

# Office of the Auditor General

## Performance Audit Report

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# Michigan Gaming Control Board

## Department of Treasury

December 2016

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**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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# OAG

Office of the Auditor General

## Report Summary

### *Performance Audit*

### *Michigan Gaming Control Board (MGCB)*

### *Department of Treasury*

**Report Number:**  
**271-0900-15**

**Released:**  
**December 2016**

MGCB was created by Public Act 69 of 1997 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 the 12 Native American tribes operating 23 tribal casinos in the State. In addition, in June 2012, MGCB was given licensing, oversight, and enforcement responsibilities with regard to charitable gaming.

Audit Objective			Conclusion
Objective #1: To assess the sufficiency of MGCB's regulatory and enforcement activities for charitable gaming and the three commercial casinos in Detroit.			Sufficient, with exceptions
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
MGCB did not appropriately license 9% of the individuals we reviewed who supervised gaming activities at 2 of the 3 Detroit commercial casinos ( <u>Finding #1</u> ).		X	Disagrees
MGCB should update its Minimum Internal Control Standards (MICS) to reflect changes that have occurred in the commercial gaming industry since implementation of these standards in 1999. In addition, MGCB did not develop procedures to monitor compliance with certain required internal control standards. We noted that procedures were not developed for 22% of MICS ( <u>Finding #2</u> ).		X	Disagrees

<b>Findings Related to This Audit Objective (Continued)</b>	<b>Material Condition</b>	<b>Reportable Condition</b>	<b>Agency Preliminary Response</b>
MGCB did not always complete compliance monitoring inspections at the required intervals and frequencies. This impacts MGCB's ability to identify noncompliance and the casino's ability to correct it in a timely manner. We noted that 14% of required quarterly monitoring inspections were not completed for the two quarters covering the period October 2014 through March 2015 ( <u>Finding #3</u> ).		X	Agrees

<b>Audit Objective</b>			<b>Conclusion</b>
Objective #2: To assess the sufficiency of MGCB's monitoring activities for tribal gaming to ensure compliance with tribal and State gaming compacts, federal law, and related consent judgments.			Sufficient
<b>Findings Related to This Audit Objective</b>	<b>Material Condition</b>	<b>Reportable Condition</b>	<b>Agency Preliminary Response</b>
None reported.	Not applicable	Not applicable	Not applicable

A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: [www.audgen.michigan.gov](http://www.audgen.michigan.gov)

Office of the Auditor General  
201 N. Washington Square, Sixth Floor  
Lansing, Michigan 48913

**Doug A. Ringler, CPA, CIA**  
Auditor General

**Laura J. Hirst, CPA**  
Deputy Auditor General



# OAG

Office of the Auditor General

201 N. Washington Square, Sixth Floor • Lansing, Michigan 48913 • Phone: (517) 334-8050 • [www.audgen.michigan.gov](http://www.audgen.michigan.gov)

**Doug A. Ringler, CPA, CIA**  
Auditor General

December 28, 2016

Mr. Robert L. Anthony, Chair  
Michigan Gaming Control Board  
Cadillac Place  
Detroit, Michigan  
and  
Mr. Richard S. Kalm, Executive Director  
Michigan Gaming Control Board  
Lottery Building  
Lansing, Michigan  
and  
Mr. Nick A. Khouri  
State Treasurer  
Richard H. Austin Building  
Lansing, Michigan

Dear Mr. Anthony, Mr. Kalm, and Mr. Khouri:

I am pleased to provide this performance audit report on the Michigan Gaming Control Board, Department of Treasury.

We organize our findings and observations by audit objective. Your agency provided preliminary responses to the recommendations at the end of our fieldwork. The *Michigan Compiled Laws* and administrative procedures require an audited agency to develop a plan to comply with the recommendations and submit it within 60 days of the date above to the Office of Internal Audit Services, State Budget Office. Within 30 days of receipt, the Office of Internal Audit Services is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

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

Sincerely,

Doug Ringler  
Auditor General



## TABLE OF CONTENTS

### MICHIGAN GAMING CONTROL BOARD

	<u>Page</u>
Report Summary	1
Report Letter	3
Audit Objectives, Conclusions, Findings, and Observations	
Regulatory and Enforcement Activities for Charitable Gaming and the Detroit Commercial Casinos	8
Findings:	
1. Revisions to the occupational licensing process needed to be in compliance with the administrative rules.	10
2. Updates needed to MICS and compliance monitoring procedures.	12
3. Completion of monitoring inspections at the required intervals and frequencies will improve the value of the oversight process.	14
Monitoring Activities for Tribal Gaming	16
Supplemental Information	
Exhibit #1 - Commercial Casino Receipts and Wagering Taxes	17
Exhibit #2 - Annual State Wagering Tax Collections by Commercial Casino	18
Exhibit #3 - Proportion of Nationwide Commercial Casino Gaming Gross Revenue by State	19
Exhibit #4 - Michigan Casino Locations	20
Agency Description	21
Audit Scope, Methodology, and Other Information	23
Glossary of Abbreviations and Terms	27





# AUDIT OBJECTIVES, CONCLUSIONS, FINDINGS, AND OBSERVATIONS

# REGULATORY AND ENFORCEMENT ACTIVITIES FOR CHARITABLE GAMING AND THE DETROIT COMMERCIAL CASINOS

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## BACKGROUND

The Michigan Gaming Control Board (MGCB) is responsible for issuing occupational licenses to the employees of the three Detroit commercial casinos\* whose work duties are related to, or involved in, the gambling operation or are performed in a gaming area or other restricted area of a casino. *Michigan Administrative Code R 432.1332 - 432.1334* detail three types of occupational licenses to be issued by MGCB:

- Level 3 - Issued to individuals employed by a casino licensee or supplier licensee and whose employment duties do not require a level 1 or level 2 occupational license but are performed in the casino gaming area or affect gambling operations.

Applicants are subject to a criminal history background search, a search for delinquent taxes, a review of prior gaming license history, and a limited financial review that includes bankruptcies and certain other ownership interests in business entities with a gaming license.

- Level 2 - Issued to individuals whose employment duties predominantly involve the maintenance, servicing, repair, or operation of gambling games; gaming; gaming machines; devices or equipment; or assets associated with the casino licensee or supplier licensee or regularly require work in a restricted casino area. Also, level 2 licenses are issued to individuals who supervise internal audit and accounting personnel.

The applicants are subject to the same requirements as a level 3 license.

- Level 1 - Issued to individuals who supervise specific areas or departments related to, or involved in, the gambling operation or individuals who have the authority to develop or administer policy or long-range plans or make discretionary decisions regulating gambling operations or the management of a casino enterprise and other casino operations. This is the highest level of occupational license.

In addition to the requirements for levels 2 and 3, applicants must submit a personal income statement, statement of net worth, and other various financial schedules.

\* See glossary at end of report for definition.

**AUDIT OBJECTIVE**

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

**CONCLUSION**

Sufficient, with exceptions.

**FACTORS  
IMPACTING  
CONCLUSION**

- MGCB had processes in place to help ensure compliance with millionaire party rules and regulations.
- MGCB conducted appropriate follow-up of anonymous tips and investigation referrals related to charitable gaming and the three commercial casinos.
- MGCB generally followed policies and procedures with regard to vendor and supplier licensing.
- MGCB complied with prior audit findings related to the completion of compliance audits and gaming lab reviews.
- We identified three reportable conditions\* related to revising the occupational licensing process (Finding #1), updating Minimum Internal Control Standards (MICS) (Finding #2), and completing monitoring inspections (Finding #3).

\* See glossary at end of report for definition.

## FINDING #1

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### Revisions to the occupational licensing process needed to be in compliance with the administrative rules.

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MGCB did not appropriately license 9% of the individuals we reviewed who supervised gaming activities at 2 of the 3 Detroit commercial casinos, resulting in inconsistent application of the administrative rules by MGCB. Properly licensing individuals helps ensure that eligible, suitable, and qualified individuals have been selected to work in positions of authority at the commercial casinos. Consistent application of the rules helps ensure a fair and equitable business environment for all three casinos.

*Michigan Administrative Code R 432.1332(a)* requires individuals who supervise specific areas or departments related to, or involved in, the gambling operation to hold a level 1 occupational license. Consistent with this rule, MGCB has communicated on its Web site that level 1 employees include managers or supervisors of cashiers, casino games, and table games. In addition, *Michigan Administrative Code R 432.1201* states that in the interpretation of any rules adopted by MGCB, an ambiguity shall be resolved in favor of the interpretation which would provide either of the following:

- The greater assurance of integrity in the operation or regulation of casino gambling.
- Heightened public confidence in the regulation or regulatory processes relating to casino gambling.

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9% of individuals in level 2 positions at two Detroit commercial casinos were not licensed in accordance with administrative rules.

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We reviewed individuals licensed in level 2 positions for the three Detroit commercial casinos as of May 2015 and noted that 213 (9%) of 2,345 individuals in two casinos were not licensed in accordance with the administrative rules. The individuals should have been licensed as level 1 because they held supervisory positions within the gambling operation as table game supervisors, table game assistant supervisors, table game team leaders, or poker room supervisors.

MGCB informed us that it has the discretion to interpret the administrative rules and has interpreted the rules to require a level 1 license for only those employees who supervise entire departments or who make long-term discretionary decisions. MGCB further stated that the one Detroit commercial casino requested that its employees be licensed at a level 1 when MGCB believed that only a level 2 was necessary.

We believe that the level 1 licenses issued for the one Detroit commercial casino's employees were appropriate and in accordance with the administrative rules and the guidance provided on MGCB's Web site. Also, we believe that the 213 individuals at the other two Detroit commercial casinos should be licensed as level 1. Licensing these individuals as a level 1 would provide both greater assurance of integrity and heightened public confidence in the regulation of casino gambling as prescribed in *Michigan Administrative Code R 432.1201*.

**RECOMMENDATION**

We recommend that MGCB appropriately license individuals who supervise gaming activities at the three Detroit commercial casinos in accordance with the administrative rules.

**AGENCY  
PRELIMINARY  
RESPONSE**

MGCB provided us with the following response:

*MGCB disagrees with the finding and recommendation that 213 additional personnel be reclassified as requiring a Level 1 license. MGCB feels there are minimal risks in ensuring that eligible, suitable, and qualified individuals are selected to work in positions of authority at the commercial casinos by utilizing the current licensing processes.*

## FINDING #2

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### Updates needed to MICS and compliance monitoring procedures.

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MGCB should update its MICS to reflect changes that have occurred in the commercial gaming industry since implementation of these standards in 1999. In addition, MGCB did not develop procedures to monitor compliance with certain required internal control\* standards. Without appropriate monitoring of casino operations, MGCB could not ensure that gaming was always conducted with integrity and in accordance with the Michigan Gaming Control and Revenue Act and administrative rules.

MGCB designed MICS to provide a basic framework for the Detroit commercial casinos in establishing their internal control. MGCB requires the commercial casinos to comply with both MICS and the casinos' documented internal control procedures. MGCB conducts a variety of regulatory and enforcement monitoring procedures to assess the casinos' compliance with MICS and each casino's internal control. These procedures include monitoring inspections, compliance and operation audits, surveillance, and investigations.

During our review, we noted:

- a. Updates to MICS were necessary to reflect changes in the gaming industry, for example:
  - The frequencies of chip inventories required by MICS are more often than the current practice.
  - The storage practices for chip inventories changed, resulting in new security practices.
  - The use of promotional coupons was discontinued and replaced with electronic coupons uploaded to player cards.
  - The use of tokens has been discontinued and replaced by cash-out tickets with the increased use of computerized gaming technology.

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In the prior audit, a 33% exception rate related to procedure development existed. Nine years later, a 22% exception rate remains.

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- b. Procedures were not developed for 22% of MICS.

Our prior audit, issued in June 2007, reported this issue with a 33% exception rate. In response to that audit, MGCB indicated that it would create monitoring procedures for the MICS noted exceptions by December 31, 2007.

Sound internal control requires a periodic review of the established MICS to eliminate controls that are no longer relevant and design and implement new minimum controls that address changes in the commercial gaming industry. In addition, the use and maintenance of MICS by MGCB help to ensure that

\* See glossary at end of report for definition.

standards governing the commercial casinos are applied consistently and fairly at the three Detroit commercial casinos.

MGCB stated that it does not intend to update MICS for changes that occur in the commercial gaming industry because MICS is a framework for use by the casinos to develop their own internal control standards. However, we noted that MICS was referenced on many monitoring inspections and checklists in use during our audit period. Also, MGCB personnel informed us that MICS is used for training purposes.

## **RECOMMENDATIONS**

We recommend that MGCB update its MICS to reflect changes that have occurred in the commercial gaming industry.

We again recommend that MGCB develop procedures to monitor compliance with all internal control standards.

## **AGENCY PRELIMINARY RESPONSE**

MGCB provided us with the following response:

*MGCB disagrees with the finding and recommendation of updating the Minimum Internal Control Standards (MICS). The MICS were initially set up by MGCB as a framework for the commercial casinos to reference when they started their casino operations in 1999. Once the casinos began their operations, responsibility for internal controls shifted to their management. MGCB regulation processes are based on what is contained in the Act, Administrative Rules and the casinos' Internal Control Standards (ICS). MGCB plans on eliminating the MICS and will review checklists, forms, and any other documents that reference the MICS and remove.*

## FINDING #3

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**Completion of monitoring inspections at the required intervals and frequencies will improve the value of the oversight process.**

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MGCB did not always complete compliance monitoring inspections at the required intervals and frequencies. This impacts MGCB's ability to identify noncompliance and the casino's ability to correct it in a timely manner.

Section 432.204a(1)(b) of the *Michigan Compiled Laws* (a section of the Michigan Gaming Control and Revenue Act) requires MGCB to supervise all gambling operations governed by the Act to ensure compliance with the Act, rules, and internal control. To facilitate compliance, MGCB issues quarterly instructional memorandums detailing the intervals and frequencies of the required compliance monitoring inspections.

MGCB developed monitoring inspections to cover 44 compliance activities within casino operations, including table game play, surveillance camera reviews, card and dice controls, and personnel reviews. MGCB requires certain monitoring inspections to be completed multiple times at equal intervals during the quarter that the inspections are assigned.

We selected two consecutive quarters covering the period October 2014 through March 2015 and reviewed 84 compliance monitoring inspections that were required to be completed on a quarterly basis for the period and 567 compliance monitoring inspections that were required to be completed on a monthly basis. We noted:

- a. Regulation officers did not complete 12 (14%) of the 84 required quarterly monitoring inspections.

These inspections covered 14 compliance activities within the casino.

- b. Regulation officers completed 237 (42%) of the 567 monitoring inspections within a 30-day period instead of equally throughout the quarters reviewed.

These inspections covered 10 compliance activities within the casino and required each regulation officer to generally complete one inspection per month per compliance activity. Also, 92 (39%) of the 237 monitoring inspections were completed within a one-week period instead of equally throughout the quarter.

MGCB informed us that quarterly monitoring inspections were not reassigned when it was determined that a regulation officer was unavailable to complete the assigned inspections. Also, MGCB did not monitor the intervals and frequencies to ensure that monitoring inspections were being completed equally throughout the quarter.

## RECOMMENDATION

We recommend that MGCB complete compliance monitoring inspections at the required intervals and frequencies.



**AGENCY  
PRELIMINARY  
RESPONSE**

MGCB provided us with the following response:

*MGCB agrees with the recommendation to complete compliance monitoring inspections at the required intervals and frequencies. MGCB created and issued a policy in March of 2016 for additional assurance that monitoring inspections are completed at the required intervals and frequencies.*

## MONITORING ACTIVITIES FOR TRIBAL GAMING

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### BACKGROUND

The Indian Gaming Regulatory Act of 1988 (IGRA) authorized Indian tribes to operate casino gaming on tribal lands. Under IGRA, class III gaming\* activities are lawful on Indian lands only if such activities are conducted in conformance with a tribal and State gaming compact\*.

The compacts provide that the regulation of Indian casino gaming is the responsibility of the tribes. Michigan recognized the tribes as individual sovereign nations and, therefore, has no regulatory authority over class III gaming conducted on Indian lands. Although the State of Michigan does not regulate Indian casino gaming, the State does have oversight authority over compliance with the provisions of the compacts and related consent judgments\*.

### AUDIT OBJECTIVE

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

### CONCLUSION

Sufficient.

### FACTORS IMPACTING CONCLUSION

- MGCB utilized annual Indian gaming audit plans to provide oversight of the 12 federally recognized State of Michigan tribes and their compliance with the State gaming compacts, federal law, and related consent judgments.
- MGCB's monitoring procedures verified that the tribal casinos completed background checks for casino employees and issued mandated payments to municipalities and the Michigan Strategic Fund.
- Since the prior audit, MGCB incorporated a review of expenditures into the periodic on-site compliance audits of tribal records.

\* See glossary at end of report for definition.

# SUPPLEMENTAL INFORMATION

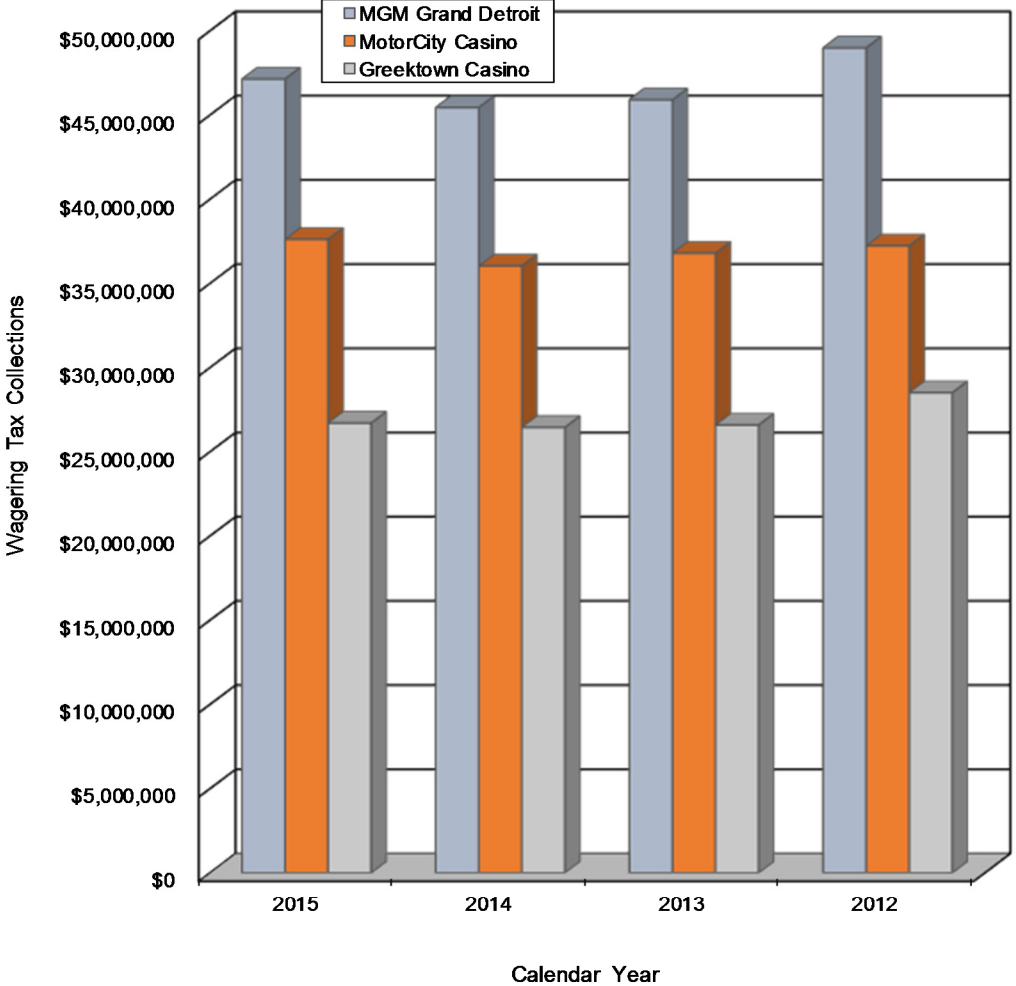
UNAUDITED  
Exhibit #1

MICHIGAN GAMING CONTROL BOARD  
Commercial Casino Receipts and Wagering Taxes  
Calendar Year 2015

Month	MGM Grand Detroit		MotorCity Casino		Greektown Casino		All Detroit Casinos	
	Total Adjusted Revenue	State Wagering Tax (8.10%)	Total Adjusted Revenue	State Wagering Tax (8.10%)	Total Adjusted Revenue	State Wagering Tax (8.10%)	Total Adjusted Revenue	State Wagering Tax (8.10%)
January	\$ 46,227,017	\$ 3,744,388	\$ 38,061,452	\$ 3,082,978	\$ 26,733,376	\$ 2,165,403	\$ 111,021,845	\$ 8,992,769
February	47,523,251	3,849,383	39,023,484	3,160,902	27,875,609	2,257,924	114,422,344	9,268,210
March	49,824,134	4,035,755	43,432,911	3,518,066	30,646,861	2,482,396	123,903,906	10,036,216
April	51,849,138	4,199,780	40,532,402	3,283,125	28,167,336	2,281,554	120,548,876	9,764,459
May	51,747,440	4,191,543	39,825,609	3,225,874	28,242,004	2,287,602	119,815,053	9,705,019
June	47,328,472	3,833,606	37,006,364	2,997,516	25,595,356	2,073,224	109,930,192	8,904,346
July	48,731,188	3,947,226	38,735,883	3,137,607	27,306,479	2,211,825	114,773,550	9,296,658
August	43,554,725	3,527,933	37,075,822	3,003,142	26,823,835	2,172,731	107,454,382	8,703,805
September	45,237,115	3,664,206	35,736,055	2,894,620	26,582,832	2,153,209	107,556,002	8,712,036
October	47,477,189	3,845,652	37,769,745	3,059,349	27,592,316	2,234,978	112,839,250	9,139,979
November	46,712,513	3,783,714	36,239,634	2,935,410	25,727,517	2,083,929	108,679,664	8,803,053
December	55,832,577	4,522,439	41,056,001	3,325,536	28,574,794	2,314,558	125,463,372	10,162,533
<b>Total</b>	<b>\$ 582,044,759</b>	<b>\$ 47,145,626</b>	<b>\$ 464,495,363</b>	<b>\$ 37,624,124</b>	<b>\$ 329,868,314</b>	<b>\$ 26,719,333</b>	<b>\$ 1,376,408,437</b>	<b>\$ 111,489,083</b>

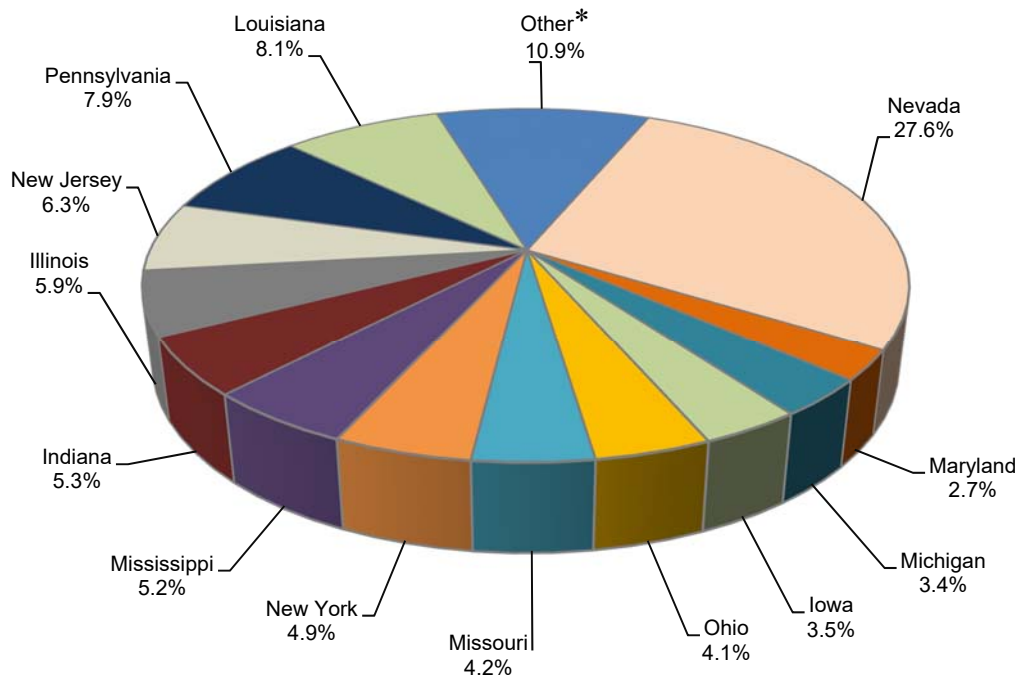
Source: Michigan Gaming Control Board.

**MICHIGAN GAMING CONTROL BOARD**  
**Annual State Wagering Tax Collections by Commercial Casino**  
**For Calendar Years 2012 Through 2015**



Source: The Office of the Auditor General prepared this exhibit based on information provided by the Michigan Gaming Control Board.

MICHIGAN GAMING CONTROL BOARD  
Proportion of Nationwide Commercial Casino Gaming Gross Revenue by State  
Calendar Year 2015



\* The "Other" category includes the following states, which each had less than 2% gross revenue:  
Colorado, Delaware, Florida, Kansas, Maine, New Mexico, Oklahoma, Rhode Island,  
South Dakota, and West Virginia.

Source: The Office of the Auditor General prepared this exhibit based on information from the  
Center for Gaming Research, University Libraries, University of Nevada, Las Vegas.

**MICHIGAN GAMING CONTROL BOARD**  
Michigan Casino Locations  
As of July 2016



Note: Listing does not include the Little Traverse Bay Band - Mackinaw City gaming operation because the Tribe determined that the games conducted at the facility were class II games.

Source: Map provided by Michigan Gaming Control Board was modified by the Office of the Auditor General for reporting purposes.

## AGENCY DESCRIPTION

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The mission\* of 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 the three commercial casinos in Detroit. In July 1997, the Legislature enacted Public Act 69 of 1997, the Michigan Gaming Control and Revenue Act, which provided for more stringent licensing criteria that substantially strengthened the licensing and regulatory authority to enforce the system of casino gambling in the three commercial casinos as well as established State and city casino wagering taxes.

MGCB regulation officers and auditors are present daily in the three commercial casinos in Detroit to help ensure compliance with the Act, the *Michigan Administrative Code*, the casinos' established internal control requirements, and MGCB's established MICS. MGCB also has enforcement authority through the use of fines and nonmonetary penalties against the three commercial casinos in Detroit.

### Tribal Casinos

The MGCB executive director holds the authority to conduct oversight of tribal compacts related to tribal gaming. MGCB conducts inspections of the tribal casino facilities and records for compliance with the provisions of the compacts. This oversight authority includes conducting financial and compliance audits and inspections of the tribal casinos' operations to determine the extent of their compliance with the compacts and related consent judgments. 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 tribal casinos are paying a percentage of the winnings to the Michigan Strategic Fund and to local municipalities, examining casinos' electronic games of chance, and inspecting tribal facilities and documents to ensure compact compliance.

At the time of our review, 12 Native American tribes operated 23 tribal casinos.

### Charitable Gaming

In April 2012, the Governor signed Executive Order No. 2012-4, transferring the licensing and regulation of millionaire parties

\* See glossary at end of report for definition.

from the Michigan Lottery Commissioner to the MGCB executive director, effective June 10, 2012. The five-member gaming control board that regulates the three commercial casinos in Detroit has no authority in regulating charitable gaming activities.

Millionaire parties are events held by qualified organizations (commonly referred to as "charities") where wagers are placed on games of chance customarily associated with casino gaming. The most common millionaire party poker games conducted throughout the State are Texas Hold'em, Omaha, and blackjack.

The Bingo Act (Public Act 382 of 1972) provides the executive director with oversight authority of millionaire parties. Emergency rules were established to regulate millionaire parties while proposed administrative rules were being challenged in the courts. The emergency rules limited the number of millionaire parties per day and per week. The rules also required background checks of dealers to help prevent participation of dealers with known criminal histories. In June 2015, the administrative rules went into effect.

During calendar year 2015, 1,055 charities held 2,820 licensed millionaire party events, resulting in \$89.4 million in self-reported revenues.



## AUDIT SCOPE, METHODOLOGY, AND OTHER INFORMATION

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### AUDIT SCOPE

To examine the program and other records of MGCB. We conducted this performance audit\* in accordance with 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.

Although MGCB is responsible for oversight of horse racing, it was not included within the scope of this audit.

### PERIOD

Our audit procedures, which included a preliminary survey, audit fieldwork, report preparation, analysis of agency responses, and quality assurance, generally covered October 1, 2013 through May 31, 2015.

### METHODOLOGY

We conducted a preliminary survey to gain an understanding of MGCB's operations and activities in order to establish our audit objectives, scope, and methodology. During our preliminary survey, we:

- Interviewed MGCB management and staff to obtain an overall understanding of MGCB's operations, activities, and internal control.
- Reviewed applicable *Michigan Compiled Laws* and *Michigan Administrative Code* requirements.
- Reviewed MGCB prepared annual reports.
- Reviewed various MGCB audit and enforcement processes related to:
  - Compliance audit requirements.
  - Monitoring inspection requirements.
  - Millionaire party enforcement.
- Reviewed MGCB records for the three Detroit commercial casinos, including:
  - Internal control standards.
  - Audit plans.
  - Compliance audits.

\* See glossary at end of report for definition.

- Reviewed records related to tribal gaming oversight.
- Reviewed activities within the gaming lab.

## **OBJECTIVE #1**

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

To accomplish this objective, we:

- Reviewed MICS to ensure that there was sufficient coverage within monitoring inspections and compliance audits.
- Judgmentally selected 6 of 22 compliance audits to ensure that the audits were completed and communicated to the casinos.
- Judgmentally selected 2 quarters and reviewed monitoring inspections to ensure completion as required.
- Randomly selected 15 daily tax returns to ensure that supporting documentation was provided with the completed tax return.
- Conducted data analysis on all level 2 Detroit commercial casino employees to ensure that occupational licensing was appropriate.
- Randomly selected 10 of 139 investigations and 10 of 102 anonymous tips to ensure that proper follow-up was conducted.

## **OBJECTIVE #2**

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

To accomplish this objective, we:

- Randomly selected 3 of 12 tribes to ensure:
  - MGCB completed the audits and provided the results to the tribes.
  - Background check verifications were included in the review.

- Randomly selected 3 and judgmentally selected 1 of 12 tribes and reviewed completed compliance audits to ensure:
  - Net win calculations were included in the review and properly reported in the tribe's audit report.
  - 2% payments were reviewed.
  - Expenditure review included alcohol purchases and employee benefits.

## **CONCLUSIONS**

We base our conclusions on our audit efforts and any resulting material conditions\* or reportable conditions.

When selecting activities or programs for audit, we direct our efforts based on risk and opportunities to improve State government operations. Consequently, we prepare our performance audit reports on an exception basis.

## **AGENCY RESPONSES**

Our audit report contains 3 findings and 4 corresponding recommendations. MGCB's preliminary response indicates that it disagrees with 3 recommendations and agrees with 1 recommendation.

The agency preliminary response that follows each recommendation in our report was taken from the agency's written comments and oral discussion at the end of our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and the State of Michigan Financial Management Guide (Part VII, Chapter 4, Section 100) require an audited agency to develop a plan to comply with the recommendations and submit it within 60 days after release of the audit report to the Office of Internal Audit Services, State Budget Office. Within 30 days of receipt, the Office of Internal Audit Services is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

\* See glossary at end of report for definition.

**PRIOR AUDIT  
FOLLOW-UP**

Following is the status of the reported findings from our June 2007 performance audit of the Michigan Gaming Control Board, Department of Treasury (271-0900-06):

<u>Prior Audit Finding Number</u>	<u>Topic Area</u>	<u>Current Status</u>	<u>Current Finding Number</u>
1	Completion of Compliance Audits	Complied	Not applicable
2	Monitoring of Internal Control Standards	Repeated	2b
3	Periodic Review of Gaming Lab Evaluations	Complied	Not applicable
4	Performance of Oversight Activities	Complied	Not applicable
5	Acquisition of Audited Financial Reports	Complied	Not applicable

**SUPPLEMENTAL  
INFORMATION**

Our audit report includes supplemental information that relates to our audit objectives (Exhibits #1 through #4). Our audit was not directed toward expressing a conclusion on this information.

## **GLOSSARY OF ABBREVIATIONS AND TERMS**

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class III gaming	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: 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 the United States district court providing for the 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.
IGRA	Indian Gaming Regulatory Act of 1988.
internal control	The plan, policies, methods, and procedures adopted by management to meet its mission, goals, and objectives. Internal control includes the processes for planning, organizing, directing, and controlling program operations. It also includes the systems for measuring, reporting, and monitoring program performance. Internal control serves as a defense in safeguarding assets and in preventing and detecting errors; fraud; violations of laws, regulations, and provisions of contracts and grant agreements; or abuse.
material condition	A matter that, in the auditor's judgment, is more severe than a reportable condition and could impair the ability of management to operate a program in an effective and efficient manner and/or could adversely affect the judgment of an interested person concerning the effectiveness and efficiency of the program.
MGCB	Michigan Gaming Control Board.
MICS	Minimum Internal Control Standards.
mission	The main purpose of a program or an entity or the reason that the program or the entity was established.

performance audit An audit that provides findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria. Performance audits provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.

reportable condition A matter that, in the auditor's judgment, is less severe than a material condition and falls within any of the following categories: an opportunity for improvement within the context of the audit objectives; a deficiency in internal control that is significant within the context of the audit objectives; all instances of fraud; illegal acts unless they are inconsequential within the context of the audit objectives; significant violations of provisions of contracts or grant agreements; and significant abuse that has occurred or is likely to have occurred.

tribal and State gaming compacts The written agreements between the 12 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, U.S. Department of the Interior.



