulations prior to their use in the three commercial casinos in Detroit. MGCB gaming lab engineers review and test new and modified gaming technology prior to its use in commercial casinos. Also, the gaming lab is responsible for monitoring the approved technology once placed in the commercial casinos to ensure that it operates as intended.

MGCB assigned only one engineer to review and approve all of a specific manufacturer's electronic gaming devices. No other MGCB staff reviewed or evaluated the scope of the gaming lab engineers' reviews prior to approval to ensure compliance with gaming lab procedures and standards. A periodic review, conducted by an engineer not associated with the original evaluation, could help minimize the risk of human error in the approval process. In addition, it could also provide gaming lab engineers with exposure to approaches and methodologies of other gaming lab engineers that could enhance the effectiveness and efficiency of future evaluations.

## **RECOMMENDATION**

We recommend that MGCB enhance its gaming lab controls by conducting periodic reviews of the evaluations completed by its gaming lab engineers.

## **AGENCY PRELIMINARY RESPONSE**

MGCB agrees and informed us that by mid-2007 it will incorporate a "team review" where two engineers, the engineer normally assigned the product and a randomly chosen engineer, will work together to review the submission and make a final determination.

## **EFFECTIVENESS OF MONITORING ACTIVITIES FOR TRIBAL GAMING COMPLIANCE**

**Background:** The compacts require the Native American tribes to pay 8% of their net win from electronic games of chance to the credit of the Michigan Strategic Fund and 2% of their net win from electronic games of chance to local municipalities. However, because of the loss of an "exclusive right" to conduct class III gaming in the State with the establishment of the 3 commercial casinos in Detroit, only 3 Native American tribes are required to continue to pay the 8% to the credit of the Michigan Strategic Fund. Also, with the introduction of the Michigan State Lottery's Keno game, 2 of the 3 Native American tribes have initiated legal action to discontinue their 8% payments. These 2 tribes continue to make the required 8% payments to an escrow account (approximately \$30 million) pending resolution. All Native American tribes continue to pay the 2% to local municipalities. Since the 1993 compacts, Native American tribes have made 8% payments to the Michigan Strategic Fund totaling \$239,868,574 through calendar year 2005.

With the limited oversight authority provided for in the compacts, MGCB has focused the majority of its tribal gaming oversight activities on the accuracy and appropriateness of the tribes' payments to the Michigan Strategic Fund and local municipalities. MGCB conducts periodic on-site audits of tribal records to evaluate these payments. MGCB also conducts periodic on-site compliance inspections at the tribal casinos to help ensure compliance with the provisions of the compacts.

### **COMMENT**

**Audit Objective:** To assess the effectiveness of MGCB's monitoring activities for tribal gaming to ensure compliance with tribal and State gaming compacts, federal law, and related consent judgments.

**Conclusion:** **We concluded that MGCB's monitoring activities for tribal gaming to ensure compliance with the compacts, federal law, and related consent judgments were effective.** However, our assessment disclosed reportable conditions related to performance of oversight activities and acquisition of audited financial reports (Findings 4 and 5).

## **FINDING**

### **4. Performance of Oversight Activities**

MGCB did not effectively complete tribal gaming compliance inspections and review tribal criminal background checks. Also, MGCB could improve the effectiveness of its periodic on-site audits.

Improved oversight activities related to compliance inspections, criminal background checks, and audits of payments to the Michigan Strategic Fund and local municipalities would provide MGCB greater assurance that Native American tribes conducted tribal gaming operations in accordance with compact provisions, federal law, and related consent judgments.

During our review of tribal gaming oversight activities, we noted:

- a. MGCB did not communicate the results of its tribal gaming compliance inspections completed during the period October 2004 through May 2005 to the Native American tribal leadership. Also, MGCB had not performed tribal gaming compliance inspections for the 15-month period May 2005 through July 2006.

MGCB suspended the tribal gaming compliance inspections of tribal facilities pending the review of existing policies and procedures to ensure compliance with the compacts and to expedite tribal casino inspections.

- b. MGCB did not review criminal background checks conducted by the individual tribes of tribal casino employees. The compacts allow MGCB to access background checks completed by the tribes. MGCB implemented a policy for the review of criminal background checks in September 2005. However, MGCB has not incorporated this policy into its current tribal gaming oversight activities.

- c. MGCB did not review tribal casino 2% payments to local municipalities to determine that the payment amount met or exceeded minimum thresholds.

Because tribal gaming facilities are not subject to property taxes, the tribal casino 2% payments are intended to compensate local municipalities for services provided to the tribes. The compacts and related consent judgments

require tribal casino 2% payments to meet or exceed the unassessed property tax on tribal gaming facilities.

Although MGCB reviewed the accuracy of the tribes' net win calculations and the associated 2% payments, MGCB had not obtained local assessments of the tribal gaming facilities to ensure the minimum thresholds had been met.

- d. MGCB did not incorporate a random review of expenditures into its periodic on-site audits of tribal records. Section 4 of the compacts allow MGCB to inspect all tribal records related to class III gaming, including records of revenues, expenditures, assets, liabilities, and equity for each location. A random review of class III gaming expenditures would help ensure compliance with the provisions of the compacts and allow MGCB to expand its review of tribal gaming expenditures if the initial review identifies other risk factors.
- e. MGCB did not allocate sufficient resources to conduct all tribal gaming audits on an annual basis. An annual audit would allow MGCB to communicate deficiencies and allow the casinos to resolve issues in a timely manner.

MGCB's goal is to conduct annual audits of the payments to the Michigan Strategic Fund and local municipalities for all 17 individual casinos. However, during fiscal years 2003-04 and 2004-05, MGCB audited gaming records from multiple years (2001, 2002, and 2003) for 15 of the 17 tribal casinos.

In addition, one tribe (operating 2 casinos) has refused to grant MGCB access to its tribal gaming records and consequently has not been audited by MGCB in over 9 years. In October 2005, MGCB initiated compact Section 7 dispute resolution with this tribe to gain access to the records.

MGCB indicated that it agrees with our findings but stated that, given the current tribal gaming fee structure, insufficient resources negatively impacted its ability to meet its oversight responsibilities in a timely manner. MGCB may need to modify its existing compacts or seek legislative approval for the identification of additional or alternative funding sources.

In fiscal year 2004-05, the tribal gaming fee structure provided MGCB with \$279,652 in annual fees in accordance with the compacts. However, MGCB's limited oversight activities incurred expenditures of \$334,007 for 3 staff, attorney

representation costs, and travel costs for audits and inspections at 17 casinos throughout Michigan. To accomplish its goal of annual audits of the payments to the Michigan Strategic Fund and local municipalities, MGCB estimates a need for at least two additional tribal gaming auditors and an audit manager to provide for the appropriate review and approval of its audit activities.

## **RECOMMENDATIONS**

We recommend that MGCB effectively complete tribal gaming compliance inspections and review tribal criminal background checks.

We also recommend that MGCB improve the effectiveness of its periodic on-site audits.

## **AGENCY PRELIMINARY RESPONSE**

MGCB agrees with the recommendations and informed us that it suspended the compliance inspection function pending the review of existing policies and procedures, which resulted in the development and implementation of two new policies and respective forms. MGCB noted that it has also conducted periodic meetings with tribal representatives that have advanced the communication and cooperation between MGCB Indian Gaming Section staff and the tribal casino leadership.

In July 2006, MGCB resumed the compliance inspections, consisting of monthly walk-through inspections. MGCB noted that quarterly slot machine inspections and annual criminal background check verifications were scheduled to begin in January 2007.

MGCB also informed us that a review of unassessed property tax data and tribal gaming expenditures, within the authority provided for in the compacts, would improve the effectiveness of its periodic on-site audits.

MGCB further informed us it will continue to seek alternative funding sources and has begun negotiations on a proposal with the Native American tribes that would allow for a more efficient and effective verification of net win. This proposal would require the tribes' external auditors to express an opinion on the reported net win totals (attestation report).

MGCB noted that the successful tribal participation in the attestation report and continued efforts to increase the Indian Gaming Section audit staff will greatly increase its efficiency and effectiveness at reviewing tribal class III gaming-related records.

## **FINDING**

### **5. Acquisition of Audited Financial Reports**

MGCB did not obtain audited tribal financial reports prepared annually by independent certified public accounting firms for all Native American tribes. As a result, MGCB did not have the benefit of the information contained in the reports to identify potential risk areas and effectively allocate its limited audit resources.

The compacts grant MGCB the authority to obtain and inspect any Native American tribal financial audit reports. However, MGCB does not obtain these financial audit reports annually, instead waiting until it conducts its audit of the payments to the Michigan Strategic Fund and local municipalities.

Independent financial oversight helps ensure that tribes accurately report gaming revenue. MGCB also uses this financial information to help verify the accuracy of payments to the Michigan Strategic Fund and local municipalities.

## **RECOMMENDATION**

We recommend that MGCB obtain audited tribal financial reports prepared annually by independent certified public accounting firms for all Native American tribes.

## **AGENCY PRELIMINARY RESPONSE**

MGCB agrees and informed us that in 2004 and 2005 it obtained 26 of the 27 audited financial reports covering the tribes' fiscal years 2000-01 through 2002-03. MGCB also informed us that in 2006 it obtained 7 of the 18 audited financial reports covering the tribes' fiscal years 2003-04 and 2004-05.

MGCB noted that the resumption of the compliance inspections (monthly) and the new slot machine inspections and criminal background check verifications (to begin in January 2007) will allow for a more timely acquisition of audited tribal financial reports.



## SUPPLEMENTAL INFORMATION

**MICHIGAN GAMING CONTROL BOARD**  
**Commercial Casino Gross Receipts and Wagering Taxes**  
**Calendar Year 2005**

Month	MGM GRAND DETROIT		MOTORCITY CASINO		GREEKTOWN CASINO	
	Total Adjusted Gross Receipts	State Wagering Tax (12.1%)*	Total Adjusted Gross Receipts	State Wagering Tax (12.1%)*	Total Adjusted Gross Receipts	State Wagering Tax (12.1%)*
January	\$ 38,958,377	\$ 4,713,964	\$ 35,896,810	\$ 4,343,514	\$ 25,786,446	\$ 3,120,160
February	39,569,010	4,787,850	36,066,718	4,364,073	26,598,968	3,218,475
March	40,858,086	4,943,828	40,308,616	4,877,343	28,109,573	3,401,258
April	38,345,125	4,639,760	38,478,712	4,655,924	26,993,224	3,266,180
May	39,462,882	4,775,009	36,312,402	4,393,801	30,337,967	3,670,894
June	33,647,703	4,071,372	32,563,707	3,940,208	26,401,893	3,194,629
July	38,582,865	4,668,527	37,314,207	4,515,019	31,285,995	3,785,605
August	38,900,696	4,706,984	35,988,381	4,354,594	28,515,413	3,450,365
September	35,429,838	4,287,010	33,933,523	4,105,956	25,283,145	3,059,261
October	38,808,211	4,695,793	36,318,455	4,394,533	28,659,219	3,467,765
November	38,258,019	4,629,220	33,627,467	4,068,924	28,314,521	3,426,057
December	39,877,048	4,825,123	35,403,665	4,283,843	29,347,001	3,550,987
<b>Total</b>	<b>\$ 460,697,859</b>	<b>\$ 55,744,441</b>	<b>\$ 432,212,661</b>	<b>\$ 52,297,732</b>	<b>\$ 335,633,365</b>	<b>\$ 40,611,637</b>

This exhibit presents the monthly adjusted gross receipts and associated State wagering tax for each of the three commercial casinos during calendar year 2005.

\* Act 306, P.A. 2004, went into effect September 1, 2004. The additional 6% is divided between the State of Michigan and the City of Detroit, with the State's General Fund paid 3.5%, the Michigan Agriculture Equine Industry Development Fund paid .5%, and the City of Detroit paid an additional 2%. This new tax law amends Act 69, P.A. 1997, the Michigan Gaming Control and Revenue Act, and increases the wagering taxes paid by the three Detroit casinos from 18% to 24%.

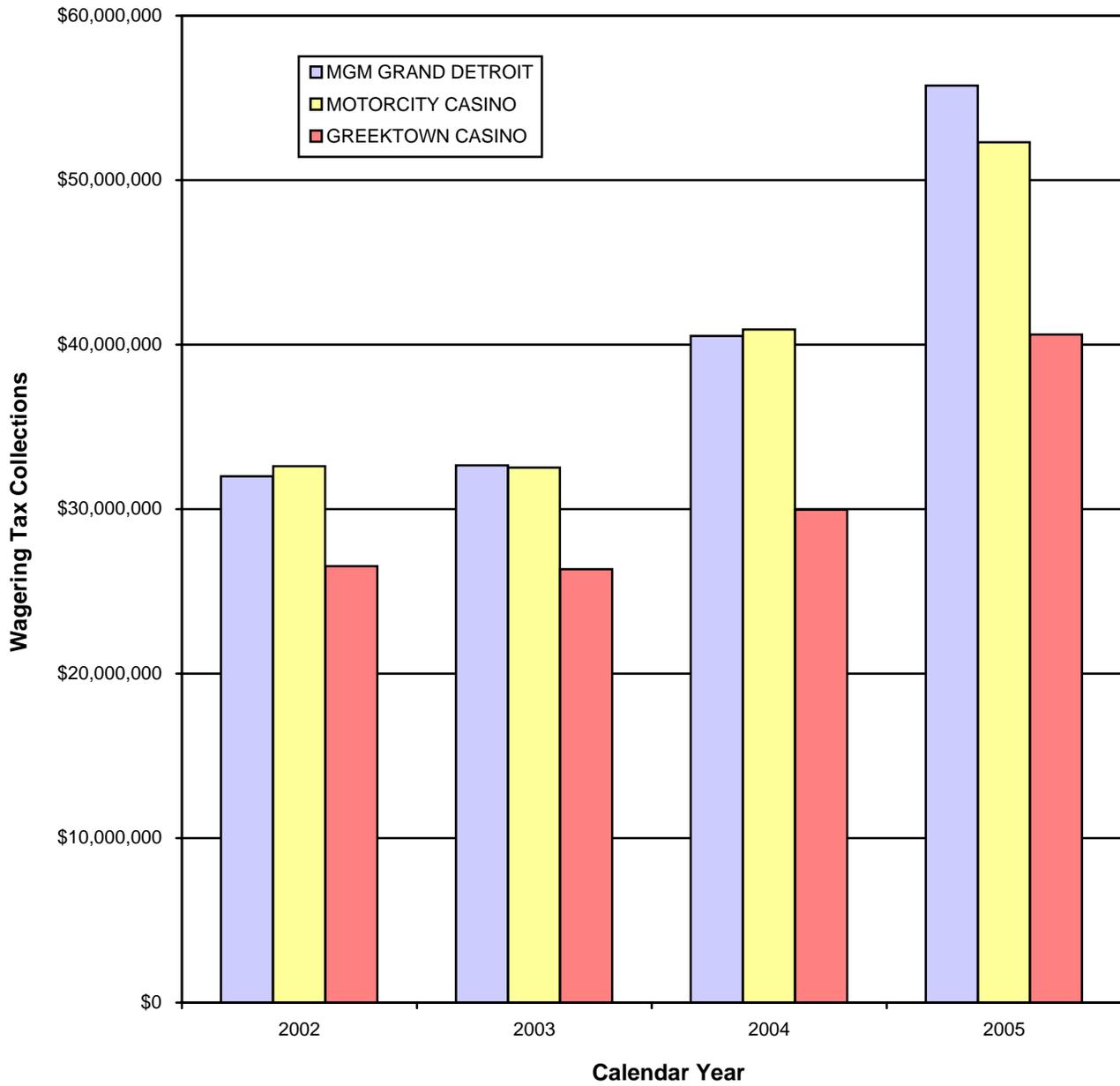
The combined wagering tax rate paid to the State of Michigan by the Detroit casinos went from 8.1% to 12.1%. The remaining 11.9% is paid to the City of Detroit.

Source: Michigan Gaming Control Board's Annual Report to the Governor for calendar year 2005.

UNAUDITED  
Exhibit 1

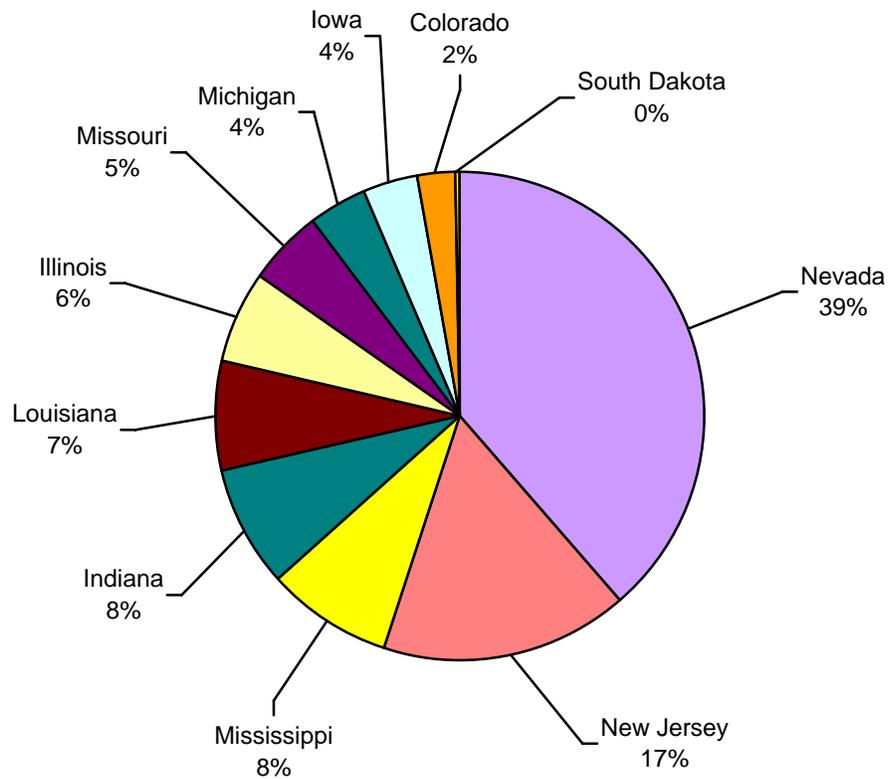
All Detroit Casinos	
Total Adjusted Gross Receipts	Total State Wagering Tax (12.1%)
\$ 100,641,633	\$ 12,177,638
102,234,696	12,370,398
109,276,275	13,222,429
103,817,061	12,561,864
106,113,251	12,839,703
92,613,303	11,206,210
107,183,067	12,969,151
103,404,490	12,511,943
94,646,506	11,452,227
103,785,884	12,558,092
100,200,007	12,124,201
104,627,714	12,659,953
<u>\$ 1,228,543,887</u>	<u>\$ 148,653,810</u>

MICHIGAN GAMING CONTROL BOARD  
Annual State Wagering Tax Collections by Commercial Casino  
For Calendar Years 2002 Through 2005



Source: Michigan Gaming Control Board's Annual Reports to the Governor for calendar years 2002 through 2005.

MICHIGAN GAMING CONTROL BOARD  
Proportion of Nationwide Commercial Casino Gaming Gross Revenue by State  
Calendar Year 2005



Source: American Gaming Association.



# GLOSSARY

## Glossary of Acronyms and Terms

adjusted gross revenue	The profit for a casino after paying all prizes to patrons. Adjusted gross revenue is the basis for taxable revenue from casino gaming.
class III gaming	Class III gaming includes electronic games of chance (such as slot machines and video poker), blackjack, pari-mutuel racing, jai alai, and banking card games in which players play against the casino and the casino acts as a banker.
commercial casinos	The three commercial casinos operating in Michigan are the MGM Grand Detroit (licensed in July 1999), the MotorCity Casino (licensed in December 1999), and the Greektown Casino (licensed in November 2000).
consent judgment	The order issued by a United States district court providing for the Native American Tribes and the State of Michigan's agreement to the terms, provisions, and conditions resulting from litigation between the parties, with subsequent agreement to written compacts.
effectiveness	Program success in achieving mission and goals.
efficiency	Achieving the most outputs and outcomes practical with the minimum amount of resources.
electronic games of chance	A microprocessor-controlled electronic device that allows a player to play a game of chance, which may be affected by an element of skill.
enforce	To compel observance of or obedience to. This usually includes the ability to impose penalties and/or fines for failure to comply.
MGCB	Michigan Gaming Control Board.

MICS	Minimum Internal Control Standards.
mission	The agency's main purpose or the reason that the agency was established.
net win	The total amount wagered on each electronic game of chance minus the total amount paid to players for winning wagers at such machines.
oversight	Management by observing the performance or operation of a person or group. Oversight usually does not include the specific ability to impose penalties or fines for failure to comply.
performance audit	An economy and efficiency audit or a program audit that is designed to provide an independent assessment of the performance of a governmental entity, program, activity, or function to improve public accountability and to facilitate decision making by parties responsible for overseeing or initiating corrective action.
regulate	To control or direct according to rule, principle, or law. In most cases the rules, principles, or laws provide for some level of disciplinary action for failure to comply.
reportable condition	A matter that, in the auditor's judgment, represents either an opportunity for improvement or a significant deficiency in management's ability to operate a program in an effective and efficient manner.
tribal and State gaming compacts	The written agreements between the 11 federally recognized Native American tribes and the State of Michigan that permit the conduct of class III gaming by each of the tribes on Indian lands in Michigan. The compacts were approved by concurrent resolutions of the Michigan Legislature and by the Office of the Secretary, United States Department of the Interior.









