

**Joint Legislative Committee on Performance
Evaluation and Expenditure Review (PEER)**

Report to
the Mississippi Legislature



Gaming Regulation in Mississippi: A Progress Report

The Mississippi Gaming Commission (MGC) is responsible for regulating casino gaming in the state. The state's casino environment has been impacted by the recent amendment to state law that allows expansion of casino operations and by a shift to more sophisticated technology on the casino floor. Also, Hurricane Katrina and the downturn in the economy have impacted what were increasing gaming revenues in the state.

Since its last review of the MGC in 2001, PEER has found improvements in the commission's regulation of casino gaming (e. g., thoroughness and documentation of Corporate Securities investigations, timely issuance of work permits, frequency of compliance audits). However, MGC still has an insufficient Operations Manual for the Compliance Division, no formal inspection program for casinos, inadequate training for enforcement agents, a flawed management information system for enforcement, no unannounced inspections of electronic gaming devices, insufficient technical expertise at the district level, and no written criteria for the approval/modification of table games. Also, the MGC has not yet performed a cost/benefit analysis of the socioeconomic risks of casino gaming in Mississippi.

The MGC also regulates the state's charitable bingo operations, which have declined in Mississippi as casino gaming has become more popular. While there have been few recent changes to the charitable gaming environment, changes to the Charitable Bingo Law have benefited both charities and the MGC.

While data indicates that charitable bingo operations potentially contribute more to the charities they support than in the past, state law does not adequately address the charity fraud risk because it does not authorize the Gaming Commission to track the flow of funds to determine that charitable causes are being supported. Also, the commission lacks written policies for granting licenses of varying lengths, as well as a database to track pertinent information related to bingo hall inspections.

The Legislature's elimination of general fund support for the MGC for FY 2010 reflects a shift in public policy regarding the industry's regulation. The commission must now support regulatory activities through special funds and the casino gaming industry can reasonably be expected to bear the financial responsibility for regulation. The MGC should use this opportunity to bring the casino gaming regulatory structure to a level commensurate with changes in the industry.

August 11, 2009

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The Mississippi Legislature created the Joint Legislative Committee on Performance Evaluation and Expenditure Review (PEER Committee) by statute in 1973. A joint committee, the PEER Committee is composed of seven members of the House of Representatives appointed by the Speaker and seven members of the Senate appointed by the Lieutenant Governor. Appointments are made for four-year terms with one Senator and one Representative appointed from each of the U. S. Congressional Districts. Committee officers are elected by the membership with officers alternating annually between the two houses. All Committee actions by statute require a majority vote of four Representatives and four Senators voting in the affirmative.

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The Committee assigns top priority to written requests from individual legislators and legislative committees. The Committee also considers PEER staff proposals and written requests from state officials and others.

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The Mississippi Legislature

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August 11, 2009

Honorable Haley Barbour, Governor
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On August 11, 2009, the PEER Committee authorized release of the report entitled
Gaming Regulation in Mississippi: A Progress Report.

A handwritten signature in cursive script that reads "Harvey Moss". The signature is written in black ink and is positioned above a horizontal line.

Representative Harvey Moss, Chair

This report does not recommend increased funding or additional staff.

Table of Contents

Letter of Transmittal	i
List of Exhibits	v
Executive Summary	vii
Introduction	1
Authority	1
Purpose and Scope	1
Method	2
Background	3
Risks to the Public from Legalized Gaming	3
Statutory Authority and Public Policy for Regulation of Gaming in Mississippi	4
The Mississippi Gaming Commission: Board Composition and Staffing	7
Revenues and Expenditures of the Gaming Commission	9
Summary of Previous PEER Reports on the Regulation of Gaming	12
Regulation of Casino Gaming	14
Environmental Analysis: Casino Gaming	15
Corporate Investigations	23
Show Cause Cases and Hearings	27
Work Permits	28
Key Employees	30
Ongoing Compliance Reviews of Licensees	31
Enforcement	37
Oversight of Electronic Gaming Devices	46
Need for Additional Policies for Gaming Regulation	53
Monitoring Socioeconomic Risks of Casino Gaming	56
Implications for Funding Casino Gaming Regulation in Mississippi	58
Regulation of Charitable Bingo	62
Environmental Analysis: Charitable Bingo	62
Conclusions Regarding MGC’s Charitable Bingo Regulation	67
Recommendations	77
Appendix A: Descriptions of Regulatory or Other Fees and Taxes Charged by Other States with Legalized Casino Gaming	81
Appendix B: Casinos and Mississippi Gaming Commission Offices	102

Table of Contents (Continued)

Appendix C:	Bingo Halls Regulated by the MGC Charitable Gaming Division.....	103
Appendix D:	Casino Gross Gaming Revenues for Calendar Years 1993 through 2008	104
Appendix E:	Tax Revenues from Gaming for Fiscal Years 1993 through 2008	105
Appendix F:	MGC Quarterly Survey, January 11, 2009, through March 31, 2009.....	106
Agency Response	107

List of Exhibits

1. Mississippi’s Monthly Gaming Gross Revenue Tax Structure 5

2. Organizational Structure of the Mississippi Gaming Commission
with Numbers of Authorized Positions 10

3. Number of Casinos by District, County, and City..... 11

4. MGC’s Revenue Sources and Expenditures for FYs 2004-08..... 12

5. Casino Gross Gaming Revenues for Calendar Years 1993 through 2008 18

6. Tax Revenues from Gaming for Fiscal Years 1993 through 2008 19

7. Casino Revenues and Percentage Declines from 2007 to 2008 for Selected States.... 20

8. States with Graduated Tax Structure for Gaming..... 61

9. States with Fixed Tax Rate Structure for Gaming..... 61

10. Number of Bingo Halls Regulated from Fiscal Years 1997 through 2008..... 65

11. Bingo Gross Receipts from Fiscal Years 1997 through 2008..... 66

12. Percentage of Gross Receipts Transferred to Charity Accounts
from Fiscal Years 1997 to 2008 72

Gaming Regulation in Mississippi: A Progress Report

Executive Summary

Introduction

The Mississippi Legislature legalized dockside gaming in 1990 through the Mississippi Gaming Control Act (MISS. CODE ANN. Section 75-76-1 et seq. [1972]). In 1992, the Legislature legalized charitable gaming through the Charitable Bingo Law (MISS. CODE ANN. Section 97-33-50 et seq. [1972]). The Mississippi Gaming Commission (MGC) is responsible for the regulation of both casino gaming and charitable bingo.

The purpose of this review was to provide a progress report on the Mississippi Gaming Commission's performance in regulating casino gaming and charitable bingo. The review was structured primarily as a follow-up of PEER's previous reports (in 1996, 1997, and 2001) on the regulation of gaming in Mississippi.

Regulation of Casino Gaming

Overview

In its environmental analysis of casino gaming in Mississippi, PEER found that the casino environment has been impacted by the recent amendment to state law that allows for expansion of casino operations and by a shift to sophisticated technology on the casino floor. In addition, Hurricane Katrina and the downturn in the economy have impacted what were increasing gaming revenues in the state.

PEER found improvements in the Gaming Commission's regulation of casino gaming since its last review (e. g., thoroughness and documentation of Corporate Securities investigations, timely issuance of work permits, frequency of compliance audits). However, MGC still has deficiencies in the following areas: show cause cases, ongoing

compliance reviews, enforcement, oversight of electronic gaming devices, and approval/modification of table games.

The following are specific follow-up conclusions regarding the Gaming Commission's regulation of casino gaming.

Conclusions

Corporate Investigations

- The Compliance Division: Corporate Securities Section now performs extensive and detailed analyses on applicants for gaming licenses, registration, or findings of suitability.
- The MGC's Compliance Division's Corporate Securities Section now documents its investigation procedures and maintains workpapers to show evidence that it has performed background checks, financial analyses, and other pertinent analyses of applicants for casino gaming licenses in Mississippi.

Show Cause Cases and Hearings

- Although MGC's Legal Division now uses a show cause inventory to help the MGC ensure consistency in assessing fines for violations of the Gaming Control Act and MGC regulations, the inventory does not include information on the rationale for the fine amount or explanation when a fine is not charged.

Work Permits

- Because the MGC has moved to electronic fingerprinting and background checks, the agency now takes an average of three to four business days to process and issue employee work permits. Since processing time has decreased, MGC no longer issues permits prematurely.

Key Employees

- The MGC's Investigations Division now uses a key employee database to track those casino employees who hold a key employee license.

Ongoing Compliance Reviews of Licensees

- The MGC Compliance Division has completed eighteen of twenty audits on the Mississippi River casinos in the past two years and is on schedule to maintain its goal of auditing licensees once every two years by the end of Calendar Year 2009.
- The content of the MGC Compliance Division's Operations Manual is not sufficient to guide compliance auditors through the compliance audit process because it lacks some information crucial to understanding the elements of casino auditing.

Enforcement

- The MGC's Enforcement Division still lacks a formal inspection program that would include a plan for conducting unannounced inspections of casino operations a pre-determined number of times to ensure adequate monitoring of the fair play of casino games.
- MGC does not provide adequate training for enforcement agents regarding MGC's regulations, table games, and electronic gaming devices and equipment. Thus MGC does not ensure that enforcement agents have the knowledge, skills, and abilities necessary to ensure that gaming is conducted honestly and competitively.
- MGC's management information system for enforcement does not maintain pertinent information related to enforcement activities and agents have no guidelines as to how to classify activities. As a result, MGC cannot effectively use the system as a managerial tool to monitor trends, target resources at specific risk areas, and assess the effectiveness of enforcement activities.

Oversight of Electronic Gaming Devices

- MGC now licenses independent testing labs that test electronic gaming devices. MGC's Gaming Lab reviews test results and reports submitted by the independent testing labs before approving gaming devices for use in the state.
- Although changes in the gaming industry suggest a need for increased focus on electronic gaming devices, the MGC does not aggressively monitor the integrity of such games through regular,

unannounced inspections of electronic gaming devices and does not use proper methodology in its inspections.

- MGC has not ensured that its district offices have the level of technical knowledge and expertise needed to monitor the integrity of electronic gaming devices prevalent in modern casinos.

Need for Additional Policies for Gaming Regulation

- Even though the MGC staff state that they have criteria for approval or modification of table games, the MGC still has not developed written criteria for approval or modification of table games.

Monitoring Socioeconomic Risks of Casino Gaming

- The MGC has not conducted a cost/benefit analysis of the casino gaming industry in Mississippi.

Implications for the Funding of Casino Gaming Regulation in Mississippi

In the 2009 Second Extraordinary Session, the Legislature eliminated general fund support to the MGC. The commission must now support regulatory activities through special funds and PEER believes that the lucrative casino gaming industry can reasonably be expected to bear the financial responsibility for regulation. The MGC should use this opportunity to bring the casino gaming regulatory structure to a level commensurate with changes in the industry.

Regulation of Charitable Bingo

Overview

In its environmental analysis of charitable bingo in Mississippi, PEER found that charitable gaming activities have declined in Mississippi as casino gaming has become more popular. While there have been few changes to the charitable gaming environment, these changes to the Charitable Bingo Law have benefited both the charities and the MGC.

While data indicates that charitable bingo operations now contribute potentially more to the charities they support than in the past, state law does not adequately address the charity fraud risk because it does not authorize the Gaming Commission to track the flow of funds to determine whether charitable causes are being supported. Also, the commission lacks written policies for granting licenses of varying lengths, as well as a database to track pertinent information related to bingo hall inspections.

The following are specific follow-up conclusions regarding the Gaming Commission's regulation of charitable bingo.

Conclusions

Protection Against the Charity Fraud Risk

- State law does not provide the MGC with authority to inquire closely into the operations of charitable organizations and monitor their transactions to ensure that bingo halls are truly supporting charitable causes.

Contributions to Charity Accounts

- Although total gross bingo receipts declined from FY 1997 to FY 2008, the percentage of gross bingo receipts transferred to charity accounts increased during the same period, indicating that charitable bingo operations now contribute potentially more to the charities they support than they did in the past.

Written Policies Regarding Licensing Periods

- State law now authorizes the MGC to award licenses for holding, operating, or conducting bingo games for up to three years. However, MGC does not have a written policy that guides its decision-making process for determining the length of a bingo hall's license. Thus the potential exists for licensing decisions to be subjective or inconsistent.

Management Information System

- The Charitable Gaming Division lacks a database for tracking pertinent information related to bingo hall inspections, which hinders management's ability to analyze problem areas and to ensure

compliance with bingo laws and regulations for every hall in the state.

Recommendations

Regulation of Casino Gaming

1. The MGC should continue to maintain the casino show cause inventory it has created. However, the MGC should develop and implement a penalty matrix to further assure that fines are being assessed consistently.

The penalty matrix should include, but not be limited to, written explanations of the following:

- the seriousness of the violation, including but not limited to the nature, circumstances, extent, and the gravity of the violation(s);
 - the damage caused by the violation;
 - history of previous violations;
 - the amount necessary to deter future violations; and,
 - efforts made to correct the violation.
2. The MGC Compliance Division should create a more comprehensive Operations Manual that includes written procedures and items to assist auditors in understanding the elements of casino auditing, such as representative diagrams of the casino cage and money count rooms in a casino, flow charts of casino operations and copies of documents that auditors must review during compliance review, in order to give the Compliance Division employees a better understanding of casino auditing in general.
 3. The MGC should implement and document a casino inspection program that would include review of all facets of casino operations. The program should include a method for random selection of elements to be reviewed. The MGC should schedule these inspections so that every casino is subject to periodic inspection.

This inspection program should include:

- a rotating work schedule for enforcement personnel to provide coverage seven days per week, twenty-four hours per day for conducting surprise inspections;

- a comprehensive inspection system that uses a detailed checklist to document which casino was inspected, when, by whom, the number of monthly inspections for the operation, the inspection results, applicable state authority (statute and regulation reference), and a short summary statement for any violation;
 - a mandated number of MGC sweep inspections for inspecting all facets of an entire casino operation simultaneously; and,
 - use of a management information database to plan and manage the inspection schedule. District personnel should document all inspection results in this system for management analysis.
4. MGC should establish a formal training program for all new enforcement agents on the regulations offered by the Legal Division. The program should include:
 - assessing the training need;
 - ensuring that agents apply what they learned from training to the job;
 - developing an evaluation plan;
 - choosing a training method; and,
 - monitoring and evaluating the training program.
 5. The MGC Gaming Lab should provide formal training for all enforcement agents on existing and new gaming technology.
 6. The MGC should modify its management information system so that managers can analyze data to identify risk areas and assess the agency's performance. The system should have categories in its drop-down menu for documenting when agents have completed inspections (listed by type) and firmware audits. MGC should operationally define each category to ensure consistent entries by staff. The system should also allow for categorization of any findings of investigations or other incidents.
 7. The MGC should re-evaluate its enforcement activities (e. g., jackpot verifications) in light of the current casino environment and prioritize its activities based on the highest risks in the environment. Specifically, MGC should focus more effort on establishing a formal electronic gaming

device inspection program that includes regular, unannounced visits to all casinos.

8. The MGC should use a statistically valid random sample for electronic gaming device inspections and firmware audits to ensure that all devices, within the error rate, are operating fairly and honestly.
9. The MGC should verify that all devices are accounted for before selecting a statistical sample for slot inspections. To accomplish this, MGC could request a casino slot area floor plan and conduct a check to ensure that all machines are accounted for. The sample could be taken randomly from the floor plan.
10. Given the increasingly technical nature of the gaming environment, the Gaming Commission should develop a plan to transition to a technically specialized staff in critical areas of oversight. The MGC should seek appropriations authority to use fees and fines to fund the needed changes and should, through attrition, modify its current enforcement staffing plan to include knowledge and expertise in computer science, casino technology, engineering, or similar backgrounds. The MGC should fill any vacant enforcement positions with technically trained staff and, as current agents leave the MGC, each of the resulting vacancies should be evaluated for the need for specialized technical training.
11. As PEER recommended in 1996 and 2001, the Gaming Commission should develop written policies and procedures to ensure that table games and their modifications are approved in a consistent manner on a statewide basis. The policies, which should supplement the current New Table Games Policy and should be used by the training director and enforcement agents, should include:
 - criteria for the agency to use in determining whether table games are being conducted honestly and competitively according to MISS. CODE ANN. Section 75-76-3 (1972);
 - criteria for enforcement agents to determine whether to approve modifications; and,
 - policies and procedures for enforcement agents to determine how and when to approve table game modifications and when they should be forwarded to the training director for review.

12. The Legislature should consider mandating that MGC conduct a cost/benefit analysis of the state's gaming industry to consider the industry's position in relation to the public policy of the state. The analysis should be funded through fines and fees paid by the industry.

Regulation of Charitable Bingo

13. The Legislature should amend MISS. CODE ANN. Section 97-33-57 (1972) to authorize the MGC to:
 - require that bingo licensees submit plans to the commission detailing what charitable activity they intend to support for the period of the license;
 - audit the transfers of funds from licensees to any other entity that has one or more common officers;
 - revoke the license of any licensee that has failed to comply with the provisions of its business plans or that makes contributions to any organization failing to provide material support (as defined by the commission) for charitable activities; and,
 - ensure that revenue from charitable bingo operations is used in support of charitable purposes.

The commission should have the authority to determine how funds generated from bingo operations and transferred to the charity account are expended. The commission should also have the authority to determine what percentage of the funds from bingo operations may be used to support a charity's management and general expenses and how much must be used to support charitable purposes.

14. In order to ensure that the length of licenses to hold, operate, or conduct bingo games is determined in a fair and consistent way, MGC should develop written policies and guidelines that outline criteria that MGC will follow in awarding licenses.
15. The MGC should develop a database to track information related to bingo hall inspections.

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Gaming Regulation in Mississippi: A Progress Report

Introduction

Authority

The PEER Committee assessed the recent progress of the Mississippi Gaming Commission (MGC) in regulating legalized gaming in Mississippi. PEER conducted the review pursuant to the authority granted by MISS. CODE ANN. Section 5-3-57 et seq. (1972).

Purpose and Scope

The purpose of this review was to evaluate the MGC's performance in regulating casino gaming and charitable bingo in Mississippi. The review was structured primarily as a follow-up of PEER's previous reports on the regulation of gaming in Mississippi:

- *A Review of the Adequacy of the Mississippi Gaming Commission's Regulation of Legalized Gambling in Mississippi* (1996);
- *An Evaluation of the Mississippi Gaming Commission's Bingo Division* (1997); and,
- *A Management Review of the Gaming Commission* (2001).

(See page 12 for summaries of these reports.)

In this 2009 report, PEER sought to:

- revisit conclusions of these previous reports and assess MGC's progress regarding those issues,

- summarize environmental and regulatory changes in gaming since these prior reviews, and,
- assess MGC's regulatory effectiveness in view of the current gaming environment.

Method

In conducting this review, PEER:

- reviewed state laws and regulations governing gaming in Mississippi;
- reviewed records of the MGC;
- interviewed MGC staff and staff of gaming regulators in other states; and,
- reviewed gaming literature.

Background

State law authorizes two forms of legalized gaming in Mississippi: casino gaming and charitable bingo. This chapter provides background information for both forms of legalized gaming, including:

- risks to the public;
- statutory authority and Mississippi's public policy regarding gaming;
- composition of the Gaming Commission and its staff; and,
- revenues and expenditures.

The chapter concludes with summaries of PEER's three previous reports on the regulation of gaming in Mississippi.

Risks to the Public from Legalized Gaming

Risks associated with legalized gaming include criminal, public health and safety, economic, and social risks.

Risks of Casino Gaming

Criminal risks in casino gaming include cheating on games by patrons or casinos, as well as the potential for increase in white collar and organized crime. In terms of public health and safety, concerns include safety of the gambling vessels, environmental issues such as encroachment of casino-related construction on wetlands, and traffic control and safety.

An example of an economic risk of casino gaming would be the shifting of discretionary consumer dollars away from existing businesses. To the extent that casino patrons are local residents, a portion of the dollars that they spend in casinos might be dollars that they previously would have spent in other local businesses. Local restaurants and bars especially might be affected, as casinos subsidize their own restaurants and bars as a means of attracting gambling patrons.

Regarding the bottom-line economic impact of gaming, evidence indicates that the aggregate direct and indirect impacts of construction, operation, and taxation of casinos are significantly positive on the economy. Although the overall economic impact of gaming might be positive, social costs (such as problem and pathological gambling) could have negative impacts on individuals, families, and communities. Estimating the costs of problem and pathological gaming is difficult, but these costs could include individual and family suffering through job loss, bankruptcy, poor physical or mental health, or interaction with the criminal justice system.

Risks of Charitable Bingo

The principle risks associated with charitable bingo are the charity fraud risk, the cheat risk, and the level playing field risk. The most significant risk, the charity fraud risk, refers to the temptation of bingo licensees to operate their halls for purposes other than the support of charity. Their purpose for doing this could be to either skim funds for criminal purposes, launder funds from illegal operations through a bingo hall, or to use funds legally obtained for the support of non-charitable activities.

Another significant risk is the cheat risk, which refers to people who gamble being cheated by operators whose purpose is to take money without providing a fair chance of winning. Finally, the level playing field risk refers to large bingo halls that make it difficult for smaller halls to compete.

Statutory Authority and Public Policy for Regulation of Gaming in Mississippi

Statutory Authority: Casino Gaming Regulation

The Mississippi Legislature legalized dockside gaming in 1990 with passage of the Mississippi Gaming Control Act (MISS. CODE ANN. Section 75-76-1 et seq.). The first dockside casino, the Isle of Capri-Biloxi, opened in August 1992. Although the Gaming Control Act temporarily placed organizational responsibility for enforcement of the act with the State Tax Commission, it mandated that effective October 1, 1993, this responsibility would transfer to an independent Mississippi Gaming Commission.

The primary regulatory tools contained in the Gaming Control Act to be utilized by the MGC include:

- licensing/permitting (e. g., licensing all establishments where games are conducted or operated);
- rulemaking (e. g., limiting the area, games, and devices permitted in a gaming establishment); and,
- monitoring (e. g., conducting regular casino inspections).

According to MISS. CODE ANN. Section 75-76-45 and 75-76-51 (1972), the MGC is responsible for setting minimum internal controls for the industry and establishing definitions of gross revenue, which are necessary to ensure that the casinos actually pay the state what it is due.

The Gaming Control Act also authorized the state and local governments to impose a variety of gaming taxes and fees. MISS. CODE ANN. Section 75-76-177 (1972) governs Mississippi’s gaming gross revenue tax structure. Mississippi’s minimum graduated tax rate is the second lowest of all gaming states. (See page 60 for additional discussion.) Exhibit 1, below, shows this graduated tax structure. Although the minimum tax rate is 4%, the threshold to tax 8% is \$134,000 gross revenue per month. The gaming industry meets this standard consistently and therefore, casinos are charged the 8% tax.

Exhibit 1: Mississippi’s Monthly Gaming Gross Revenue Tax Structure

First \$50,000 Monthly Gross Revenue	4%
Next \$84,000 Monthly Gross Revenue	6%
All Monthly Gross Revenue over \$134,000	8%

SOURCE: MISS. CODE ANN. § 75-76-177 (1972).

MISS. CODE ANN. Section 75-76-191 (1972) levies additional fees based on the number of games operated by the casino. (See Appendix A, page 81, for descriptions of regulatory or other fees and taxes charged by other states with legalized casino gaming.)

MISS. CODE ANN. Section 75-76-195 (1972) allows municipalities to impose fees on casinos operating within the municipalities (up to 0.8% for all monthly gross revenues over \$134,000). This tax has been imposed in Bay St. Louis, Gulfport, Biloxi, Tunica County, Natchez, Greenville, Vicksburg, Hancock County, and Coahoma County. Almost all local governments levy an additional 3.2% casino tax to increase the local receipt to 4 percent.

Statutory Authority: Charitable Bingo Regulation

In 1992, the Legislature legalized charitable gaming with the passage of the Charitable Bingo Law (MISS. CODE ANN. Section 97-33-50 et seq.), which establishes the terms and conditions under which bingo may be legally conducted in Mississippi. These sections establish a procedure for licensing entities eligible to conduct bingo, define legally acceptable expenditures for such entities, and provide for the licensing of suppliers and other persons who provide support to the bingo industry. Such controls are established to enable the state to determine whether licensees meet the requirements of MISS. CODE ANN. Section 97-33-51 et seq. (1972). That section requires that an entity be a charitable organization as defined in law, that the members in charge of the bingo games are of good moral character, and that the games are to be conducted in accordance with state laws and rules of the commission. The commission may not issue licenses to people who have been convicted of gambling-related offenses or people who are “professional gamblers.” Firms that have as officers or directors any persons who have been convicted of such offenses are also barred from licensure. These provisions are also intended to control the amount and recipients of bingo proceeds to entities other than charities.

Mississippi’s Public Policy Regarding Gaming

The Gaming Control Act (MISS. CODE ANN. Section 75-76-1 et seq.) declares the public policy of the state to be:

- that the regulation of licensed gaming is important so that licensed gaming is conducted honestly and competitively, that the rights of the creditors of licensees are protected, and that gaming is free from criminal and corruptive elements;
- that public confidence and trust can only be maintained by strict regulation of all persons, locations, practices, associations, and activities related to the operation of licensed gaming establishments and manufacture or distribution of gambling devices and equipment; and,
- that all establishments where gaming is conducted and where gambling devices are operated and manufacturers, sellers, and distributors of certain gambling devices and equipment must therefore be licensed, controlled, and assisted to protect the

public health, safety, morals, good order, and general welfare of the inhabitants of the state.

The Mississippi Gaming Commission: Board Composition and Staffing

The Gaming Control Act created two divisions within the Gaming Commission--an Enforcement Division and an Investigation Division--and authorized MGC's Executive Director to create other divisions as deemed necessary to implement the provisions of the act.

MGC currently has 135 authorized positions (reduced from 166 in FY 2004) organized into the following major divisions:

- *Executive* (7 positions)—includes the Executive Director, two Deputy Directors, a Regulatory Staff Officer, and a Gaming Relations Specialist, as well as Administrative Assistant and Executive Staff Officer positions that are currently vacant. This division oversees daily operations and provides administrative support to divisions; sets direction in the areas of finance, regulation, and human resources; and develops policies to guide the direction of the agency.
- *Investigations* (13 positions)--investigates all individual applications for licenses and other commission approvals; investigates all applicants for gaming, manufacturer's and distributor's licenses, findings of suitability, key employee licenses, and other gaming-related investigations as assigned by the Executive Director.
- *Corporate Securities* (3 positions)--investigates all new corporate applicants for gaming licenses. Additionally, all renewals of gaming licenses are reviewed and investigated periodically. This division performs all financial and legal investigations of corporate licensees, partnerships, limited liability companies, sole proprietorships, and publicly traded corporations.
- *Criminal Investigations* (6 positions)--gathers information pertinent to any gaming-related criminal or improper activities as defined by the Mississippi Gaming Control Act, MGC Regulations, the Charitable Gaming Law, and other gaming laws on the local, state, and federal levels.
- *Technology and Information Services* (9 positions)-- In FY 2008, the Management Information Systems

Division merged with the Gaming Lab to form this division. It is charged with the approval of all electronic gaming devices and programs and firmware used in those devices. The lab is also responsible for answering questions and handling issues related to electronic gaming devices and associated equipment.

- *Compliance* (26 positions)--routinely examines and reviews the financial and accounting records of gaming licensees. These examinations and reviews are performed to ensure that the licensees are in compliance with federal and state laws and Mississippi Gaming Commission regulations. The Compliance Division has its headquarters in Jackson; however, audit teams are permanently assigned to district offices in Vicksburg, Tunica, and Biloxi.
- *Enforcement* (46 positions)--is responsible for day-to-day regulation of the casinos to ensure that each property is conducting business in compliance with the Gaming Control Act and the rules and regulations set forth by the MGC. Enforcement activities include investigating criminal violations in the casinos, physically facilitating arrests, mediating patron disputes with casinos, inspecting and examining casino premises, and investigating and issuing work permits for specified casino employees. The division has its headquarters in Jackson; however, the majority of the agents are assigned to district offices in Tunica, Biloxi, and Vicksburg.
- *Charitable Bingo* (14 positions)--licenses and regulates the operations of all charitable bingo organizations, manufacturers, distributors, and operators in the state. The division investigates applications for licenses and regulates seventy-nine bingo halls and twenty-five manufacturers and distributors. The investigation of applicants includes conducting findings of suitability for the officers, partners, or principals of the applying entities and the bingo supervisors and their alternates. Agents of the Charitable Gaming Division conduct the day-to-day policing of the bingo halls overseeing regulatory compliance. They investigate discrepancies between the licensee and the Charitable Bingo Law (e. g., if a licensee pays employees more in one session of bingo than allowed by law). Additionally, the agents investigate criminal activity within the bingo halls (e. g., embezzlement).

- *Administrative Services* (11 positions)—includes those that perform administrative functions, such as accounting and personnel.

As of June 2009, 125 of the MGC's 135 authorized positions were filled. (See Exhibit 2, page 10, for an organizational chart of these divisions.)

MGC's functions related to casino gaming are organized into a main office in Jackson and three district offices: in Tunica (Northern District), Vicksburg (Central District), and Biloxi (Coastal District). The majority of enforcement agents and compliance officers are located in the district offices. The districts presently oversee thirty casinos in the state. (See Exhibit 3, page 11, for a chart showing the number of casinos by district, county, and city. Also see Appendix B, page 102, for a map showing the locations of casinos and MGC administrative facilities.)

MGC functions related to bingo halls are organized into the main office in Jackson and agents working from their homes. Seven bingo agents across the state are assigned to a certain number of bingo halls based upon their location. (See Appendix C, page 103, for a map showing the locations of halls and the number of agents assigned to those halls.)

Revenues and Expenditures of the Gaming Commission

According to MGC's budget requests, the two major regulatory programs under the MGC are the riverboat gaming program (i. e., casino gaming) and the charitable bingo program. The majority of MGC's budget is expended for regulation of riverboat or casino gaming as opposed to regulation of charitable bingo. For FY 2008, casino gaming regulation represented 91 percent (\$8,084,270) of the MGC's expenditures, while charitable gaming regulation represented 9 percent (\$825,873).

The MGC receives revenues from the following sources:

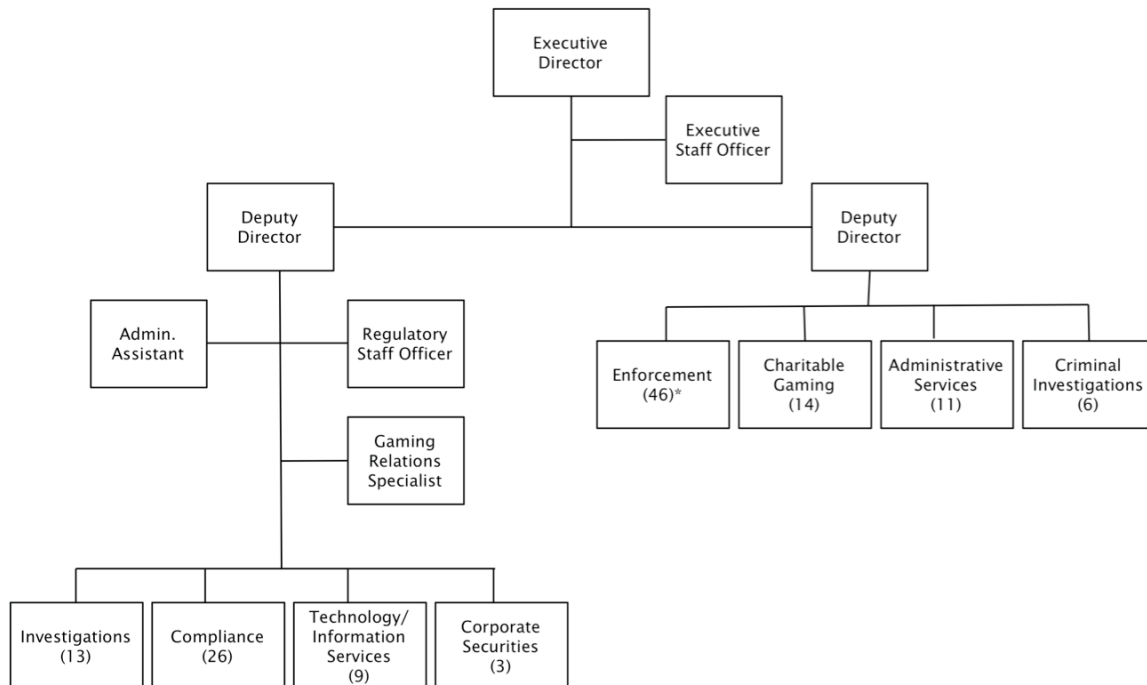
- *General funds*--MGC had been receiving general funds primarily for personal services expenditures (i.e., salaries) until a reduction of general fund support to \$0 for FY 2010. In FY 2008, the MGC received approximately \$3.8 million, which represented over 60 percent of the total expended for salaries (approximately \$6 million).
- *Federal funds*—Under the Federal Equitable Sharing Agreement with the U. S. Department of Justice, MGC receives a share of any federally forfeited assets after MGC has participated in a law

enforcement activity in conjunction with the U. S. Department of Justice. According to the agreement, these funds must only be used for law enforcement purposes. The MGC did not receive any federal funds for FY 2008.

- *Special funds*—MGC generates revenues from fees charged for various regulatory activities (e. g., personal investigations, compliance audits, bingo license fees). The fees are deposited into MGC’s Investigative Fund and Charitable Bingo Fund. In FY 2008, the MGC received over \$3.7 million for the Investigative Fund and over \$1.1 million for the Charitable Bingo Fund.

See Exhibit 4, page 12, for a breakdown of MGC’s revenue sources and expenditures for FY 2008. As noted previously, the MGC’s primary expense is personal services, followed by contractual services. The primary revenue sources for FY 2008 include the MGC’s Investigative Fund and general fund appropriations.

Exhibit 2: Organizational Structure of the Mississippi Gaming Commission with Numbers of Authorized Positions



*Number includes 6 positions specifically authorized for work permitting.

SOURCE: PEER analysis of MGC’s organizational charts, information provided by MGC.

Exhibit 3: Number of Casinos by District, County, and City

NORTHERN DISTRICT	
Tunica County	
Tunica Resorts	9
Coahoma County	
Lula	1
Total	10

CENTRAL DISTRICT	
Warren County	
Vicksburg	5
Washington County	
Greenville	3
Adams County	
Natchez	1
Total	9

COASTAL DISTRICT	
Harrison County	
Biloxi	8
Gulfport	1
Hancock County	
Bay St. Louis	2
Total	11

TOTAL (ALL DISTRICTS)	30
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SOURCE: PEER analysis of MGC's *Directory of Current Operators Report*, April 2009.

Exhibit 4: MGC's Revenue Sources and Expenditures for FYs 2004-08

Revenues

	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
General Fund Appropriation	\$3,652,877	\$3,657,779	\$3,541,449	\$3,787,091	\$3,780,711
Federal Funds	31,263	29,235	48,703	(7,100)	\$0
Charitable Bingo Fund	1,194,910	1,136,806	1,212,399	1,190,432	\$1,110,689
Investigative Fund	4,310,573	3,708,980	4,034,055	4,424,649	\$3,745,893
TOTAL	\$9,189,623	\$8,532,800	\$8,836,606	\$9,395,072	\$8,637,293

Expenditures

	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Personal Services	\$6,051,099	\$5,792,006	\$5,672,010	\$5,641,694	\$6,005,623
Travel	339,539	437,066	363,130	384,666	419,832
Contractual Services	2,385,172	2,261,236	2,039,741	1,844,066	2,015,346
Commodities	107,961	113,098	103,158	104,549	126,610
Capital Outlay	213,808	184,456	194,480	63,406	242,497
Subsidies, Loans, & Grants	100,160	100,180	100,180	105,430	100,235
Total	\$9,197,739	\$8,888,042	\$8,472,699	\$8,143,811	\$8,910,143

NOTE: Although expenditures exceeded revenues in FYs 2004, 2005, and 2008, MGC had carryover cash balances each fiscal year; therefore, MGC did not have true deficits in those years.

SOURCE: MGC budget requests for FYs 2006-2010.

Summary of Previous PEER Reports on the Regulation of Gaming

As noted on page 1, PEER has conducted three previous reviews of the MGC related to casino gaming.

- *A Review of the Adequacy of the Mississippi Gaming Commission's Regulation of Legalized Gambling in Mississippi* (#344; September 11, 1996)—PEER found that the MGC had begun licensing gaming establishments before its regulatory infrastructure was fully in place. While the industry had grown dramatically from its legalization in 1990 until 1996, PEER noted that part of the reason for the rapid growth was that the MGC had assumed an

economic development role not contemplated or authorized by the Gaming Control Act.

PEER also concluded in the 1996 review that the MGC did not have an adequate system in place to determine industry compliance with provisions of the Charitable Bingo Law and that the law itself provided no assurance that any of the proceeds from operation of a licensed bingo hall would be received by a legitimate charity.

- *An Evaluation of the Mississippi Gaming Commission's Bingo Division* (#363; November 13, 1997)—PEER concluded that Mississippi's Charitable Bingo Law did not authorize the MGC's Bingo Division to restrict bingo licensure to authentic charities with a record of charitable operations or to audit the flow of funds from receipt by bingo licensees to use of fund for charitable purposes. The Bingo Division lacked trained accounting personnel necessary to perform financial analysis tasks associated with gaming regulation, did not obtain financial documentation sufficient to carry out financial regulation of licensees, and did not comply with its own procedures relative to agents' reporting to management regarding work plans and achievements. Also, annual licensing requirements placed an undue burden on agency staff, who spent significant time on background checks, resulting in less time available for inspections of bingo halls.
- *A Management Review of the Mississippi Gaming Commission* (#420; July 10, 2001)—PEER followed up on the 1996 report and concluded that the MGC had improved in some areas, such as increasing its efficiency in conducting criminal background checks of casino employees. However, five years after PEER's initial review, MGC still did not have all of the components in place to protect the public effectively from the risks of legalized gaming.

Regulation of Casino Gaming

PEER found improvements in the Gaming Commission's regulation of casino gaming since its last review (e. g., thoroughness and documentation of Corporate Securities investigations, timely issuance of work permits, frequency of compliance audits). However, MGC still has an insufficient Operations Manual for the Compliance Division, no formal inspection program for casinos, inadequate training for enforcement agents, a flawed management information system for enforcement, no unannounced inspections of electronic gaming devices, insufficient technical expertise at the district level, and no written criteria for the approval/modification of table games. Also, the MGC has not yet performed a cost/benefit analysis of the socioeconomic risks of casino gaming in Mississippi.

This chapter begins with an environmental analysis of casino gaming in Mississippi, then addresses the following aspects of casino gaming regulation:

- corporate investigations;
- show cause cases and hearings;
- work permits;
- key employees;
- ongoing compliance reviews of licensees;
- enforcement; and,
- oversight of electronic gaming devices.

Each of the above sections begins with a statement of the criteria used for evaluation, a recap of PEER's conclusions and recommendations on the topic from the three previous reports on the regulation of gaming in Mississippi (see page 12 for summaries of these reports), and PEER's 2009 conclusion on the topic.

The chapter concludes with the following discussions:

- the need for additional policies for gaming regulation;
- monitoring the socioeconomic risks of casino gaming; and,
- implications for future funding of casino gaming regulation.

Environmental Analysis: Casino Gaming

The casino environment has been impacted by the recent amendment to state law that allows for expansion of casino operations and by a shift to sophisticated technology on the casino floor. Also, Hurricane Katrina and the downturn in the economy have impacted what were increasing gaming revenues in the state.

Proper regulation should focus on areas that present significant risks in terms of asset protection and integrity. It is the MGC's responsibility to evaluate and modify its activities and/or programs in light of the current environment and associated risks. Therefore, PEER analyzed the current casino gaming environment to determine how it has changed in ways that would affect regulation. This analysis includes changes to state laws regarding casino gaming, trends in casino gross gaming revenues and tax revenues, the shift toward more complex and sophisticated technology, and other changes.

Changes to State Laws Regarding Casino Gaming

Amendments to state law made in 2005 allow gaming activities in the coastal counties on shore within a specified distance from the water, which provides the Gulf Coast casinos with the capability to expand their operations.

Since legalization of dockside casino gambling in 1990, there have been few changes in state laws regarding casino gaming. Some of the most recent changes (to MISS. CODE ANN. Section 97-33-1 [1972]) were in response to Hurricane Katrina and allow gaming activities on shore within eight hundred feet of the mean high-water line for the Gulf Coast casinos.

One change in state law in 2005 broadened the definition of a cruise vessel, which would allow casinos to locate on pilings.

The change provides greater safety for the casinos and allows existing casinos to relocate their operations more quickly by expanding gaming to non-gaming space located onshore. This change also impacts the casino environment by providing casinos the ability to expand their operations, whether for gaming or non-gaming purposes (e. g., amenities). There has been much discussion among members of the gaming community regarding the importance of increasing amenities and creating resort-style casinos that include spas, fine dining, golf courses, and other offerings to attract people to casinos for longer periods of time.

Another change in 2005 amended MISS. CODE ANN. Section 27-109-1 (1972) so as to broaden the definition of

a cruise vessel, which would allow casinos to locate on pilings. Also in 2005, the Legislature amended MISS. CODE ANN. Section 75-76-129 (1972) to eliminate the monthly transfers by the State Tax Commission to the bond sinking fund beginning on July 1, 2022. Currently, the Tax Commission transfers \$3 million each month to the bond sinking fund, which is used to pay the debt service on bonds issued for work on various highways in gaming counties. As it now stands, beginning on July 1, 2022, the \$3 million monthly transfers will revert back to the General Fund.

During the 2009 Regular Session, the Legislature amended MISS. CODE ANN. Section 75-76-157 to give the Gaming Commission the authority to regulate certain promotional activities of casinos, effective July 1, 2009. Also, the Legislature amended CODE sections 75-76-147, 97-19-55, and 97-19-75 to give the commission the authority to recommend criminal prosecution for certain violations that involve casino markers (i. e., casino credit).

Trends in Casino Revenues

Other than the years impacted by Hurricane Katrina and more recently, the downturn in the economy, Mississippi's casino gross revenues and tax revenues have generally increased since the first casino opened.

Casinos' Gross Gaming Revenues

From the opening of the state's first casino in 1992 through June 30, 2008, Mississippi's casinos generated over \$36 billion in gross gaming revenues.

In 2008, Mississippi's annual gaming revenues fell to approximately \$2.72 billion, down approximately 5.9% from 2007.

Exhibit 5, page 18, shows that casinos' gross gaming revenues have increased annually except for the years of 2003, 2005, and 2008. Economic troubles and Hurricane Katrina are likely explanations of these drops in revenue. In 2008, Mississippi's annual gaming revenues fell to approximately \$2.72 billion, down approximately 5.9% from 2007. (See Exhibit 5, page 18, and Appendix D, page 104.) Nationally, casinos had reported earnings down 3.6% in the first eleven months of the year compared to 2007.

Revenues at the Gulf Coast casinos have risen annually with the exception of the years 1995, 2005, and 2008. The Mississippi Tax Commission's figures released in January 2009 showed that Mississippi's coastal casinos took in approximately \$1.25 billion in 2008 compared to approximately \$1.3 billion in 2007.

The Mississippi River casinos' revenues have risen annually with the exception of 2003 and 2008. In 2008, the Mississippi River casino revenues showed even more

change from the prior year than the coastal casino revenues, with reported revenues of approximately \$1.46 billion in 2008 compared to \$1.58 billion in 2007.

Casinos' Gaming Tax Revenues

In conjunction with gross gaming revenues, gaming tax revenues have steadily increased except in FY 2006 due to the impact of Hurricane Katrina on the coastal casinos.

From the opening of the state's first casino through June 30, 2008, Mississippi casinos had generated over \$4 billion in gaming tax revenues, distributed as follows: \$2.4 billion to the state's general fund; \$603 million to the bond sinking fund and highway fund; and \$1.4 billion to local governments allowing gambling operations. (See Appendix E, page 105.) From July 1, 2008, to December 31, 2008, gaming taxes contributed approximately \$85.9 million to the state's general fund, approximately \$51.5 million to local governments, and \$18 million in bond payments; however, the general fund collections were down more than 17% from state budget projections from January 2007 to June 2008. In conjunction with gross gaming revenues, gaming tax revenues have steadily increased except in FY 2006 due to the impact of Hurricane Katrina on the coastal casinos. (See Exhibit 6, page 19, and Appendix E, page 105.)

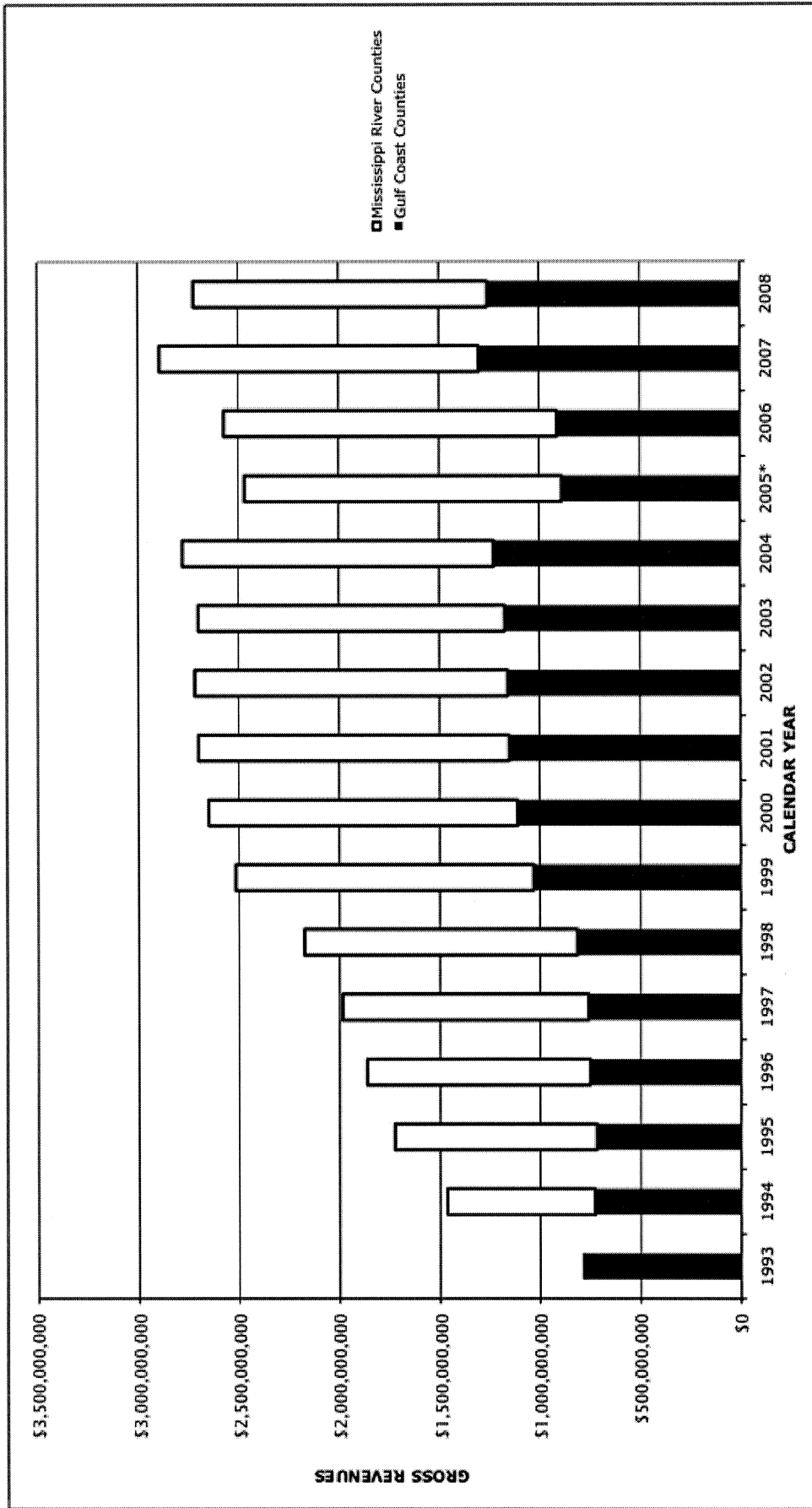
Gaming Revenues and the Economic Downturn

Regulators and the gaming industry had expected the downturn with the sluggish economy and people being more careful with spending. The MGC staff has stated that Mississippi's losses in gaming revenue have been mild in comparison to the significant losses experienced by other states, although this trend could change should the economy worsen. According to MGC staff, Mississippi has avoided significant losses.

The MGC staff has stated that Mississippi's losses in gaming revenue have been mild in comparison to the significant losses experienced by other states, although this trend could change should the economy worsen.

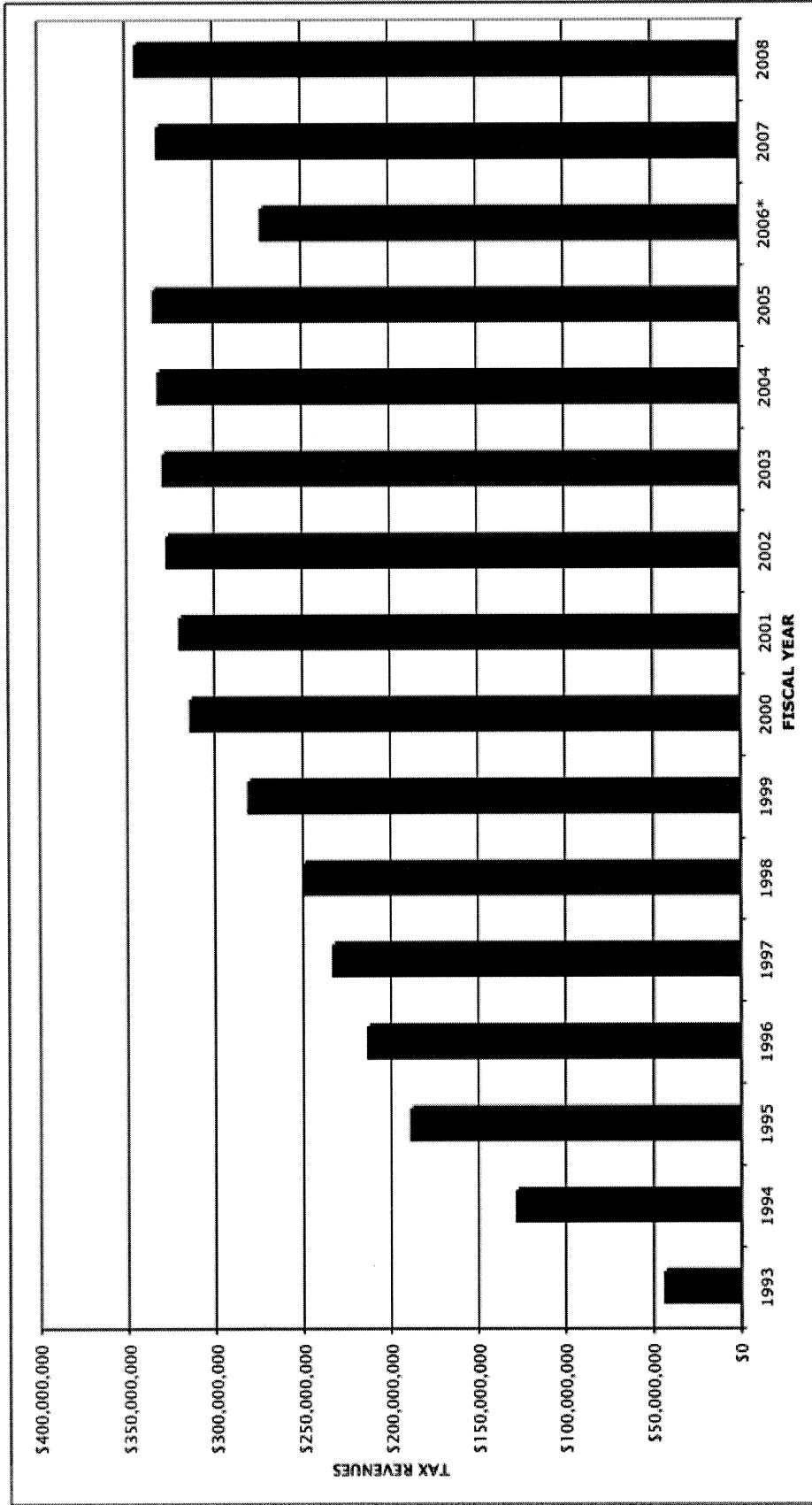
The American Gaming Association (AGA) reported the information displayed in Exhibit 7, page 20, which illustrates the impact of the economy on gaming revenues. The AGA stated that Nevada was impacted significantly by a reduction in consumer spending on overnight travel. New Jersey was also impacted by a decrease in spending in overnight travel, as well as regional competition and a partial smoking ban on casino floors. Illinois experienced the largest decrease in revenue partially because of statewide smoking bans that went into effect on January 1, 2008.

Exhibit 5: Casino Gross Gaming Revenues for Calendar Years 1993 Through 2008



*Decrease in gross gaming revenues for Calendar Year 2005 represents effects of Hurricane Katrina in August 2005 on coastal casinos.
 NOTE: See Appendix D, page 104, for actual dollar amounts of each group of casinos
 SOURCE: Mississippi State Tax Commission

Exhibit 6: Tax Revenues from Gaming for Fiscal Years 1993 Through 2008



*Decrease in tax revenues for Fiscal Year 2006 represents effects of Hurricane Katrina in August 2005 on coastal casinos.

NOTES: These figures represent all gaming taxes collected by the Tax Commission before disbursement to the state's General Fund, the bond sinking fund, and to local governments. See Appendix E, page 105, for actual dollar amounts.

SOURCE: Mississippi State Tax Commission

Exhibit 7: Casino Revenues and Percentage Declines from 2007 to 2008 for Selected States

State	2007 Casino Revenue	2008 Casino Revenue	Percent Decline from 2007 to 2008
Mississippi	\$2.891 billion	\$2.721 billion	5.9%
New Jersey	\$4.921 billion	\$4.503 billion	8.5%
Nevada	\$12.849 billion	\$11.599 billion	9.7%
Illinois	\$1.983 billion	\$1.569 billion	20.9%

SOURCE: American Gaming Association *State of the States* 2009 report.

The American Gaming Association notes that the economic downturn has forced several companies to delay new developments or even cancel projects; thus, expansion has been more difficult.

People are still visiting the casinos, although they are staying for shorter periods of time and therefore eating less and spending less. The drop in revenue has brought over 2,500 layoffs of casino employees statewide since January 2007. The June 2009 publication of the *Mississippi Economic Review and Outlook*, published by the Mississippi Board of Trustees of State Institutions of Higher Learning, indicates that gaming revenues are down on the Gulf Coast and the Mississippi River and state gaming tax revenues have dropped and were \$32 million below estimates at the end of May 2009. The report further states “an upturn in the economy is forecast to begin in the last quarter of the year after the recession bottoms out in the fall.”

Also, the American Gaming Association notes that the economic downturn has forced several companies to delay new developments or even cancel projects. Thus expansion has been more difficult. This is the case in Mississippi for the Margaritaville Casino in Biloxi (owned by Harrah’s). The *Sun Herald* newspaper on the Gulf Coast reported that the Vice President of Communications for Harrah’s issued a statement that work would be slowing on the casino as the company adjusts its plans for the casino’s development “to better align with the economic environment, market conditions on the Gulf Coast, and the current financing environment.”

Shifts Toward More Complex and Sophisticated Technology

The shift to an electronic gaming environment represents the need for highly skilled and technical staff both at MGC and in the casinos.

The gaming environment has evolved into a complex and highly technical operation, especially in the area of electronic gaming devices.

In a 2008 presentation by the University of Nevada-Reno's Institute for the Study of Gambling and Commercial Gaming, the researchers note that a key trend in gaming is new technology. The gaming environment has evolved into a complex and highly technical operation, especially in the area of electronic gaming devices. At one time, electronic gaming devices were simple slot machines whereby patrons could insert coins into the machines, pull the handle to prompt the mechanical reels to spin, and watch to see if three matching symbols landed on the payline. Today, electronic gaming devices operate through computer chips and offer a variety of ways patrons can bet and play the machines. Manufacturers are consistently producing a variety of electronic gaming devices that differ in such characteristics as game theme (e. g., Triple Diamond) and denomination (e. g., \$0.25 per bet). This technical casino environment is evident in Mississippi casinos.

Another form of technology that has remained on the horizon for several years is server-based gaming. Server-based gaming requires that electronic gaming devices be linked to a central computer server. The random number generator (i. e., the program that generates a sequence of numbers that correspond to the symbols on electronic gaming devices), payable (i. e., the table that indicates the number of credits the player will win for certain combinations), and the game itself are located in a server separate from the electronic gaming device. From the server, operators have the ability to change the devices' characteristics (e. g., game themes, payout percentages, denominations) rather than having to enter the device manually to make the changes.

Mississippi does not currently use server-based gaming, but has begun running field trials on server-supported games.

In server-supported games, the random number generator, the game theme, and the payable are located in the electronic gaming device. The server only provides a means for downloading and changing game themes and paytables and verifying that the software running on the electronic gaming device is approved and compatible with the manufacturer's requirements. Mississippi does not currently use server-based gaming, but some other gaming jurisdictions (e. g., Nevada, Missouri, and California) have server-supported games that are basically field trial models. Mississippi has just begun running field trials on server-supported games.

New casino gaming technology is not limited to electronic gaming devices. In terms of table games, some casinos (e.g., Riverwalk Casino in Vicksburg) have introduced slot/table hybrid games such as the automated electronic roulette wheel, which requires no dealer. Other technology that exists in Mississippi casinos includes digital surveillance for security, mechanical card shufflers, and kiosks whereby patrons can redeem their tickets with cash.

Significant implications are associated with the shift to an electronic gaming environment. For regulators, the shift represents a need for more skilled and highly trained MGC employees. For casinos, the shift also indicates a need for skilled staff, as well as the potential for a reduction in the number of casino employees.

Other Changes in the Gaming Environment

Some research suggests that the expansion of gaming has slowed nationwide and that most jurisdictions have developed the expertise and experience in regulating the industry.

According to a July 2007 article in *Casino Enterprise Management* entitled “How Regulation Was Won: Has Gaming Gone the Way of the Old West?” written by Patrick Leen and Thomas Nelson, casino regulation in the past was a struggle due to the various challenges presented by this growing casino industry (e. g., unscrupulous owners/operators, old technology). The authors contend that the expansion of gaming has slowed and that most jurisdictions have developed expertise and experience in regulating the industry.

Today, publicly traded corporations control a large portion of casino operators and game manufacturers.

In terms of licensing, Leen and Nelson (2007) state that a change has occurred in terms of the types of applicants. Today, publicly traded corporations control a large portion of casino operators and game manufacturers. Also, regulators are using newer technologies (e. g., digital fingerprinting) and various methods to enhance the licensing process.

In terms of accounting and auditing, Leen and Nelson (2007) suggest that over time, regulators have developed controls for virtually all aspects of casino activity. In Mississippi, the MGC’s Compliance Division has developed extensive internal controls for the purpose of safeguarding assets and has implemented such assignments as cage and count room assignments, drop and count times, and reviewing casino loans and leases, all of which address many of the risks associated with the gaming industry.

The authors also mention surveillance systems in casinos. The systems have evolved into high-definition digital images, which help regulators in their efforts to identify cheats and regulatory violations. Several Mississippi casinos have changed to digital surveillance systems and the MGC believes that such systems help them better regulate the casinos.

Several Mississippi casinos have changed to digital surveillance systems and the MGC believes that such systems help them better regulate the casinos.

Finally, the authors state that many people in the gaming industry are recognizing problem gambling as an important issue. States and regulators have responded to this issue through self-exclusion programs, mandated funding for treatment programs, and “help lines” to assist and counsel problem gamblers. MGC regulations contain certain procedures to address problem gambling. For example, Mississippi has a self-exclusion program by which gamblers can place themselves on an exclusion list. If they are caught gambling, they can be arrested for trespassing. If they win at a casino, then the winnings are donated to the Council on Problem Gambling, which offers crisis intervention and referral through a help line for problem gamblers.

Corporate Investigations

Corporate Securities Section’s Implementation of Investigative Procedures

MISS. CODE ANN. Section 75-76-29 (1972) states that MGC staff shall investigate the qualifications of each applicant for a gaming license. CODE Sections 75-76-209, 75-76-225, and 75-76-239 state that corporations, partnerships, and related holding companies applying for licenses must provide management and financial information for these investigations.

Mississippi’s gaming regulations also state that the MGC Executive Director and commission will consider all relevant material facts in determining whether to recommend or grant an approval required or permitted by the regulations. The regulations allow for the Executive Director and the commission to consider whatever other facts are deemed relevant.

PEER’s Previous Conclusions and Recommendations

The MGC’s Corporate Securities Section is responsible for conducting findings of suitability investigations for corporations and other entities to join the gaming industry in Mississippi. Although state law and MGC regulations allow the commission’s staff to obtain financial

information, neither specifies how or whether the information must be analyzed in order to determine the qualifications of corporate licensees.

Although state law and MGC regulations allow the commission's staff to obtain financial information, neither specifies how or whether the information must be analyzed in order to determine the qualifications of corporate licensees.

Although the Corporate Securities Section began a process to conduct corporate financial investigations in 1996, the commission had not established policies or procedures to outline items that should be analyzed by its corporate investigations personnel. The commission did not establish requirements for the investigations or set in writing an overall purpose for the investigations. As a result, the commission's staff was not required to determine the financial viability of licensees through indicators such as cash flow, ratio, or trend analysis.

In 2001, PEER found that the commission lacked formal, written policies or an analytical plan to direct investigators regarding how and when to conduct specific types of financial or other analysis of corporate license applicants. The only written procedures that had been developed by the Compliance Division consisted of a checklist of items that were to be completed by the investigator.

Environmental and Regulatory Changes

In December 2001, the MGC's Corporate Securities Section developed and implemented a *Policies, Procedures, and Practice Manual*.

In December 2001, the MGC's Corporate Securities Section developed and implemented its *Policies, Procedures, and Practice Manual* that included an overall purpose for the corporate securities investigations, how qualifications will be determined, items to be analyzed by corporate investigators, and how the investigation will be reported and/or items to be included in an investigation report. By creating this document, the commission set the staff's direction in reviewing licensees' qualifications by establishing formal, written policies on conducting corporate investigations.

➤ ***2009 Conclusion: Improved Corporate Securities Investigations***

The Compliance Division: Corporate Securities Section now performs extensive and detailed analyses on applicants for gaming licenses, registration, or findings of suitability.

In December 2001, the staff of the Compliance Division: Corporate Securities Section began following the requirements in the *Policies, Procedures, and Practice Manual* and now uses the following tools and indicators in assessing applicants' fitness to participate in the casino gaming industry in Mississippi:

- background checks, and
- financial analyses, including:
 - tests of financial viability such as cash flow analysis;
 - debt, profitability, and liquidity ratios; and,
 - financial trend analyses.

The analyses begin by reviewing central files located within the Investigations Division of the MGC. The commission maintains files on every company that has filed an application with the MGC. Items included in, but not limited to, these files are as follows:

- application submissions;
- historical correspondence between the applicant and the MGC;
- all filings made with the U. S. Securities and Exchange Commission (SEC) by publicly traded corporations registered with the MGC;
- press releases and newspaper clippings;
- management and ownership information; and,
- financial information and information relative to loans and leases.

The Corporate Securities Section's current analysis methods should reduce the chances of introducing organized crime or companies that are not financially stable into Mississippi's casino gaming industry.

These analyses are extensive and detailed in that they collect and analyze all aspects of the company's formation, background and financial information. This is important because it allows the MGC to have a better understanding of the company to make a determination of whether the company will be successful and viable in Mississippi. By knowing everything about the company--from formation to financials--the MGC is able to make an informed assessment of whether allowing the company to join Mississippi's gaming industry will be in compliance with the state's public policy towards the gaming industry. These analyses should reduce the chances of introducing organized crime or companies that are not financially stable into Mississippi's casino gaming industry.

Corporate Securities Section's Documentation of Investigations

As noted previously, the MGC's Corporate Securities Section conducts findings of suitability investigations for corporations and other entities seeking to enter Mississippi's casino gaming industry.

Standard practice in the investigative and auditing professions is to maintain an audit trail (i. e., workpapers documenting that the work has been completed) of investigations.

Standard practice in the investigative and auditing professions is to maintain an audit trail (i. e., workpapers documenting that the work has been completed) of such investigations. An audit trail would show that the Gaming Commission is completing the work required by law to ensure that only legitimate, financially sound businesses are licensed for casino gaming in Mississippi.

PEER's Previous Conclusions and Recommendations

In 2001, PEER found that the Corporate Securities Section of the MGC did not maintain workpapers or files to document that corporate background checks and other work steps had actually been completed as part of the investigation of licensure applicants.

Environmental and Regulatory Changes

In December 2001, the MGC's Corporate Securities Section developed and began using a checklist to ensure that all pertinent information is collected for background and financial analyses.

➤ ***2009 Conclusion: Documentation of Corporate Securities Investigations***

The MGC's Compliance Division's Corporate Securities Section now documents its investigation procedures and maintains workpapers to show evidence that it has performed background checks, financial analyses, and other pertinent analyses of applicants for casino gaming licenses in Mississippi.

PEER reviewed MGC's records and determined that the Corporate Securities Section now uses workpapers to prove that investigative work is being conducted. Corporate Securities investigative reports contain evidence that the Corporate Securities staff is now performing financial analysis and background checks on every entity that applies for a gaming license in Mississippi.

The MGC's Corporate Securities Section also now routinely uses a checklist to ensure that all pertinent information is collected for background and financial analyses to be able

to determine whether a gaming corporation is fit to conduct business in the state. For example, the section's staff now collects documentation on legal formation documents in all states where the corporation is incorporated, SEC filings, stockholder lists, federal and state tax returns, management structure, general ledgers and cash receipt journals, and other information necessary to complete a thorough financial and background analysis. The checklist provides the division with guidance on what information is necessary to determine whether a corporation should be allowed to conduct business.

Because the MGC now conducts a more thorough analysis of corporate applicants than it did previously, the state and its citizens are now better protected from the risk of organized crime or financially unstable companies participating in the state's casino gaming industry.

Show Cause Cases and Hearings

Implementation of a Show Cause Inventory

MISS. CODE ANN. Section 75-76-103 (1972) authorizes the MGC to levy fines against casinos and casino employees if they violate the Gaming Control Act or MGC's regulations.

PEER's Previous Conclusions and Recommendations

In 1996, PEER questioned the consistency of fines and penalties after finding insufficient documentation in some of the MGC's show cause files. Therefore, PEER recommended that the MGC standardize its fines.

In 2001, PEER determined that an inventory of show cause cases was needed to help ensure that the handling of cases was consistent. PEER recommended at that time that, at a minimum, MGC should keep an inventory of show cause cases that listed the disposition of each. Such an inventory would also show that MGC had established written precedents on which it could base future decisions.

Environmental and Regulatory Changes

In 2001, the MGC developed an inventory of show cause hearings to show the type of violation and whether a fine had been assessed. MGC has held sixty-two show cause hearings since 2001, with the usual type of violation being failure to disclose information to the MGC.

➤ **2009 Conclusion: Use of a Show Cause Inventory**

Although MGC's Legal Division now uses a show cause inventory to help the MGC ensure consistency in assessing fines for violations of the Gaming Control Act and MGC regulations, the inventory does not include information on the rationale for the fine amount or explanation when a fine is not charged.

The MGC now uses an inventory of show cause cases that includes the following categories:

- name of licensee;
- nature of violation;
- date of incident;
- date letter was sent to licensee;
- hearing date;
- action taken;
- fine amount; and,
- payment date.

However, the inventory does not have a category with the reasoning for the fine amount or lack of fine.

Without an explanation and/or reason for why a fine assessed was a certain amount, there is a risk of inconsistent application of fines.

The MGC has the authority to levy fines against casinos and casino employees if they violate the Mississippi Gaming Control Act or any of MGC's regulations. An inventory should show the reasoning behind the amount of the fine in order to establish a written precedent on which to base future decisions of imposed fines. Without an explanation and/or reason for why the fine assessed was a certain amount, there is a risk of inconsistent application of fines. It is important for the commission to be as consistent as possible with the amount of fines so as to promote fairness in the gaming industry.

Work Permits

Processing and Issuance of Employees' Work Permits

Before any gaming employee can work in a Mississippi casino, the MGC must issue a work permit to the individual. MISS. CODE ANN. Section 75-76-5 (n) (1972) defines a gaming employee to be any individual who is connected with the operation of a gaming establishment licensed to conduct any game.

MISS. CODE ANN. Section 75-76-131 (1972) states that a work permit shall not be issued to individuals who have been convicted of a felony. Also, certain prohibited misdemeanors (e. g., conviction of a gaming crime, theft, or drug misdemeanor within three years prior to the date of the application) may also be grounds to not issue a work permit.

PEER's Previous Conclusions and Recommendations

In 2001, PEER concluded that MGC took approximately two weeks to process and issue each work permit. Additionally, PEER found that MGC continued to issue work permits before background checks were completed, a practice that had also been noted in the 1996 report. If, after a work permit has been issued to an applicant, it was discovered the applicant had certain criminal convictions, the agency began proceedings for revocation of the work permit.

Environmental and Regulatory Changes

Electronic fingerprinting machines in MGC districts were electronically connected to the State Criminal Intelligence Center in 2001, which significantly reduced the amount of time to process background checks.

➤ ***2009 Conclusion: Timely Issuance of Work Permits***

Because the MGC has moved to electronic fingerprinting and background checks, the agency now takes an average of three to four business days to process and issue employee work permits. Since processing time has decreased, MGC no longer issues permits prematurely.

MGC's background checks are now electronic and can be completed in approximately five minutes. Since MGC began using electronic background checks, the agency's previous practice of issuing a badge without completing the background check and later revoking the work permit has been eliminated.

Due to electronic fingerprinting, the MGC's background checks can now be completed in approximately five minutes.

Work permits are important in regulation of the gaming industry because the practice helps to keep undesirable employees from working for the casinos. When theft and embezzlement risks are decreased, the state's interest in collecting tax revenue is protected. Additionally, since work permits help to keep undesirable employees and managers from working in the casino industry, casino patrons and the state are also protected to some extent from the risk of organized crime.

Key Employees

Tracking Key Employees

Since a casino key employee has the power to exercise significant influence over decisions concerning some part of the operation of a gaming licensee, it is crucial that the MGC be able to track these employees by casino and district in order to maintain control over the gaming environment.

MISS. CODE ANN. Section 75-76-215 (1972) requires a casino gaming licensee to submit and report to the commission and the executive director any change in corporate personnel who have been designated by the commission or the executive director as key executives and key employees.

Since a casino key employee is one who has the power to exercise significant influence over decisions concerning some part of the operation of a gaming licensee, it is crucial that the MGC be able to track the permits and names of these of these employees by casino and district in order to maintain control over the gaming environment.

PEER's Previous Conclusions and Recommendations

In 2001, PEER determined that the MGC did not have an adequate method of accounting for and updating the list of those employees who are defined as key employees. During the PEER review, MGC was making efforts to improve its system for tracking key employees.

Environmental and Regulatory Changes

In 2001, the MGC developed a comprehensive database that could be used by all field offices to run reports of the names and positions of current key employees, by casino and district. Additionally, the MGC began maintaining a spreadsheet with this information as a backup to the database so that a list could always be generated.

➤ ***2009 Conclusion: Database Used to Track Key Employees' Work Permits***

The MGC's Investigations Division now uses a key employee database to track those casino employees who hold a key employee license.

The MGC now utilizes the database (and a spreadsheet as a backup) with the information necessary to run reports upon request of the names and positions of all key employees by casino and by district. If an MGC

enforcement agent has a question about a key employee's status, the information may be retrieved immediately.

Ongoing Compliance Reviews of Licensees

Frequency of Compliance Audits of Licensees

MGC uses compliance audits to verify whether casinos are in compliance with MGC rules and regulations and to determine the proper reporting of gaming revenue.

The MGC Compliance Division Operation Manual states that “when the Compliance Division is fully staffed, the audit cycle for each licensee is a full audit once every two years.”

These compliance audits are the method that the MGC uses to verify whether the casinos are in compliance with the MGC rules and regulations and to determine the proper reporting of gaming revenue. Also, because MGC relies heavily on casinos to report any potential violations of MGC regulations or laws, there is a risk to the state and its citizens that the industry is underregulated. Consistent compliance audits are needed to ensure that casinos are actually reporting this information.

The Compliance Division utilizes procedures common to the auditing profession. The staff analyzes internal accounting controls, completes analytical reviews of operating statistics, and performs tests on transactions. The objective of these procedures is to build sufficient audit evidence upon which to base an opinion on the casino's compliance with applicable gaming laws and regulations. At the conclusion of an audit, the Compliance Division issues a written report to the commission's Audit Committee. MGC regulations require the Compliance Division to perform audits in accordance with generally accepted auditing standards.

The Compliance Division has seven tasks for each compliance audit. These tasks include checks to ensure that the following aspects of casino operations are in compliance with the MGC regulations and the Mississippi Gaming Control Act:

- *Internal Controls*—The Compliance Division's staff conducts a review of internal control submissions to ensure that casinos are using MGC-approved internal control methods in order to safeguard assets and ensure that licensees are operating in compliance with the Mississippi Gaming Control Act and MGC Regulations.

- *Associated Equipment*—To protect casino patrons, the Compliance Division’s staff has approval authority over casino-associated equipment installation to ensure that equipment manufactured by undesirable businesses is not installed in casinos.
- *Cage and Count Room Access Listings*—This ensures that all licensees’ files maintain the most recent cage and count room access listings. The compliance officers review listings for appropriate segregation of duties and access requests submitted by the licensee. The compliance officers verify that persons with access to the cage and count room are not related, married, or have other potential for collusion with others who have access, because this would be a risk to the state’s revenue.
- *Drop and Count Times*--The Compliance Division maintains a chart and the files that detail the drop and count times for all casinos in each district office. The Compliance Division prepares the work papers associated with this permanent assignment in order to keep control of the environment, specifically relating to monetary matters.
- *Loans and Leases*--The Compliance Division reviews loans and leases of every licensee in order to verify who is lending money to the casinos and who is leasing anything to the casino to ensure that no one entity has more than a 5% stake in the licensee.
- *A20 Analysis*--This analysis consists of inputting gaming data obtained from the Monthly Adjusted Gross Revenue Reports, which are submitted by the licensee. The data includes revenue and adjustments from table games, slots, poker and keno, if applicable. Also included are write-offs and recoveries. The A20 Analysis allows for the MGC Compliance Division to follow trends and find errors, providing a cross-check for the Mississippi Tax Commission. Additionally, this analysis provides information that can be made available to the public.
- *Independent Accountant’s Report*—Compliance Division staff ensure that an annual audit report is submitted for each licensee in the timeframe required by MGC Regulations. These reports are statutorily required.

PEER's Previous Conclusions and Recommendations

In 1996, PEER found that the MGC had not performed comprehensive financial and regulatory audits of any of the state's casinos. The Compliance Division was scheduled to be fully operational beginning July 1996 and planned to operate on a two-year audit cycle.

In 2001, PEER found that the Compliance Division had begun conducting regular compliance audits of casinos in the state. However, twelve of the state's casinos still had never had full compliance audits by MGC due to the lack of a compliance audit program in the Vicksburg and Tunica districts prior to calendar year 2000. However, the Compliance Division reported in 2001 that it planned to conduct a full compliance audit of every casino every two years in the future, plus two interim (short, focused) compliance reviews for each casino during those two years.

Environmental and Regulatory Changes

In FY 2006, the Compliance Division reduced the number of staff hours for each audit from 1,800 hours to 1,200 hours in order to ensure an audit of each property every two calendar years.

In Fiscal Year 2006, the Compliance Division reduced the number of staff hours for each audit from 1,800 hours to 1,200 hours in order to ensure an audit of each property every two calendar years. The Compliance Division determined that it would be more beneficial to reduce the number of test dates of audit periods¹ so that the division's staff would spend less time on the properties and less time in between visits to the properties. The MGC currently uses one test date per quarter, which results in eight test dates per audit every two years. Previously, the division audited once every three years and used twenty-four test dates per audit.

➤ ***2009 Conclusion: Frequency of Compliance Audits***

The MGC Compliance Division has completed eighteen of twenty audits on the Mississippi River casinos in the past two years and is on schedule to maintain its goal of auditing licensees once every two years by the end of Calendar Year 2009.

The MGC relies on individual casinos to report incidents as they happen through daily incident reports, specifically those incidents that are in violation of the Mississippi Gaming Control Act and/or the MGC regulations. For

¹ MGC randomly selects a "test date" during the audit. This is a date for which it will trace revenue to the general ledger.

example, MGC regulations state that casinos' financial records must be accurate and reliable. An example of a violation of this regulation might be that a casino incorrectly reported the credit outstanding to the MGC on its monthly report.

PEER found no evidence that the quality of compliance reviews has suffered due to decreasing the number of test dates of audit periods.

By reducing the number of test dates of audit periods, the MGC is on schedule to conduct a full audit of all casinos once every two years. The MGC has completed at least two full internal control audits on ninety percent of the state's Mississippi River casinos in the past three years (i. e., eighteen of the twenty Mississippi River casinos). At the time of this review, the Vicksburg District Office had not completed the second full internal control audit on two casinos; however, these audits are scheduled to be completed by the close of calendar year 2009, which would meet the goal of the MGC to complete a full audit every two years. PEER found no evidence that the quality of the reviews has suffered due to decreasing the number of test dates.

When the Gulf Coast casinos reopened after Hurricane Katrina, MGC's Coastal District Office treated these as new openings and therefore waited two years after each casino's reopening to conduct a full internal control compliance audit. This was necessary in order to have enough data and information to audit.

Operations Manual for the Compliance Division

The primary objective of a compliance audit is to determine whether a casino has complied with all applicable gaming laws and regulations. Since the MGC relies heavily on information from the individual casinos they regulate, it is important that a compliance audit is completed as flawlessly as possible. Without detailed guidance on compliance audits, a compliance auditor may not fully understand the job tasks or what is required. In order to help prevent mistakes or oversight of something crucial in the regulation of the gaming industry, it is important for the MGC to lay a foundation for the auditors in writing.

PEER's Previous Conclusions and Recommendations

In 2001, PEER reported that the MGC was not using an operating manual for its Compliance Division, even though the former Compliance Division director had compiled a draft manual in July 1997. PEER noted that an Operations Manual should include items to assist auditors in understanding the elements of casino auditing in general, such as representative diagrams of the casino cage and money count rooms in a casino, flow charts of casino

operations, copies of documents that auditors must review during compliance review, and descriptions of events that affect accountability.

Environmental and Regulatory Changes

In January 2005, the MGC Compliance Division established an Operations Manual that includes an outline of the responsibilities of the Compliance Division. The manual includes a brief description of the following topics:

- audits;
- development of audit evidence;
- internal controls;
- performance of cash counts;
- periodic payments;
- budgeting and billing of casinos (for MGC's time spent on audits);
- overview of corporate securities;
- officer training and continuing education;
- types of audits conducted by the Compliance Division;
- audit objectives and frequency; and,
- writing audit reports.

➤ ***2009 Conclusion: Compliance Division's Insufficient Operations Manual***

The content of the MGC Compliance Division's Operations Manual is not sufficient to guide compliance auditors through the compliance audit process because it lacks some information crucial to understanding the elements of casino auditing.

Currently, the Compliance Division relies heavily on MGC Standard Operating Procedures, as well as the Mississippi Gaming Control Act and the regulations of the MGC, for operational guidance. The Operations Manual provides general, not detailed, guidance for compliance officers on procedures and the elements of casino auditing. The manual provides auditors with a brief overview and definition of the auditor's responsibilities, but does not provide detailed steps on how to accomplish these various tasks. For example, the Operations Manual defines the

development of audit evidence and says “[t]he Division employs various means in developing audit evidence...” and briefly mentions covert observations and interviews as the means for developing audit evidence. However, there is no detailed guidance or step-by-step procedure on conducting “covert observations” and/or conducting interviews.

The Compliance Division’s current Operations Manual provides auditors with a brief overview and definition of the auditor’s responsibilities, but does not provide detailed steps on how to accomplish these various tasks.

Another example is the description regarding the responsibility of performing cash counts. The Operations Manual says that cash counts are periodically performed at casinos and that “officers will count the entire amount of cash on property and using a prescribed formula determine if the casino has sufficient funds.” The brief description gives the auditors very little guidance on how to count the cash properly and, more importantly, gives no information on the MGC’s “prescribed formula” to determine whether the casino has sufficient funds.

The Operations Manual directs the auditors to the pertinent sections of the MGC Standard Operating Procedures and Gaming Control Act that are crucial to their job function. The MGC Compliance Division director stated that the Operations Manual is more of a “guideline” than a manual at this point and that an updated and more comprehensive Compliance Division Operations Manual is currently being developed.

The Operations Manual is insufficient in that it lacks information needed to assist auditors in understanding the elements of casino auditing, such as representative diagrams of the casino cage and money count rooms in a casino, flow charts of casino operations and copies of documents that auditors must review during compliance review in order to give the Compliance Division a better understanding of casino auditing in general.

The Operations Manual directs auditors to an “Audit Manual” that is supposed to have detailed instructions for completing audit work for the Compliance Division. However, the Audit Manual does not currently exist. The MGC staff said the Audit Manual is in the process of being drafted and implemented and that the Compliance Division’s audit programs, which are step-by-step instructions with checklists provided to auditors prior to conducting audits, will be included in the Audit Manual.

Lack of Formal Inspection Program

The Gaming Control Act mandates that the MGC ensure that gaming is conducted honestly and competitively, which in turn ensures that the financial and other interests of the state and its citizens are protected in accordance with the legislative intent for the play of games.

In order to satisfy this mandate, MGC's Enforcement Division is responsible for monitoring casino activities through regulatory inspections, which include the following types of inspections:

- security inspections;
- surveillance inspections;
- work permit inspections;
- card and dice inspections;
- electronic gaming device testing;
- hard count and soft count room observations;
- observations of table games area;
- poker room observations;
- slot area inspections;
- keno inspections;
- table box drop observations;
- coin drop observations; and,
- bill collector drop observation.

The Enforcement Division's Standard Operating Procedures Manual includes a checklist that corresponds with each type of inspection. The criteria for these inspections are set by MGC regulations.

PEER's Previous Conclusions and Recommendations

In 1996, PEER found that MGC had no planned audit program to identify impediments to the conduct of honest and competitive games. Agents spent the majority of their time conducting background checks of work permit

applicants and performing administrative duties. Only twenty percent of agents' time was spent in casinos conducting activities such as coin testing and electronic testing of electronic gaming devices, monitoring casino security and surveillance, observing casino game areas, making arrests, responding to incident reports filed by casinos, and handling patron complaints. In carrying out these activities, agents did not follow a pre-established audit program planned to ensure uniform, documented evaluations of casino gaming operations.

In 2001, PEER found that the commission still had not developed a formal, documented casino inspection program to ensure that games are conducted in accordance with state law and MGC regulations. In particular, the Enforcement Division:

- had no inspection system that required districts to inspect every facet of a casino's operations a pre-determined number of times using detailed checklists;
- did not use a work schedule that ensured that all three districts provided twenty-four-hour enforcement coverage; and,
- spent only nineteen percent of its time fulfilling on-site casino responsibilities and instead focused on administrative responsibilities (e. g., work permitting).

In addition to recommendations for correcting the above conditions, PEER recommended that MGC implement a comprehensive inspection system using a detailed checklist. PEER also recommended that MGC institute a mandate for a certain number of sweep inspections that would require the Enforcement Division to inspect the total gaming operation simultaneously. Finally, PEER recommended the use of a management information database to plan and manage the inspection schedule for each facet of gaming operations in the districts.

Environmental and Regulatory Changes

Since 2001, the MGC has updated its inspection checklists, some with extensive revisions. For example, MGC greatly expanded the slot area inspection checklist. Several checklist items were added, including looking for discrepancies on the MEAL card (i. e., the record that shows reasons for people entering the machines) that were not investigated by a slot technician, conducting reel strip tests on a sample of machines to ensure that the reels match the pay glass and the PAR sheet (i. e., Probability

Accounting Report), and ensuring that the Master List includes all memory chips on the boards, serial numbers, denominations and hold percentages.

MGC's Theory of Inspections

Since the agency's inception, the MGC's enforcement field operations have been driven primarily by industry complaints rather than by an aggressive inspection program. The theory has been that casinos are primarily responsible for detecting and reporting incidents and potential violations to the MGC. According to MGC staff, an underlying assumption of this theory is that the casinos are owned by legitimate corporate businesses that are not going to risk losing their gaming licenses through unethical, unfair, or illegal play of the game practices.

Since the agency's inception, the MGC's enforcement field operations have been driven primarily by industry complaints rather than by an aggressive inspection program.

The Mississippi Gaming Commission requires each casino Surveillance Department to report immediately any criminal activity, gaming violation, or eviction from the premises of the casino to the district office. Other incidents, such as trespassing and card counting without a device, require notification to the MGC within twenty-four hours. When notification on an event occurring at a casino arrives in a district office, a Special Agent or Branch Director reviews and evaluates the information to determine what actions are required (e. g., investigation). The Gaming Commission issues fines against casinos for failing to report incidents. For example, in 2007, a casino was fined \$25,000 for failing to report promptly an unresolved patron dispute of over \$500.

➤ ***2009 Conclusion: No Formal Inspection Program for Enforcement***

The MGC's Enforcement Division still lacks a formal inspection program that would include a plan for conducting unannounced inspections of casino operations a pre-determined number of times to ensure adequate monitoring of the fair play of casino games.

A formal casino inspection program would aggressively monitor all casino operations without an assumption that licensees are trustworthy and would report all potential violations of state laws or regulations to the MGC.

A formal inspection program for casino regulation would include an inspection of every facet of each casino's operations a pre-determined number of times, comprehensive and standardized checklists to document evaluations of casino games and operations, and twenty-four hour coverage, seven days a week, on a "no notice" basis in all MGC districts. Such a program would aggressively monitor all casino operations without an assumption that licensees are trustworthy and would report all potential violations of state laws or regulations to the MGC.

MGC still does not have a formal inspection program in place for monitoring casino games. Because MGC does not require that enforcement agents keep timekeeping records, PEER had to determine through interviews and visits to the district offices that agents spend most of their time responding to incidents reported by the casinos rather than using a planned inspection program.

District directors stated that agents conduct inspections “as they have time.” Because the division lacks an information system to analyze work activities of agents, PEER could not determine exactly how many inspections were conducted over a specified period. Agents stated that often they conduct “walk-throughs,” or informal inspections, of casinos, looking for potential violations. If they do not find any potential violations, MGC keeps no documentation to show that the walk-through even took place.

MGC still does not provide casino enforcement coverage twenty-four hours a day, seven days a week.

Also, MGC still does not provide twenty-four hour enforcement coverage seven days a week. Vicksburg agents work from 8 a. m. to 5 p. m. Monday through Friday with one person on call after hours who is responsible for visiting casino operations upon request of the District Director. Tunica agents provide coverage seven days a week until 2 a. m., with one person on call after hours. Biloxi agents provide coverage seven days a week until 1:30 a. m. during the week and until 4:30 a. m. on weekends.

These deficiencies illustrate that MGC still does not ensure that licensed gaming is conducted honestly and competitively and that interests of the state and its citizens have not been protected in this area.

Training of Enforcement Agents

Training is essential for ensuring that enforcement agents have the knowledge, skills, and abilities needed to regulate casinos according to the law and MGC’s regulations. Any training plan should be based on a needs assessment to define who needs training and in which areas.

PEER’s Previous Conclusions and Recommendations

In 1996, PEER found that MGC’s enforcement agent training requirements were insufficient to detect problems with casino games. Specifically, MGC had no requirement for training on detection of cheating on the games (e. g., play of the games, casino surveillance). Also, the casino industry provided most of the gaming-related training the agents received. Although the industry possesses

expertise, the training of MGC by those they are hired to regulate might hamper their independence.

Although the gaming industry possesses expertise, the training of MGC by those they are hired to regulate might hamper their independence.

In 2001, PEER found that the MGC had addressed the deficiency concerning the need for specific training related to cheating on games and electronic gaming devices. However, MGC still did not ensure that all enforcement agents were adequately trained to perform their jobs successfully. Districts lacked written lesson plans and performance objectives for the field training program, as well as a system for documenting training completion. Also, MGC had not established course objectives or adequate competency standards for its Regulatory Academy. Finally, MGC did not ensure that all enforcement personnel received the required eighty hours of in-service training each year.

Therefore, PEER recommended in 2001 that the MGC establish a uniform field training program and a Field Training Manual, revise the Regulatory Academy Training Program, establish a centralized management program for in-service academy training programs, and establish a policy to require that all enforcement personnel attend courses at least annually regarding detection of cheating on games and electronic gaming devices.

Environmental and Regulatory Changes

In 2001, PEER reported that the MGC had been offering new enforcement personnel specialized training at a two-week MGC Regulatory Academy in Biloxi. The goal of the academy was to provide personnel with the basic knowledge and skills that are required to fulfill their responsibilities through lectures, group discussions, and hands-on experience in playing casino games.

The MGC has not offered the Regulatory Academy since November 2000. According to MGC staff, this was discontinued due to budget restrictions. Casinos and manufacturers have since been the primary providers of the gaming training that enforcement agents receive.

In February 2009, MGC sent two agents to the International Gaming Institute's Gaming Regulators Development Program, which is designed to increase knowledge in many aspects of casino regulation, including current and future gaming technology, licensing, and mathematical percentages in gaming. This was the first time that MGC had sent any of its agents to this program, and only two of thirty-four agents had the opportunity to attend. Some of the activities included playing table games and learning about game protection and cheating

and touring Gaming Laboratories International to learn the process of testing electronic gaming equipment.

➤ **2009 Conclusion: Inadequate Training for Enforcement Agents**

MGC does not provide adequate training for enforcement agents regarding MGC's regulations, table games, and electronic gaming devices and equipment. Thus MGC does not ensure that enforcement agents have the knowledge, skills, and abilities necessary to ensure that gaming is conducted honestly and competitively.

PEER reviewed whether agents were properly trained on gaming regulations, as they are the primary guidelines for agents to follow in determining whether casinos are in compliance. Also, because agents are not required to have knowledge in casino technology or technical expertise, PEER determined to what extent agents are trained on existing and upcoming casino technology.

Law Enforcement Versus Regulatory Training

Currently, the only training MGC requires for enforcement agents is the ten-week Law Enforcement Academy training that agents must complete within two years of employment.

Currently, the only training MGC requires for enforcement agents is the ten-week Law Enforcement Academy training that agents must complete within two years of employment. (See page 52 for minimum experience and education requirements for new enforcement agents.) Agents cannot carry a firearm or handle criminal cases until this training is complete and they become sworn peace officers. District directors may also choose to send agents to the Regional Counterdrug Training Academy in Meridian for an interview and interrogation class (most commonly used) or other class. Otherwise, no formal training program exists for MGC enforcement agents. The focus of formal training relates only to law enforcement and does not reflect agents' job duties, which MGC describes as some ninety percent regulatory and ten percent law enforcement.

District directors stated that new agents first read through the standard operating procedures and the regulations. Then, the agents are assigned to other agents for training in the field. Two agents, one in Biloxi and one in Tunica, have completed a Field Training Officer (FTO) program, which is intended to prepare them to provide training to new enforcement agents. Vicksburg does not have a certified FTO. Because of recent high turnover in Vicksburg, the office lacks sufficiently trained, experienced agents needed to conduct field training (other than the division director).

Because the regulations define specifically what enforcement agents should regulate and look for on a daily basis, regulations should be presented in a formal, comprehensive training program provided only by experienced and knowledgeable staff. One district director stated that training by the Legal Department on the regulations would be invaluable to the agents. Another director stated that the most difficult part of the job is learning everything there is to know, thus training would be extremely important.

Electronic Gaming Device Training

Despite a large part of agents' jobs involving electronic gaming devices, the MGC's Gaming Lab does not offer any formal training on electronic gaming devices.

Also, despite a large part of agents' jobs involving electronic gaming devices, the MGC's Gaming Lab, which is responsible for approving all electronic gaming devices and associated equipment, does not offer any formal training on electronic gaming devices. Instead, district offices admit that slot manufacturers, distributors, and casinos provide most of the training on electronic gaming devices. This training typically takes place when an issue arises with a particular machine, when manufacturers and distributors are in the casinos during openings, or when manufacturers conduct in-house tutorials on machines. District office employees state that there is little information provided to them regarding new slot technology entering casinos.

When asked how much agents need to know about electronic gaming devices, the Gaming Lab Director stated, "as much as possible." Training and knowledge in electronic gaming devices is evident in New Jersey. New Jersey's Division of Gaming Enforcement has an Inspection Unit under its Slot Lab/Technical Services Bureau. This unit is responsible for ensuring that every electronic gaming device in the state, along with related equipment, is operating with integrity. Their activities include verifying jackpot payouts to patrons, verifying operational integrity, conducting inspections, and assuring the security and proper accounting of electronic gaming devices and other electronic equipment.

For training on electronic gaming devices, the MGC Gaming Lab stated that agents are welcome at any time to visit the lab for training. According to lab personnel, the lab held a training session in mid-2008 for enforcement agents to learn about electronic gaming devices. However, there was no documentation to show the content of the training or who attended the training.

MGC does not ensure that enforcement agents possess the knowledge, skills, and abilities to regulate casinos

effectively. In particular, agents might not have the knowledge or experience to evaluate electronic gaming devices' electronic operation and to interpret the data they generate. This lack of knowledge could lead to inconsistent or poor decisionmaking and ultimately affect the integrity of the MGC and of the industry.

Management Information System

Management information systems should provide data that an agency can analyze to assess risk and to assess its own performance. A good system would provide managers at all levels of an organization the ability to collect, analyze, and summarize the diverse types of information needed to perform effectively. Management information systems help top-level managers in formulating strategy and policies and help mid-level managers increase employee performance. A management information system gives front-line managers access to information that helps to ensure the effective conduct of the organization's daily activities.

PEER's Previous Conclusions and Recommendations

In 2001, PEER recommended the use of a management information database to plan and manage the inspection schedule for each facet of each gaming operation in the three districts.

Environmental and Regulatory Changes

Since 2001, MGC has added regulatory responsibilities, such as firmware verification (i. e., a check to ensure that the computer chip in a machine is the same one approved by the lab). However, the MGC's case management system does not provide the Enforcement Division the ability to categorize these new activities. The case management system tracks all cases by division and is divided into twenty established categories (e. g., permit denial, investigation, jackpot verification, and other), depending on the type of case or investigation.

➤ **2009 Conclusion: Flawed Management Information System**

MGC's management information system for enforcement does not maintain pertinent information related to enforcement activities and agents have no guidelines as to how to classify activities. As a result, MGC cannot effectively use the system as a managerial tool to monitor trends, target resources at specific risk areas, or assess the effectiveness of enforcement activities.

The Enforcement Division utilizes a case management database to track cases. Cases may be initiated through various means (e. g., in response to a casino-reported incident, in response to a potential violation noted by the MGC during a casino visit, or in response to a patron complaint or dispute). The agent uses the system to generate a case number for each enforcement activity. Agents select an enforcement activity ("incident") from a drop-down menu, which includes twenty options.

The Enforcement Division's case management database was not set up properly to maintain the level of detail needed to be an effective managerial tool and MGC has not modified the database.

Reports from the case management database show the case number, incident date, the incident type, location, disposition, agent name, and subject name. The reports do not provide any indications of the findings of the investigation or other incidents. Also, there is no category for inspections or firmware verifications, which are important regulatory activities.

Additionally, during a review of enforcement files, PEER found that the categorization of incidents is used inconsistently. For example, some agents were classifying inspections as "investigation" while other agents used "other." District office personnel indicated that the "investigation" and "other" categories were used for various incident types and there are no guidelines on how to classify certain activities (e. g., inspections).

The database was not set up properly to maintain the level of detail needed to be an effective managerial tool and MGC has not modified the database. Because of the flaws in its management information system, MGC is unable to report readily the number of inspections and other regulatory activities within any given period, effectively monitor the status of cases to ensure timeliness of resolution, analyze trends in information that might provide rationale for potential statutory or policy changes, track casinos' competence over time, or ultimately assess its own performance in regulating the industry.

Approval of Electronic Gaming Devices and Associated Equipment

Licensing of independent game testing laboratories and maintaining adequate oversight of the game testing process is imperative for ensuring that the MGC retains control of the game approval process.

PEER's Previous Conclusions and Recommendations

In 2001, PEER concluded that MGC did not thoroughly document the steps that it takes to approve electronic gaming devices and modifications; therefore, PEER could not verify whether the approval process was adequate to ensure that the devices complied with legal requirements. PEER recommended that the Gaming Lab document the engineering tests of software for approval of electronic gaming devices and electronic gaming devices for use in the state.

Environmental and Regulatory Changes

In November 2004, MGC began contracting out all of its testing on electronic gaming devices and other associated equipment to independent testing laboratories.

In 2004, the Gaming Lab lost its Director, both Senior Engineers, and an Engineer. According to MGC staff, at that point the Gaming Lab was essentially non-functional. The lab also had a backlog of games to be tested and the complexity of new games was increasing. Therefore, in November 2004, MGC began contracting out all of its testing on electronic gaming devices and other associated equipment to independent testing laboratories.

➤ **2009 Conclusion: Oversight of Testing of Gaming Devices**

MGC now licenses independent testing labs that test electronic gaming devices. MGC's Gaming Lab reviews test results and reports submitted by the independent testing labs before approving gaming devices for use in the state.

MGC regulations now require that independent testing laboratories apply for licensure with the MGC and register with the Mississippi Secretary of State's office. The licensing process involves corporate investigations, as well as on-site inspections of the labs.

MGC also requires that the independent testing laboratories adhere to test scripts derived from MGC's regulations and technical standards. Independent testing

laboratories must submit reports detailing test results to the Gaming Lab. However, independent testing laboratories do not approve for play any devices in the state. The Gaming Lab reviews the reports and makes its own determination as to whether the device should be approved for play in the state. The Gaming Lab retains sufficient in-house expertise through its gaming electronics specialists, who have engineering, technology, or other relevant backgrounds. The Gaming Lab analyzes and interprets the test results and reports, applies the state's regulations and technical standards, and uses its own judgment to approve games.

MGC regulations require that independent testing laboratories apply for licensure with the MGC and register with the Mississippi Secretary of State's office.

These controls demonstrate proper oversight of the approval process of electronic gaming devices. Thus MGC provides assurance that approved games comply with legal requirements and are fair, honest, and reasonably secure.

Monitoring of Electronic Gaming Devices

According to MGC officials, electronic gaming devices typically represent from 65% to 68% of casinos' gross gaming revenues. They also represent an area of high risk in the current gaming environment. Therefore, the MGC must provide assurance that the machines are operating properly. The only way to definitively know whether a casino is using devices with approved, unaltered software is to check machines physically. Regular unannounced inspections using proper methodology would provide adequate assurance that devices are operating with integrity.

According to MGC officials, electronic gaming devices typically represent from 65% to 68% of casinos' gross gaming revenues.

MGC policies require the Enforcement Division to monitor ongoing activities of casinos through regulatory inspections. The MGC's Enforcement Operations Manual Section 4.6.0 states that agents conduct periodic testing of electronic gaming devices to ensure proper operation as well as communication with the slot accounting system. MGC conducts periodic tests of electronic gaming devices for regulatory purposes or in response to patron disputes.

PEER's Previous Conclusions and Recommendations

In 2001, PEER determined that the Enforcement Division did not conduct routine electronic gaming device checks to verify that the chips were properly installed and had not been tampered with. PEER recommended that the division develop a statewide program for enforcement agents to

conduct surprise checks to ensure that computer chips in electronic gaming devices were those approved by the Gaming Lab.

Environmental and Regulatory Changes

In a 1996 report on the MGC, PEER had concluded that most regulators identified the risk of organized crime entering and controlling the industry as the most significant risk. Therefore, many regulatory efforts were directed at keeping crime out of the Mississippi casino industry. Of course, this risk still exists; however, the current gaming environment presents new risks that must be addressed through aggressive regulatory efforts. Today's casinos are filled with new technologies, particularly in the area of electronic gaming devices. Therefore, efforts should be directed toward the testing, approval, and ongoing monitoring of those devices.

Today's casinos are filled with new technologies, particularly in the area of electronic gaming devices, and regulatory efforts should be directed toward the testing, approval, and ongoing monitoring of those devices.

In 2002, MGC enforcement agents began conducting firmware verification (i. e., a check to ensure that the computer chip in a machine is the same one approved by the lab) for all machines during casino openings, expansions, and any time a machine was modified. In 2006, MGC began allowing casinos to modify games (e. g., conversion, upgrade) without an agent present. The purpose of this was to allow the licensees some operational flexibility (i. e., MGC did not have to send an agent every time a machine was modified and casinos would not have to wait for an agent). District office directors became responsible for directing agents to conduct random device inspections for verification and compliance. The MGC conducts firmware audits on three months' worth of modification requests for the purpose of determining whether the slot departments keep accurate records of the approved requests. The audits also include a random inspection of a percentage of the electronic gaming devices that were modified to ensure that the correct software is being used in the machine.

Firmware verification is only one portion of a complete slot inspection and is not sufficient to determine an electronic gaming device's compliance with MGC regulations. The MGC modified its slot inspection checklist in 2007 and it includes items such as inspecting the hardware of the machine, completing bill tests on the machines, and specific items for progressive electronic gaming devices (e. g., ensuring that surveillance has ability to record and view the progressive meter on the machine).

➤ **2009 Conclusion: Lack of Regular, Unannounced Inspections of Electronic Gaming Devices**

Although changes in the gaming industry suggest a need for increased focus on electronic gaming devices, the MGC does not aggressively monitor the integrity of such games through regular, unannounced inspections of electronic gaming devices and does not use proper methodology in its inspections.

District directors stated that enforcement agents' other regulatory responsibilities take precedence over inspections of electronic gaming devices.

MGC agents conduct firmware verifications during casino openings and expansions. Agents also conduct firmware verification on a small percentage of those modified devices reported by casinos. As they have time, agents conduct formal electronic gaming device inspections. These inspections consist of activities such as firmware verification as well as ensuring that the machine is properly communicating with the online slot system that records all of the machine's transactions.

The fact that enforcement agents' other regulatory responsibilities take precedence over inspections of electronic gaming devices increases the chances that the MGC could fail to discover major problems in the casinos related to such devices.

Directors in the district offices stated that agents conduct inspections as they have time because other regulatory responsibilities take precedence. This increases the chances that the MGC could fail to discover major problems in the casinos related to electronic gaming devices. For example, casinos could have machines using firmware that was not approved for use in the state. Also, casinos could have devices that do not communicate correctly with the slot accounting system, which could result in the casino essentially altering the machines' financial transactions.

Because it has not made inspections of gaming devices a high priority, MGC has not ensured that the assets and integrity of the gaming industry have been protected. In addition, the credibility of the MGC's regulation could be called into question, as well as the public's perception that electronic gaming devices are operating honestly.

MGC does not use a statistically valid random sample for electronic gaming device inspections or firmware audits, thus MGC cannot be assured that all electronic gaming devices are operating in a fair and honest manner.

In order to ensure the integrity of electronic gaming devices, the Gaming Commission is responsible for initial approval of the machines and continued verification of the proper operation of the devices. The inspection program is a way to verify that electronic gaming devices in the casinos are operating with integrity. Although they

conduct them infrequently, agents are responsible for electronic gaming device inspections and firmware audits.

However, agents do not use a statistically valid random sample for testing. A statistically valid random sample would provide assurance that the results from the sample tested represent the total population of machines. Sample size would be calculated based on an acceptable error rate (e.g., +/-5%) and confidence interval (e. g., 95%). Instead, agents typically inspect around ten percent of devices in a casino, including various types of devices. For example, during a firmware audit of Sam's Town Casino, which has 1,314 electronic gaming devices, the agent checked ten percent, or 131, of machines; however, a statistically valid sample would have included 297 machines.

Conducting inspections of electronic gaming devices without using a statistically valid sample could allow for inaccurate representation of the total population of devices, which compromises the integrity of the inspection program and places into question the honesty and fairness of the devices.

According to a June 2005 article in *Casino Enterprise Management* entitled "Electronic Gaming Device Field Inspection: What's Involved and Why It's Important," written by two gaming regulatory consultants, choosing a statistically valid random sample of devices for the inspection is necessary to ensure proper planning for valid field inspections.

Any inspection, particularly an electronic gaming device inspection, requires a significant amount of time from enforcement agents. PEER observed an inspection in progress for a casino in Tunica. For this inspection, the office estimated that two agents would spend nearly three weeks to complete an inspection of approximately ten percent of machines. Although a statistically valid random sample would probably require even more time, inspecting machines without using a statistically valid sample could allow for an inaccurate representation of the total population of devices, which compromises the integrity of the inspection program and places into question the honesty and fairness of the machines. Because a significant portion of gaming revenue is attributed to electronic gaming devices, protecting this revenue and maintaining the integrity of the devices is imperative.

In selecting a sample to test during electronic gaming device inspections, MGC obtains a list of devices from the casino. Because MGC does not verify that all devices have been included on the list, the potential exists for the casino to exclude some devices from the list for sampling.

Before an enforcement agent conducts an electronic gaming device inspection, the agent requests a list from the casino of all the devices on the floor. From this list, the agent selects a sample of ten percent. The agent does not verify that the list contains the total number of devices; therefore, the casino could potentially exclude devices from the list for sampling.

In order to select a valid sample, the entire population must be defined. To accomplish this, the list provided by the casino would need to be validated. At the very least, MGC should ensure that the number of devices on the list equal the number of machines in the casino. Ideally, agents would compare the location and number of each device in the casino with the floor plan and electronic gaming device inventory.

Ideally, enforcement agents would compare the location and number of each device in the casino with the floor plan and electronic gaming device inventory.

MGC does not expect casinos to exclude devices from the list; however, casinos could modify certain devices and intentionally leave them off of the list from which the agents select a random sample. Using this method, a device could be operating unfairly or dishonestly without detection by the MGC.

Need for Technical Expertise in District Offices

In today's competitive and complex work environment, the selection of employees is an important factor in organizational success. The knowledge, skills, and abilities needed to perform successfully on the job should clearly coincide with the job duties.

PEER's Previous Conclusions and Recommendations

PEER did not specifically address staffing in previous reports on the Gaming Commission. However, the changing gaming environment warrants an analysis of staffing to determine whether the right type of employees are located in the district offices to regulate the electronic gaming environment adequately.

Environmental and Regulatory Changes

In the casino environment, the increasing sophistication of electronic gaming device technology and online accounting systems clearly necessitate technical expertise. As mentioned in the Environmental Analysis on page 15, there has been a shift toward more complex and sophisticated technology in the casino environment, which dictates a need for more regulatory staff with technical expertise.

In 2005, the Gaming Lab moved from Biloxi to Jackson. One gaming electronics specialist remained in Biloxi to provide technical assistance to the Biloxi District Office. All other Gaming Lab personnel remain at the central office in the Gaming Lab. As of July 1, 2007, the MGC

employed four Gaming Electronics Specialists in the Gaming Lab.

➤ ***2009 Conclusion: Insufficient Technical Expertise at the District Level***

MGC has not ensured that its district offices have the level of technical knowledge and expertise needed to monitor the integrity of electronic gaming devices prevalent in modern casinos.

The MGC's district offices have compliance officers and enforcement agents on staff. Compliance officers have primarily accounting backgrounds, while enforcement agents are required to be sworn peace officers and may have little knowledge or experience with casino technology, including electronic gaming devices. The job description for enforcement agent trainees provided by the State Personnel Board specifies the following education and special requirements:

Education Requirements

- Graduation from a standard four-year high school or equivalent (GED).

Special Requirements

- Applicants will be required to pass a physical examination before appointment.
- Applicants must possess or obtain within twenty-four months of employment a certificate as a State of Mississippi Law Enforcement Professional from the Board of Law Enforcement Officers Standards and Training.
- Incumbent must maintain cardiopulmonary resuscitation/automated external defibrillator certification.
- Incumbent may be on standby and/or on call.

PEER reviewed the responsibilities of enforcement agents and observed various enforcement activities to determine that the agents spend a significant amount of time dealing with issues pertaining to electronic gaming devices, including patron disputes and jackpot verifications. For example, in a patron dispute, an agent might be called to a casino to investigate whether an electronic gaming device malfunctioned and awarded a jackpot incorrectly. Because electronic gaming devices are becoming more sophisticated and complex, agents might lack the knowledge needed to handle at least some of the tasks to

which they are assigned. Ultimately, agents could make poor decisions that might affect the effectiveness of MGC's regulation of casinos.

Law enforcement experience might be useful in conducting background checks for work permits or in criminal cases, but in terms of regulating casino technology, law enforcement experience is now of secondary importance. Instead, technical expertise is needed, particularly in the district offices where daily regulation of the electronic gaming environment occurs.

Law enforcement experience might be useful in conducting background checks for work permits or in criminal cases, but in terms of regulating casino technology, law enforcement experience is now of secondary importance. Instead, technical expertise is needed. MGC has not concentrated staff with technical expertise in the district offices where daily regulation of the electronic gaming environment occurs.

As noted previously, the Biloxi office employs a gaming electronic specialist who had previously worked in the Gaming Lab when it was located in Biloxi. This employee provides technical assistance to agents; however, the Vicksburg and Tunica offices lack such a position. The Gaming Commission staff stated to PEER that they have discussed either adding specialist positions in district offices to provide technical expertise or modifying the job descriptions of agents; however, this had not been done as of the date of this report.

In addition, insufficient technical expertise in the districts calls into question the MGC's ability in the future to regulate new technology, particularly server-based gaming, in which all machines would be controlled by a central server on site at the casino.

Need for Additional Policies for Gaming Regulation

No Written Criteria for Approval or Modification of Table Games

In addition to the programming and operation of electronic gaming devices, the conduct of table games should be monitored to ensure honesty and competitiveness. Sufficient monitoring should include both the approval of new games and the modification of existing games. MISS. CODE ANN. Section 75-76-3 (3) (a) (1972) states that "regulation of licensed gaming is important in order that licensed gaming is conducted honestly and competitively."

PEER's Previous Conclusions and Recommendations

In 1996, PEER recommended that the MGC develop written criteria for determining whether to approve new table games. At that time, the MGC deputy director was the primary individual responsible for recommending approval of table games to the commission. By 2001, MGC

still had not developed such written criteria. The gaming relations specialist in charge of training was the primary individual responsible for recommendations.

In 2001, the MGC enforcement divisions in the three districts were responsible for the approval of modifications to existing table games. However, no written policies existed to guide the districts in determining whether to approve modifications to the games and when they should be forwarded to the training director for review.

Environmental and Regulatory Changes

As of February 2001, MGC had developed a “New Table Game Approval Policy,” but it included no criteria for new table game approval. It did state that game developers must provide drawings or photographs of the table layout, rules of play with specific examples, and a complete mathematical analysis of the expected game results. The rules also stated that the hold percentage (i. e., the amount of money a casino keeps out of the total amount dropped on the table) of a new game should not exceed that of current games approved in Mississippi and final approval would be granted if the game was found to be compatible with the public interest and was suitable for casino use in Mississippi. Although the rules listed the items to be reviewed in the decision process, they did not outline what would be considered acceptable (e. g., the characteristics that are deemed suitable for play in Mississippi casinos). The MGC’s “New Game Approval Policy” has not been revised since July 2002 and still lacks written criteria for approval or modification of table games.

The special projects officer over approval of new table games and modifications said he strives to work with game developers to solve any issues that might warrant a denial, thus the denial rate is extremely low.

From 2001 through April 2009, two new table games, 162 table game variations, and 122 modifications to games (i.e., pay table modifications) have been approved. The special projects officer over approval of new table games and modifications said he strives to work with game developers to solve any issues that might warrant a denial, thus the denial rate is extremely low. According to MGC staff, since July 1997 only one new table game has been denied because it could not be protected adequately or modified accordingly. Two other games did not complete their field trials and were not presented for an additional trial and thus were not approved for operation in the state.

➤ **2009 Conclusion: No Written Criteria for Approval or Modification of Table Games**

Even though the MGC staff state that they have criteria for approval or modification of table games, the MGC still has not developed written criteria for approval or modification of table games.

According to MGC staff, in keeping with the Mississippi model of regulation, a large component of which is free-market determination of the success and failure of an operator's product mix, there is no rote scoring methodology to determine which games will be competitive. Although MGC staff state that they have criteria for table game approval, MGC does not have written criteria. The mathematical study submitted by the table game applicant to MGC during the table game approval/modification process is expected to not give the house advantage of a game or to give the house a return that could be judged as excessive. According to MGC staff, they approve products that do not mislead the consumer, do not have an excessively low return on wager, or that might expose the operator to risk of theft or fraud.

Regarding modifications, again according to MGC staff, as a matter of practice, an enforcement agent and the branch director in a district office consult with the investigator in charge of table games approval before any modifications to the rules of approved casino games are allowed. Additionally, the directors of compliance in each district office regularly consult with the table games department regarding modification of games.

Because the standard is discretionary, there is no objectivity in the table game approval and modification process. Without this objectivity, the MGC cannot ensure fair and equitable treatment of casino patrons or operators.

The MGC has criteria for table game approval and modifications (e. g., a new game should not exceed the estimated hold percentage of games already approved in Mississippi, games should be compatible with the public policy of the state). However, MGC has not written these procedures for this process. PEER contends that without written criteria, MGC cannot assure that table games are being conducted in an honest and competitive manner. Without sufficient policies governing the approval or modification of table games, the commission cannot be assured that table games are being approved in a consistent manner and played consistently on a statewide basis. Because the standard is discretionary, there is no objectivity in the table game approval and modification process. Without this objectivity, the MGC cannot ensure fair and equitable treatment of casino patrons or operators.

No Cost/Benefit Analysis of Socioeconomic Risks of Casino Gaming

The Mississippi Gaming Control Act requires the strict regulation of all persons, locations, practices, associations and activities related to the operation of licensed gaming establishments in order to maintain the public's confidence and trust. Additionally, MISS. CODE ANN. Section 75-76-3 (3) (c) (1972) calls for regulation of the industry to protect the public health, safety, morals, good order, and general welfare of the inhabitants of the State of Mississippi. Pages 3 through 4 of this report present information on the socioeconomic risks to the public from casino gaming.

PEER's Previous Conclusions and Recommendations

In 1996, PEER noted that, while not specifically mandated by state law, full protection of the general welfare of the state's inhabitants should include ongoing monitoring of the negative social consequences of legalized gambling and development of regulations designed to reduce the negative impact, where feasible. PEER recommended that, using existing resources, MGC conduct an ongoing cost/benefit analysis of Mississippi's legalized gambling industry and report its findings to the Legislature, industry, and the general public. PEER recommended that such an analysis address factors such as the percentage of gamblers and problem gamblers who are in-state versus out-of-state, the socioeconomic profile of these gamblers, and the incidence and associated costs of casino-related problems such as compulsive gambling and white-collar crime.

In 2001, PEER found that while MGC had implemented policies intended to reduce problem gambling, it had not conducted a cost/benefit analysis of the gambling industry as recommended in the 1996 report. Subsequently, PEER again recommended in 2001 that the MGC conduct a cost/benefit analysis of the socioeconomic risks of casino gaming. MGC staff told PEER the agency lacked the expertise and funds to hire outside consultants to complete a cost/benefit analysis.

Environmental and Regulatory Changes

Although MGC has not conducted a formal cost/benefit analysis of the socioeconomic risks of casino gaming, according to MGC staff, the agency does collect

information on the percentage of in-state versus out-of-state gamblers and publishes it quarterly through the *MGC Quarterly Survey*. An example of the most recent *MGC Quarterly Survey* is attached as Appendix F, page 106.

However, the MGC does not collect information on the percentage of in-state versus out-of-state problem gamblers, the socioeconomic profile of these gamblers, or the incidence and associated costs of casino-related problems such as compulsive gambling and white-collar crime.

➤ **2009 Conclusion: No Cost/Benefit Analysis of Casino Industry**

The MGC has not conducted a cost/benefit analysis of the casino gaming industry in Mississippi.

State law charges the Mississippi Gaming Commission with regulating the gaming industry in the state and thereby protecting the public health, safety, morals, good order, and general welfare of the inhabitants of the state in regard to the gaming industry. In order to do this, the MGC needs to understand all the risks presented by the ever-changing gaming environment. To reduce and/or mitigate the risks, the MGC should monitor the negative social consequences of casino gaming so that the agency will be better positioned to regulate.

PEER contends that a cost/benefit analysis of casino gaming is a public policy need that has not yet been addressed in Mississippi. Such analysis is needed to form a proper response to mitigate negative effects of gaming in the state.

According to the MGC, it has not conducted a cost/benefit analysis of the socioeconomic risks of the gaming industry because it would take too much time away from already scarce resources. Another stated explanation was that it is almost impossible to put a value on all of the different tasks the agency completes.

Although the gaming industry in Mississippi has certainly matured, PEER contends that a cost/benefit analysis is a public policy need that has not yet been addressed. This analysis is needed to form a proper response to mitigate negative effects of gaming in the state.

Implications for Funding Casino Gaming Regulation in Mississippi

In the 2009 Second Extraordinary Session, the Legislature eliminated general fund support to the MGC. The commission must now support regulatory activities through special funds and PEER believes that the lucrative casino gaming industry can reasonably be expected to bear the financial responsibility for regulation. The MGC should use this opportunity to bring the casino gaming regulatory structure to a level commensurate with changes in the industry.

As described on page 15, the casino gaming industry is a constantly evolving one. It has been affected by a hurricane of historic proportions, changes in state law, a shift to more sophisticated technology, and an economic downturn.

The shift to more sophisticated electronic gaming has been perhaps the most challenging of the above-noted changes in terms of its effect on the regulatory environment. As noted on pages 42 and 52, the MGC does not have a sufficient number of enforcement staff with a level of technical knowledge and expertise needed to monitor the integrity of electronic gaming devices prevalent in modern casinos, as well as to be able to regulate server-based gaming. MGC also has not provided adequate training for enforcement agents to keep up with recent and future technological changes.

To bring Mississippi's gaming regulatory structure to a level commensurate with changes in the industry will necessitate identifying a mechanism for funding these improvements.

The Legislature's elimination of general fund support for the Gaming Commission for FY 2010 reflects a shift in public policy regarding the industry's regulation.

As shown in Exhibit 4, page 12, the Legislature appropriated an average of \$3.7 million in general funds annually to the MGC from fiscal years 2004 through 2008. Historically, the MGC has used these funds to pay the majority of its salary expenditures. However, in the 2009 Second Extraordinary Session, the Legislature for the first time reduced general fund support of the MGC to \$0 for FY 2010, thus requiring the MGC to increase its FY 2010 special fund revenue to offset the impending loss of general funds.

This funding decision reflects a shift in public policy that is in keeping with the idea that any mature industry that

presents a constantly changing and technologically challenging regulatory environment should fund its own regulation. PEER's contention is that there are immediate needs for improvement in the state's current regulatory environment and that should be included in this shift in thinking.

In 2002, PEER developed a theory of fee setting in state government.² To form the basis for decisions on whether to establish or increase fees, PEER's theory of fee setting in government includes the following steps:

- determine the beneficiary of the service (i. e., public, private or mixed);
- determine sources of revenue for funding (i. e., taxes, user fees, or a combination);
- determine and analyze legal issues (e. g., statutory limits on fees);
- determine the purpose of the fees (e. g., to cover costs and/or influence behaviors);
- assess factors influencing the level of fees (e. g., determine demand for service);
- identify cost data (e. g., minimize costs, measure direct and indirect costs); and,
- compute estimated fees.

To determine how to fund services, decisionmakers must determine who benefits from the state service in question. In MGC's case, the benefits accrue to both the public and private entities. However, the actions of the Legislature in the 2009 Second Extraordinary Session have swung the public policy position of the state toward requiring the industry to bear responsibility for funding an adequate regulatory environment. While the state certainly benefits from oversight of the gaming industry, the privilege of engaging in gaming activities for profit is sufficiently lucrative to consider the industry as the primary source of revenue for regulation when setting public policy.

In setting fees, decisionmakers also must understand and determine the purpose for setting the fee. Reasons might include covering the cost of operations and/or influencing behavior of service recipients or regulated entities. As previously noted, in the case of casino regulation, the sophisticated technical environment that marks the industry and its games requires highly trained and, in

² See PEER Report #442, *State Agency Fees: FY 2001 Collections and Potential New Fee Revenues*, December 17, 2002.

many cases, highly specialized agents to conduct state-of-the-art regulation in an environment that is constantly evolving. In such an environment, it would be well within a rational fee policy to require the fee structure to be sufficient to maintain a “best practice” inspection process. Agents must be sufficiently trained in the technical aspects of gaming to be able to identify improper actions on the part of the industry or the general public.

While the state certainly benefits from oversight of the gaming industry, the privilege of engaging in gaming activities for profit is sufficiently lucrative to consider the industry as the primary source of revenue for regulation when setting public policy.

Further, based on this theory of fee-setting, agencies that conduct inspections should charge fees for each inspection in addition to fees for permitting a particular activity. Alternatively, fees to cover the cost of an annual minimum number of inspections could be included in the permit fee with only the cost of follow-up inspections (inspections that follow findings of violations) being charged separately. MGC should charge fees for its inspection of casinos and the deficiencies in MGC’s inspection program described in this report should be corrected. Casinos that need additional inspections because they have not followed laws and/or regulations would have to pay more than those casinos in compliance.

Mississippi’s gaming industry can reasonably be expected to bear the financial responsibility of strengthening the regulatory structure.

Mississippi casinos have generated over \$36 billion in gross revenues since the first casino opened in 1992, with over \$2.7 billion in FY 2008 alone. Also, at present, Mississippi’s graduated tax rate structure for gaming is the second lowest of all gaming states that have a graduated tax rate structure.

The potential exists for Mississippi to increase fees, taxes, or a combination thereof for regulation of the gaming industry and still be on a competitive basis with other states that have legalized casino gaming.

Exhibit 8, page 61, shows the minimum and maximum percentage charged in the six states that operate on a graduated tax rate structure. Illinois and Indiana charge an “admission tax” per patron in addition to taxing gaming revenues, contributing to the overall reported tax revenue.

The remaining six gaming states charge a fixed tax rate on gaming revenue. The state of New Jersey has the lowest fixed tax rate, with an 8% tax on gross gaming revenue. The highest is Pennsylvania, with a 55% fixed tax on gross gaming revenue. Exhibit 9, page 61, shows the tax rate for states with fixed tax rates. Missouri charges an “admission tax” per patron in addition to taxing gaming revenues, contributing to the overall reported tax revenue.

Exhibit 8: States With Graduated Tax Rate Structure for Gaming

State	Minimum %	Maximum %
CO	.25% of AGR	20% of AGR
IL	15% of AGR	50% of AGR
IN	15% of GR	40% of GR
IA	2% of AGR	22% of AGR
MS	4% of GR	8% of GR
NV	3.5% of GR	6.75% of GR

AGR = Adjusted Gross Revenue (monthly, except Colorado and Indiana); GR = Gross Revenue (monthly)

SOURCES: American Gaming Association, Colorado Gaming Association, Colorado Gaming Control Board, Illinois Casino Gaming Association, Illinois Gaming Board, Indiana Gaming Commission, Iowa Racing and Gaming Commission, Mississippi Gaming Commission, Nevada Gaming Control Board, and Nevada Commission on Tourism.

Exhibit 9: States With Fixed Tax Rate Structure for Gaming

State	Tax Rate
LA	21.5% of NR
MI	24% of GR
MO	21% of AGR
NJ	8% of GR
PA	55% of GR
SD	8% of AGR

AGR = Adjusted Gross Revenue (monthly); GR = Gross Revenue (monthly); NR = Net Revenue (monthly)

SOURCES: American Gaming Association, Louisiana Gaming Control Board, Michigan Gaming Control Board, Missouri Gaming Commission, New Jersey Casino Control Commission, Pennsylvania Gaming Control Board, and South Dakota Gaming Commission.

Thus the potential exists for Mississippi to increase fees, taxes, or a combination thereof for regulation of the gaming industry and still be on a competitive basis with other states that have legalized casino gaming.

Regulation of Charitable Bingo

While data indicates that charitable bingo operations potentially contribute more to the charities they support than in the past, state law does not adequately address the charity fraud risk because it does not authorize the Gaming Commission to track the flow of funds to determine that charitable causes are being supported. Also, the commission lacks written policies for granting licenses of varying lengths, as well as a database to track pertinent information related to bingo hall inspections.

This chapter begins with an environmental analysis of charitable bingo in Mississippi, then addresses the following aspects of charitable bingo regulation:

- protection against the charity fraud risk;
- contributions to charity accounts; and,
- the management information system.

Each of the above sections begins with a statement of the criteria used for evaluation, a recap of PEER's conclusions and recommendations on the topic from the three previous reports on the regulation of gaming in Mississippi (see page 12 for summaries of these reports), and PEER's 2009 conclusion on the topic.

Environmental Analysis: Charitable Bingo

Charitable gaming activities have declined in Mississippi as casino gaming has become more popular. While there have been few changes to the charitable gaming environment, these changes to the Charitable Bingo Law have benefited both the charities and the MGC.

Similar to the environmental analysis conducted on casino gaming, PEER analyzed the current charitable gaming environment to determine how it has changed in ways that would affect regulation. This analysis includes changes to the Charitable Bingo Law, trends in the number of bingo halls and gross receipts, and a description of the charitable gaming environment. PEER also describes MGC's regulatory approach to charitable gaming.

Changes to the Charitable Bingo Law

Changes to the Charitable Bingo Law have been beneficial to both the charities and the MGC.

As noted on page 6, the Charitable Bingo Law (MISS. CODE ANN. Section 97-33-50 et seq. [1972]) establishes the terms and conditions under which bingo may be legally conducted in Mississippi.

Amendments to the Charitable Bingo Law since 1997 have included:

- *a provision that charitable organizations could use gross receipts derived from a bingo game to pay administrative penalties imposed by any state agency against the charitable organization.* The MGC contends that the provision that allows charitable organizations to use gross receipts to pay administrative penalties helps the charity to be able to pay the fines without exceeding the allowable amount for bingo hall expenses.
- *an increase in the number of years a license is valid for holding, operating, or conducting bingo games from one to three years.* MGC considered annual relicensure to be unnecessary; therefore, there was an amendment to increase the number of years for licensing from one to up to three years. In PEER's 1997 report *An Evaluation of the Mississippi Gaming Commission's Bingo Division*, PEER found that annual relicensure of all bingo licensees required agents to devote virtually all of their working hours during the late summer and early autumn of each year to such relicensure, to the exclusion of other important regulatory activities.
- *collecting 2.5% of the net proceeds of pull-tabs, electronic bingo machines, and electronic pull-tab machines by MGC instead of 5% of the net proceeds from only pull-tabs.* Prior to the amendment in FY 1999 for collecting 2.5% of the net proceeds of pull-tabs, electronic bingo machines, and electronic pull-tab machines, MGC was only collecting money from pull-tabs. Partially because of this change, the revenue to the commission has not suffered due to the decrease in the number of bingo halls since FY 1999.

Number of Bingo Halls and Gross Bingo Receipts

The number of bingo halls and the amount of gross bingo receipts have declined in Mississippi since 1997. Research suggests that the increase in popularity of casino gaming has contributed to the decline of other forms of gambling, including charitable bingo.

Exhibit 10, page 65, illustrates the number of bingo halls regulated by MGC from fiscal years 1997 through 2008. The number of bingo halls decreased 41% over this twelve-year period. As of January 2009, Mississippi had seventy-nine licensed bingo halls in operation.

As of January 2009, Mississippi had seventy-nine licensed bingo halls in operation.

The Pew Research Center's 2006 report *Gambling: As the Take Rises, So Does Public Concern* contends that as the popularity of casino gaming has grown, the popularity of other forms of gaming has declined. The report indicates that there was a decrease in the percentage of people who reported participating in bingo gaming within the past year of the survey from thirteen percent in 1989 to six percent in 2006. Other forms of gambling, including betting on professional sports and horse racing, also showed decreases. In contrast, casino gaming became more popular, as nearly thirty percent of the adult population indicated that they had visited a casino in the past year, an increase from twenty percent in 1989.

MGC's Charitable Bingo Division also indicated that the economy has affected charitable bingo operations, as the number of patrons has decreased and the amount that patrons spend has decreased.

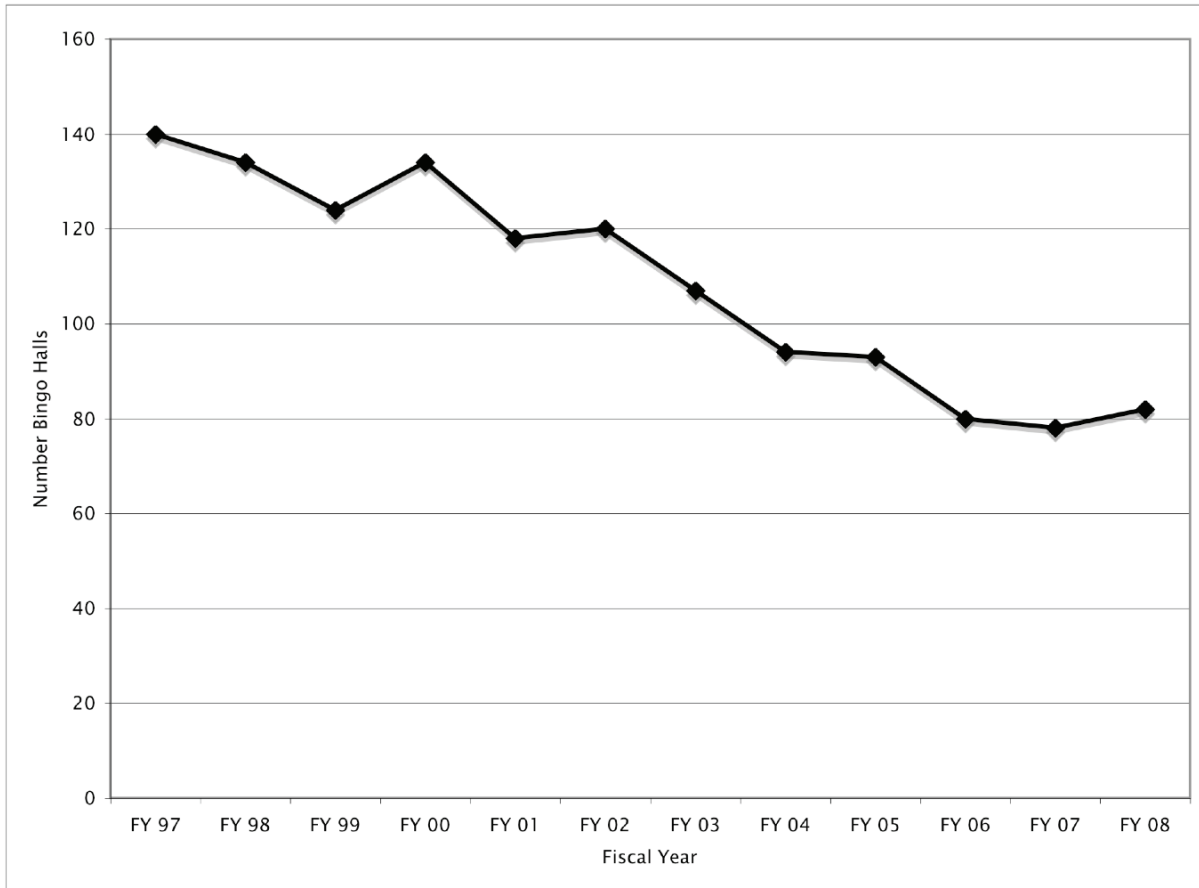
Bingo gross receipts represent the total amount of money taken in by bingo halls. Due to the shrinking number of bingo halls, bingo gross receipts decreased 21 percent from FY 1997 to FY 2008 (from \$137 million to \$107.8 million). (See Exhibit 11, page 66.)

Changes in the Bingo Environment

Unlike the rapidly changing casino environment, the bingo environment has remained relatively stable in Mississippi.

The bingo environment has experienced little change in Mississippi and MGC's Charitable Gaming Division does not expect significant changes to take place in the near future. One way the bingo environment has changed is computerized bingo. Some bingo halls offer computerized cards in which the bingo numbers called are automatically posted on the cards rather than traditional paper bingo cards; however, these computerized cards have been in place for several years.

Exhibit 10: Number of Bingo Halls Regulated from Fiscal Years 1997 through 2008



SOURCE: Mississippi Gaming Commission budget requests.

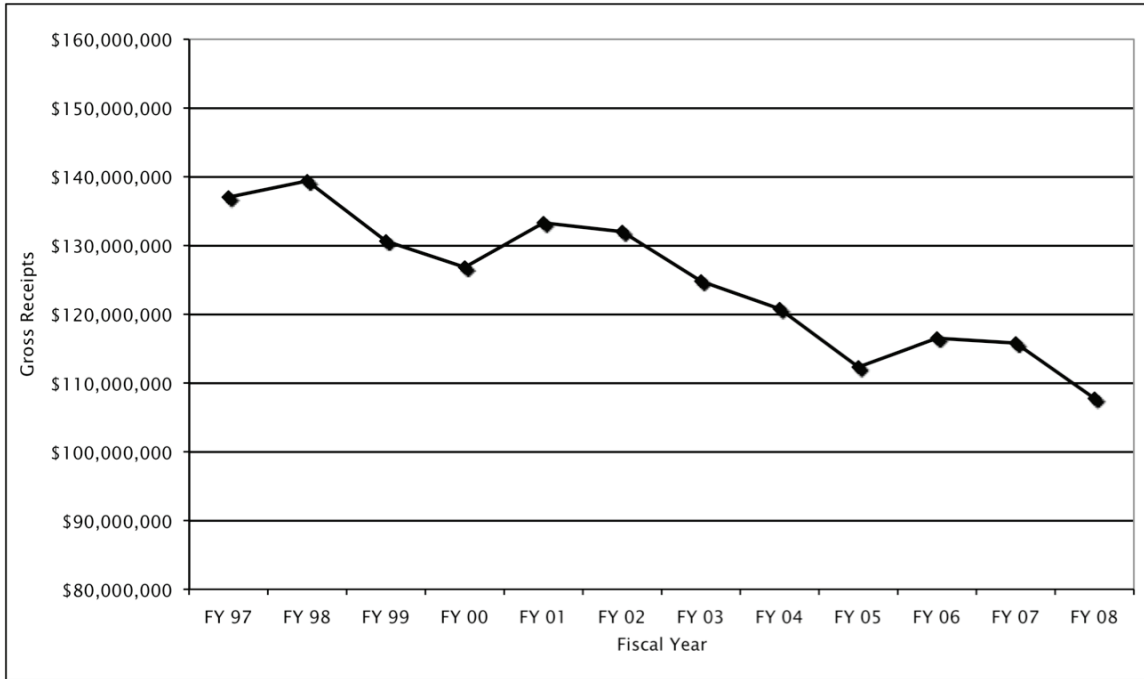
MGC's Regulatory Approach to Charitable Bingo

The MGC's civil regulatory approach to enforcement of the charitable bingo law is acceptable, as it provides more control over the process and decisions than if a criminal approach were used.

As noted previously, the Charitable Bingo Law establishes the terms and conditions under which bingo may be legally conducted in Mississippi. These sections establish a procedure for licensing entities eligible to conduct bingo, define legally acceptable expenditures for such entities, and provide for the licensing of suppliers and other persons who provide support to the bingo industry. Such controls are established to enable the state to determine whether legitimate charity licensees consisting of suitable persons are engaged in bingo. These provisions are also

intended to control the amounts and recipients of bingo proceeds to entities other than charities.

Exhibit 11: Bingo Gross Receipts from Fiscal Years 1997 through 2008



SOURCE: Mississippi Gaming Commission.

The Charitable Bingo Law also provides the Charitable Gaming Division with the authority to fine any person, association or corporation violating any provisions of the Charitable Bingo Law or MGC regulations and to suspend or revoke licenses (MISS. CODE ANN. Section 97-33-75 (1) [1972]). Further, CODE Section 97-33-75 (2) details specific acts (e. g., making any false statement in an application for licensure) that, upon conviction of a person committing these acts, the MGC has the authority to fine no more than \$5,000, imprison for one year, or both.

In terms of enforcement, MGC has two major objectives—to prevent violations of the law and/or regulations and to detect and sanction violations that occur. The Charitable Gaming Division attempts to prevent violations of the law and/or regulations by imposing licensing requirements and by educating bingo hall staff. During the inspections that PEER observed, enforcement agents stressed the importance of each part of the inspection to staff and

educated them in order to encourage compliance. Of course, violations still occur; therefore, the detection of violations and imposition of civil and/or criminal penalties is required.

If a person commits an offense such as making a false statement in an application for licensure, MGC will deny the license rather than rely on the interest and availability of local prosecuting attorneys and judges.

The MGC takes a civil regulatory approach to its enforcement of the Charitable Bingo Law, which allows the agency to maintain more control over the process and decisions than if a criminal approach were used. If a person commits an offense such as making a false statement in an application for licensure, MGC will deny the license rather than rely on the interest and availability of local prosecuting attorneys and judges. If a bingo hall violates the regulations (e. g., paying out too much in prizes), then MGC issues a fine. The MGC encourages charities to take action against a person (e. g., bingo hall supervisor) if the findings warrant such action (e. g., stealing). The reason for this is that it allows charities to go after the unscrupulous individual(s) without the situation reflecting poorly on the charity.

If the charities' members are involved in criminal activity or if the charity fails to take action against a person who has committed a criminal offense, then the MGC will pursue criminal action. PEER believes this to be an acceptable approach.

Conclusions Regarding MGC's Charitable Bingo Regulation

Protection Against the Charity Fraud Risk

MISS. CODE ANN. Section 75-76-28 (1972) gives the MGC full power and authority to exercise any of the powers, duties and responsibilities set forth in the Charitable Bingo Law. CODE Section 97-33-52 (2) states:

. . .all net proceeds derived from a bingo game authorized by this section shall be expended only for the purposes for which the organization is created.

Further, CODE Section 97-33-55 requires that bingo licensees include in their applications a statement regarding "the specific purposes to which the entire net proceeds from the bingo games are to be devoted and in what manner."

PEER's Previous Conclusions and Recommendations

In 1997, PEER found that state law did not require bingo licensees to dedicate a specific amount or percentage of their income annually to support charitable acts or organizations. State law also did not specifically authorize the commission to track the flow of funds from the licensee to charitable uses.

PEER recommended that the Legislature amend MISS. CODE ANN. Section 97-33-57 (1972) to authorize the Commission to:

- require that licensees submit plans to the commission detailing what charitable activity they intend to support for the period of the license;
- require that the licensee report to the commission all transfers made in support of charity;
- audit the transfers of funds from licensees to any other entity that has one or more common officers;
- revoke the license of any licensee that has failed to comply with the provisions of its business plans or which makes contributions to any organization that fails to provide material support (as defined by the commission) for charitable activities; and,
- ensure that the revenue from charitable bingo operations is used in support of charitable purposes.

PEER believed that the commission should have the authority to determine how funds generated from bingo operations and transferred to the charity account are expended. Also, the commission should have the authority to determine what percentage of the funds from bingo operations may be used to support a charity's management and general expenses and how much must be used to support charitable purposes.

Environmental and Regulatory Changes

Since the 1997 report, no changes have been made in state law to authorize the MGC to inquire closely into the operations of charitable organizations and monitor their transactions. However, in 1997, the commission began requiring through regulation that a bingo hall must annually transfer forty percent of its adjusted gross income from its bingo account to its charity account.

• **2009 Conclusion: Lack of Protection Against the Charity Fraud Risk**

State law does not provide the MGC with authority to inquire closely into the operations of charitable organizations and monitor their transactions to ensure that bingo halls are truly supporting charitable causes.

The MGC requires that the charitable organizations operating bingo games maintain a bingo account and a charity account. Since 1997, MGC has required bingo halls to transfer 40% of their adjusted gross income (total gross income minus fees paid to the MGC and prizes paid) from their bingo accounts to their charity accounts.

Since 1997, MGC has required bingo halls to transfer 40% of their adjusted gross income (total gross income minus fees paid to the MGC and prizes paid) from their bingo accounts to their charity accounts.

However, aside from reviewing the charity account to ensure that the necessary funds are transferred to the charity account, the MGC cannot legally require that charitable organizations operating bingo games provide a certain percentage of funds to charitable activities in any given year or follow funds expended through an auditing process to ensure that they were expended for charitable purposes. This could provide the opportunity for licensees to transfer funds to any organization in amounts as they see fit without oversight from the MGC.

MISS. CODE ANN. Section 97-33-73 (1972) gives power to the MGC to examine or to cause to be examined the books and records of any organization to which a license is issued so far as they may relate to any transactions connected with the holding and conducting of bingo. The power to examine or to cause to be examined the books and records of any organization as it relates to compliance with the Charitable Bingo Law was given to the State Tax Commission. However, the State Tax Commission does not perform this function unless it is looking at specific tax issues concerning individuals who are involved with a charity or bingo, because charities do not provide a revenue source for the Tax Commission.

The power to examine or to cause to be examined the books and records of any organization as it relates to compliance with the Charitable Bingo Law was given to the State Tax Commission.

Ensuring compliance includes the capability to determine whether all net proceeds derived from a bingo game are expended only for the purposes for the organization is created. The current system creates the opportunity for large amounts of funds to be transferred between related parties without oversight by the MGC. These transfers make it difficult to determine whether bingo hall assets are being used for the benefit of charitable purposes or being used to support the management and general expenses of other organizations.

Contributions to Charity Accounts

In Mississippi, charitable bingo is intended to provide funding for services and programs that add value to the lives of members of the local community and that might otherwise be neglected for lack of funds. The amounts that bingo halls take in can be substantial; therefore, it is important that the funds are actually transferred to the charities for the purposes for which they were created.

PEER's Previous Conclusions and Recommendations

In previous reports, PEER did not specifically address increases or decreases in contributions to charity accounts; however, because bingo is conducted for charitable purposes, it is important to analyze to what extent bingo halls are transferring money to charity accounts.

Environmental and Regulatory Changes

In 1997, the Gaming Commission began requiring that a bingo hall could not expend more than sixty percent of its adjusted gross income on bingo-related expenses. Since 2001, the MGC has denied at least nine charitable bingo license renewals because the bingo halls expended more than the allowable sixty percent. The Charitable Bingo Law requires that bingo halls apply for relicensure at least every three years.

➤ ***2009 Conclusion: Increased Contributions to Charities***

Although total gross bingo receipts declined from FY 1997 to FY 2008, the percentage of gross bingo receipts transferred to charity accounts increased during the same period, indicating that charitable bingo operations now contribute potentially more to the charities they support than they did in the past.

The "60/40 rule" refers to the MGC regulation that states that a charitable bingo licensee's authorized expenses cannot exceed 60% of its adjusted gross receipts from bingo activity. Adjusted gross receipts are calculated by taking the licensee's gross receipts (all revenue received from bingo operations) and subtracting the amount paid out as prizes and the amount of fees paid to the MGC. The remaining 40% is to go to the charity.

For example:

Gross receipts	\$100,000
-Prizes	70,000
<u>-MGC Fees*</u>	<u>1,000</u>
Adjusted Gross	\$ 29,000

*Fees equal 2.5 percent of the net proceeds collected by the bingo hall.

In this example, bingo hall expenses cannot exceed \$17,400 (60%). The amount transferred to the charity account in this example would be \$11,600 (40%).

The percentage of gross receipts transferred to charity accounts from bingo operators increased from approximately \$15.3 million in FY 1997 to approximately \$17.1 million in FY 2008.

According to PEER's analysis, the percentage of gross receipts transferred to charity accounts from bingo operators increased from approximately \$15.3 million (11 percent of \$137 million) in FY 1997 to approximately \$17.1 million (16 percent of \$107.8 million) in FY 2008, as shown in Exhibit 12, page 72.

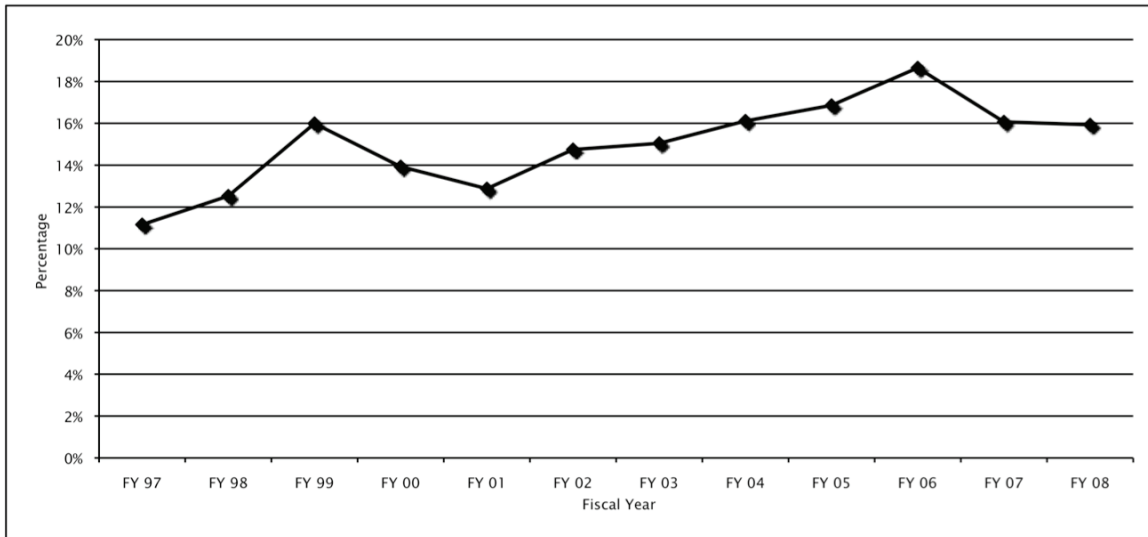
Lower amounts expended for prizes and expenses contributed to the increase in the charities' share. The Charitable Gaming Division Director stated that he believes the reason for this trend is because the MGC "got the bad apples out" and that bingo halls currently in operation are more trustworthy than before.

PEER reviewed the show cause case inventory for bingo and verified that MGC has in fact denied license renewals for charities that did not adhere to the 60/40 rule. Since 2001, the MGC has denied at least nine charitable bingo license renewals because the bingo halls expended more than the allowable sixty percent.

Since 2001, the MGC has denied at least nine charitable bingo license renewals because the bingo halls expended more than the allowable sixty percent.

Because of this increase in the percentages given to charity from the bingo operators, charitable organizations potentially have more money to expend for the purposes for which the organization was established. However, as noted on page 69, MGC does not have the authority to follow the funds to ensure that they are expended for charitable purposes.

Exhibit 12: Percentage of Gross Receipts Transferred to Charity Accounts from Fiscal Years 1997 to 2008



SOURCE: PEER analysis of Mississippi Gaming Commission reports.

Written Policies Regarding Licensing Periods

According to MISS. CODE ANN. Section 75-76-28 (1972), the MGC has full power and authority to exercise any of the powers set forth in the Charitable Bingo Law, which includes issuing and renewing licenses required by state law for organizations conducting bingo games.

The use of written policies aid management in consistently achieving fair and equitable interpretations and applications of policy that require action on a regular, recurring basis. When policies are put into writing, they add a visual effect to their overall purpose. More importantly, written policies promote consistency, continuity, and understanding within an organization.

PEER's Previous Conclusions and Recommendations

In 1997, PEER found that state law regarding annual relicensure of all bingo licensees required agents to devote virtually all of their working hours during the late summer and early autumn of each year to such relicensure, to the exclusion of other important regulatory activities.

PEER recommended that the Legislature amend MISS. CODE ANN. Section 97-33-57 (1972) to provide for two-year bingo licenses that would come up for renewal at staggered intervals.

Environmental and Regulatory Changes

The Legislature amended MISS. CODE ANN. Section 97-33-57 (1972) to increase the number of years for bingo hall licenses from one to no more than three years effective July 1, 2007.

➤ ***2009 Conclusion: No Written Policies Regarding Determining the Length of Bingo Licenses***

State law now authorizes the MGC to award licenses for holding, operating, or conducting bingo games for up to three years. However, MGC does not have a written policy that guides its decision-making process for determining the length of a bingo hall's license. Thus the potential exists for licensing decisions to be subjective or inconsistent.

MISS. CODE ANN. Section 97-33-57 (3) (1972), amended in 2007, now states that bingo licenses issued under Sections 97-33-51 through 97-33-203 may be effective for up to three calendar years. Previously, the MGC could only award one-year licenses for holding, operating or conducting bingo games. However, although the MGC may award a valid license to a bingo hall for up to three years, the MGC does not have written criteria to determine the length of licenses that are awarded.

PEER staff obtained a list of MGC agenda items for years 2000-2008 pertaining to the length of licenses awarded to bingo halls. MGC began awarding three-year licenses in July 2007. Since that time, MGC has awarded licenses to bingo halls in varying lengths (i. e., three months, six months, one year, three years).

Without written policies that provide criteria for granting the length of licenses for bingo halls, the fairness of the length of licenses awarded for different bingo halls could be questioned.

When PEER asked about the criteria used to determine the length of licenses given to bingo halls, MGC staff responded that discretion is used to determine the length of license given to bingo halls. This discretion is based on two criteria, which include whether the charity is a first-time applicant and whether the bingo hall has had or is having problems of meeting the 60/40 rule. PEER reviewed show cause case determinations for bingo halls that failed to meet the 60/40 rule. In 2007, three halls that had problems meeting the 60/40 rule were granted licenses of various lengths—one for three months, one for six months, and one for three years.

Although the MGC began implementing the new policy of awarding bingo licenses for up to three years in 2007, the MGC Charitable Gaming Division Operations Manual has not been updated since 1995. Without written policies that provide criteria for granting the length of licenses for bingo halls, the fairness of the length of licenses awarded for different bingo halls could be questioned. The MGC does not have written guidelines to use as justification if questions concerning discrepancies in the length of licenses were to arise.

Management Information System

Management information systems should provide data that agencies can analyze to assess risk areas and to assess their own performance. A good system would provide managers at all levels of an organization the ability to collect, analyze, and summarize the diverse types of information they need to perform effectively. Management information systems help top-level managers in formulating strategy and policies and help mid-level managers increase employee performance. A management information system gives front-line managers access to information that ensures the effective conduct of the organization's daily activities.

PEER's Previous Conclusions and Recommendations

PEER did not address the Charitable Gaming Division's management information system in previous reports.

Environmental and Regulatory Changes

The activities performed by enforcement agents have changed very little since bingo regulation began in Mississippi. MGC has determined that the best way to regulate bingo halls is to conduct inspections and review session and monthly reports. However, the current management information system does not support the monitoring of these regulatory activities.

➤ **2009 Conclusion: No Management Information System to Track Bingo Hall Inspections**

The Charitable Gaming Division lacks a database for tracking pertinent information related to bingo hall inspections, which hinders management's ability to analyze problem areas and to ensure compliance with bingo laws and regulations for every hall in the state.

Standard operating procedures for the MGC include the following provisions for employees' reporting to management:

- *Policy 3.1 Work Schedules:* This policy requires that each agent submit to the Gaming Commission a report of planned activities for the upcoming month. The schedule is required to show each type of inspection or monitoring the agent will carry out, as well as the estimated amount of time to be spent on those activities.
- *Policy 5.1 and 5.2 Site Inspections:* This policy provides for agent inspections of bingo operations. This rule requires an initial inspection to inform bingo licensees of the requirements of the laws and regulations of the commission and follow-up inspections to ensure that the licensee is abiding by state gaming laws and regulations. Inspections are to be documented with written reports of the conditions observed at the bingo halls. The rule also states that it is important that each site inspection be conducted in order for the entire operation to be fully reviewed during the course of a year.
- *Policy 6.1 Violations of Regulations and Laws:* This policy requires agents to forward any recommendation that a bingo charity be cited for a repeat violation of the law or regulations to Jackson for review. The division director is responsible for determining whether the agent has established a case for citing a bingo hall for a violation.

The Charitable Gaming Division has seven active enforcement agents that are responsible for seventy-nine bingo halls. The procedures indicate that agents are to perform six different types of inspections on each bingo hall every year; however, at present the MGC cannot easily determine whether it complies with its own regulations. The MGC does not track information related to inspections in the case management database or any other database. MGC does enter information into the case management system when the Jackson office issues a Notice of Violation.

The Charitable Gaming Division's procedures indicate that agents are to perform six different types of inspections on each bingo hall every year; however, at present the MGC cannot easily determine whether it complies with its own regulations.

The Charitable Gaming Division places the responsibility on the agents to ensure that all halls are inspected each year. The supervising agent stated that agents focus more of their time on halls that have had prior regulatory issues; therefore, agents are not expected to conduct the same number of inspections on each of the halls.

Without a management information system designed to track bingo hall inspections, MGC is unable to report readily the number of inspections within any given period, effectively monitor the follow-up visits for halls that indicated problems, analyze trends in information that might provide rationale for potential statutory or policy changes, track hall operators' competence over time, or ultimately assess its own performance in regulating the industry.

Recommendations

Regulation of Casino Gaming

1. The MGC should continue to maintain the casino show cause inventory it has created. However, the MGC should develop and implement a penalty matrix to further assure that fines are being assessed consistently.

The penalty matrix should include, but not be limited to, written explanations of the following:

- the seriousness of the violation, including but not limited to the nature, circumstances, extent, and the gravity of the violation(s);
 - the damage caused by the violation;
 - history of previous violations;
 - the amount necessary to deter future violations; and,
 - efforts made to correct the violation.
2. The MGC Compliance Division should create a more comprehensive Operations Manual that includes written procedures and items to assist auditors in understanding the elements of casino auditing, such as representative diagrams of the casino cage and money count rooms in a casino, flow charts of casino operations and copies of documents that auditors must review during compliance review, in order to give the Compliance Division employees a better understanding of casino auditing in general.
 3. The MGC should implement and document a casino inspection program that would include review of all facets of casino operations. The program should include a method for random selection of elements to be reviewed. The MGC should schedule these inspections so that every casino is subject to periodic inspection.

This inspection program should include:

- a rotating work schedule for enforcement personnel to provide coverage seven days per week, twenty-four hours per day for conducting surprise inspections;

- a comprehensive inspection system that uses a detailed checklist to document which casino was inspected, when, by whom, the number of monthly inspections for the operation, the inspection results, applicable state authority (statute and regulation reference), and a short summary statement for any violation;
 - a mandated number of MGC sweep inspections for inspecting all facets of an entire casino operation simultaneously; and,
 - use of a management information database to plan and manage the inspection schedule. District personnel should document all inspection results in this system for management analysis.
4. MGC should establish a formal training program for all new enforcement agents on the regulations offered by the Legal Division. The program should include:
 - assessing the training need;
 - ensuring that agents apply what they learned from training to the job;
 - developing an evaluation plan;
 - choosing a training method; and,
 - monitoring and evaluating the training program.
 5. The MGC Gaming Lab should provide formal training for all enforcement agents on existing and new gaming technology.
 6. The MGC should modify its management information system so that managers can analyze data to identify risk areas and assess the agency's performance. The system should have categories in its drop-down menu for documenting when agents have completed inspections (listed by type) and firmware audits. MGC should operationally define each category to ensure consistent entries by staff. The system should also allow for categorization of any findings of investigations or other incidents.
 7. The MGC should re-evaluate its enforcement activities (e. g., jackpot verifications) in light of the current casino environment and prioritize its activities based on the highest risks in the environment. Specifically, MGC should focus more effort on establishing a formal electronic gaming

device inspection program that includes regular, unannounced visits to all casinos.

8. The MGC should use a statistically valid random sample for electronic gaming device inspections and firmware audits to ensure that all devices, within the error rate, are operating fairly and honestly.
9. The MGC should verify that all devices are accounted for before selecting a statistical sample for slot inspections. To accomplish this, MGC could request a casino slot area floor plan and conduct a check to ensure that all machines are accounted for. The sample could be taken randomly from the floor plan.
10. Given the increasingly technical nature of the gaming environment, the Gaming Commission should develop a plan to transition to a technically specialized staff in critical areas of oversight. The MGC should seek appropriations authority to use fees and fines to fund the needed changes and should, through attrition, modify its current enforcement staffing plan to include knowledge and expertise in computer science, casino technology, engineering, or similar backgrounds. The MGC should fill any vacant enforcement positions with technically trained staff and, as current agents leave the MGC, each of the resulting vacancies should be evaluated for the need for specialized technical training.
11. As PEER recommended in 1996 and 2001, the Gaming Commission should develop written policies and procedures to ensure that table games and their modifications are approved in a consistent manner on a statewide basis. The policies, which should supplement the current New Table Games Policy and should be used by the training director and enforcement agents, should include:
 - criteria for the agency to use in determining whether table games are being conducted honestly and competitively according to MISS. CODE ANN. Section 75-76-3 (1972);
 - criteria for enforcement agents to determine whether to approve modifications; and,
 - policies and procedures for enforcement agents to determine how and when to approve table game modifications and when they should be forwarded to the training director for review.

12. The Legislature should consider mandating that MGC conduct a cost/benefit analysis of the state's gaming industry to consider the industry's position in relation to the public policy of the state. The analysis should be funded through fines and fees paid by the industry.

Regulation of Charitable Bingo

13. The Legislature should amend MISS. CODE ANN. Section 97-33-57 (1972) to authorize the MGC to:
 - require that bingo licensees submit plans to the commission detailing what charitable activity they intend to support for the period of the license;
 - audit the transfers of funds from licensees to any other entity that has one or more common officers;
 - revoke the license of any licensee that has failed to comply with the provisions of its business plans or that makes contributions to any organization failing to provide material support (as defined by the commission) for charitable activities; and,
 - ensure that revenue from charitable bingo operations is used in support of charitable purposes.

The commission should have the authority to determine how funds generated from bingo operations and transferred to the charity account are expended. The commission should also have the authority to determine what percentage of the funds from bingo operations may be used to support a charity's management and general expenses and how much must be used to support charitable purposes.

14. In order to ensure that the length of licenses to hold, operate, or conduct bingo games is determined in a fair and consistent way, MGC should develop written policies and guidelines that outline criteria that MGC will follow in awarding licenses.
15. The MGC should develop a database to track information related to bingo hall inspections.

Appendix A: Descriptions of Regulatory or Other Fees and Taxes Charged by Other States with Legalized Casino Gaming

This appendix shows the fees and taxes that states with legalized casino gaming charged licensed participants in FY 2009. These fees fall into five categories: regulatory; applications; license; monitoring; and, miscellaneous.

An Illinois Gaming Commission survey in CY 2007, which collected FY 2006 fee and tax data from other states with legalized casino gaming, is the source of this appendix information. The Mississippi Gaming Commission participated in this survey and adopted its results for comparative use with other states. In order to maintain current data for fees and taxes, MGC updated this cost data on August 11, 2009 (with the exception of Nevada).

For the purposes of the Illinois study, the study used the following definitions:

1. *Commercial casino* is an establishment operated by a private sector entity (corporation, etc.) where electronic gaming (slot machines) or table games (“21,” etc.) are the primary business.
2. *Tax* is defined as a state assessment on funds to be used for state purposes that were: (1) wagered at a commercial gaming operation; (2) based on the number of patrons entering into a commercial gaming operation (e. g., admission tax); or, (3) a recurring assessment on the equipment or devices with a commercial gaming operation used by patrons to participate in gaming activities (e. g., slot machines).
3. *Fee* is defined as a charge assessed by the state for the monitoring of gaming activities and enforcement of gaming regulations or for the authorization to establish a gaming operation or to provide services or equipment to that authorized operation.
4. Colorado provided for investigative costs to be reimbursed at \$59 per hour for FY 2006 plus actual travel costs and significant costs for administration, temporary staff, and document reproduction. Colorado increased the per-hour rate to \$63 for FY 2007.
5. Nevada provides for a restricted gaming license that allows for operation of slot machines at businesses where gaming is not the primary business.
6. In Louisiana, land-based casino operations are conducted only under contract with the state.

SOURCE: The Mississippi Gaming Commission. The PEER Committee has made no changes to the updated survey cost data provided by the MGC. PEER did modify the survey format in order to make this appendix printable and readable.

Appendix A: Descriptions of Regulatory or Other Fees and Taxes Charged by Other States with Legalized Casino Gaming

Fee Category	Colorado	Illinois	Indiana	Iowa	Louisiana
Regulatory Fees	Set by statute	Some fees are statutory, others are allowed by statute to be set by the agency by regulation.	The code, by statute, allows the board to decide how much to charge for everything.	Some fees are statutory, others are at the discretion of the agency by regulation.	Fees set by statute except the landbased which must negotiate a contract with the board and the contract must be approved by the Legislature
Enforcement of State Gaming Requirements	\$63.00 per hour plus all travel costs and significant costs for administration, temporary staff, document reproduction, preparation time, etc.	None Reported	To be assessed to casino operations at actual cost.	Assessed to the extent that cost exceeds fee revenue.	None Noted
Application Fees				Allowed by statute but set by the board.	
Application for Owner's License	As of Aug. 6, 2008 the application fee was eliminated and combined into license fee.	\$50,000 (Applicant required to pay any investigative costs that exceed the amount of the fee; however, applicant to receive a refund of the difference between the fee paid and investigative costs should cost total less than \$50,000)	\$50,000 non-refundable (Applicant to pay any investigative costs that exceed the amount of the fee)	\$25,000.00 (non-refundable)	\$50,000 (Applicant required to pay any investigative costs that exceed the amount of the fee; however, applicant to receive a refund of the difference between the fee paid and investigative costs should cost total less than \$50,000)
Application for Approval of a Variation on an Approved Game	As of Aug. 6, 2008 the application fee was eliminated and combined into license fee.	None Reported	None Noted	None Reported	None Noted
Application for Manufacturer License	As of Aug. 6, 2008 the application fee was eliminated and combined into license fee.	See Application for Distributor (Supplier) License	Not Applicable (See Application for Distributor/Supplier License)	None Reported	Not Applicable (Manufacturer Permit Fee Only)

Appendix A: Descriptions of Regulatory or Other Fees and Taxes Charged by Other States with Legalized Casino Gaming

Michigan	<i>Mississippi</i>	Missouri	Nevada	New Jersey	South Dakota
Some fees are statutory, others are at the discretion of the agency with the intent to break even.		Fees are granted by statute and the Commission sets the amount for those not covered in the statute			
Included in cost to be covered by annual fee of 25 million (plus yearly inflation adjustment) allocated equally among licensed casinos. Should fund balance exceed 65 million, the excess is to be credited equally to licensed casinos.	Corporate Investigations: \$80 per hour plus expenses incurred Compliance Audits: \$60 per hour	Cost of staff necessary to protect the public at any casino. Casinos billed quarterly for actual cost of officers assigned.	None Reported	To be allocated annually among licensed casino facilities to the extent overall cost of the regulatory agencies exceed revenues from licensing or credited to the extent revenues exceed cost.	None Reported
Allowed by statute but set by the board.					
\$50,000 non-refundable (Applicant to pay any investigative costs that exceed the amount of the fee at the discretion of the Michigan Gaming Control Board) Investigative cost is assessed based on the pay per hour/cost of insurance/retirement of the individual investigator)	\$5000 plus any investigative costs for findings of suitability for owners, directors and upper management. Hourly rate of \$80 per hour plus expenses.	The greater of \$50,000 or \$15,000 per key person not licensed or under application for a license as a key person. Applicant may be required to pay any investigative costs that exceed the amount of the fee at the discretion of the Missouri Gaming Commission; however, applicant to receive a refund of the difference between the fee paid and investigative costs should the application be denied.	\$5,000.00	\$100,000 for one year license or \$200,000 if four-year license (applied to initial license fee or renewal fee if application is approved) plus reimbursement for all unusual or out of pocket expenses plus hourly rate set by the New Jersey Gaming Control Commission.	Application for license to allow public gaming at one's place of business is \$250.00 plus any investigative costs that exceed the amount of the application fee
None Reported	None Reported	None Reported	None Reported	None Reported	None Reported
Not Applicable (See Application for Distributor/Supplier License)	\$1,000	\$10,000.00 (non-refundable) plus investigative costs that exceed fee at discretion of Commission	None Reported	Not Applicable (See Application for Distributor/Supplier License)	\$5,000.00 plus any investigative costs that exceed the amount of the application fee

Appendix A: Descriptions of Regulatory or Other Fees and Taxes Charged by Other States with Legalized Casino Gaming

Fee Category	Colorado	Illinois	Indiana	Iowa	Louisiana
Application Fees (Continued)				Allowed by statute but set by the board.	
Application for Gaming Distributor (Supplier) License	As of Aug. 6, 2008 the application fee was eliminated and combined into license fee.	\$10,000.00 (non-refundable). Applicant may be required to pay any investigative costs that exceed the amount of the fee at the discretion of the Illinois Gaming Board Administrator	\$5,000 non-refundable (Applicant to pay any investigative costs that exceed the amount of the fee)	None Reported	Not Applicable (Gaming Distributor/Supplier Permit Fee Only)
Application for Non-Gaming Distributor (Supplier) License	None Reported	See Application for Gaming Distributor (Supplier) License	None Noted	None Reported	Not Applicable (Non-Gaming Distributor/Supplier Permit Fee Only)
Application for Operator License	As of Aug. 6, 2008 the application fee was eliminated and combined into license fee.	None Reported	Background investigation \$1 000	None Reported	None Noted
Application for Vendor License	None Reported	See Application for Gaming Distributor (Supplier) License	Not Applicable (See Application for Distributor/Supplier License)	None Reported	Not Applicable (Distributor/Supplier Permit Fee Only)
Application for Vendor Employee License	None Reported	None Reported	None Noted	None Reported	Not Applicable (Gaming Distributor/Supplier and Non-Gaming Distributor/Supplier Permit Fee Only)

Appendix A: Descriptions of Regulatory or Other Fees and Taxes Charged by Other States with Legalized Casino Gaming

Michigan	Mississippi	Missouri	Nevada	New Jersey	South Dakota
Allowed by statute but set by the board.					
Non-refundable fee dependent upon level of casino business in a 12-month period as follows: \$2,500 (\$500,000 or more); \$1,000 (\$100,000 or more but less than \$500,000); \$500 (less than \$100,000) In addition, applicant to pay any investigative costs that exceed the above fees at the discretion of the Michigan Gaming Control Board	\$ 500	\$10,000.00 (non-refundable). Applicant may be required to pay any investigative costs that exceed the amount of the fee at the discretion of the Missouri Gaming Commission	None Reported	Minimum \$5,000 plus reimbursement for all unusual or out of pocket expenses. Total amount dependent upon hours expended by the New Jersey Gaming Control Commission as follows: more than 333 hours but less than 667 hours (\$10,000); more than 667 hours but less than 1,000 hours (\$15,000); over 1,000 hours (\$15,000 plus hourly rate set by the New Jersey Gaming	\$5,000.00 plus any investigative costs that exceed the amount of the application fee
Not Applicable (See Application for Distributor/Supplier License)	None Reported	None Reported	None Reported	Not Applicable (Non-Gaming Distributor/Supplier License Fee Only)	None Reported
None Reported	None Reported	None Reported	None Reported	None Reported	Application to place gaming equipment (slot machines, etc.) at a place of business is \$1,000.00 plus any investigative costs that exceed the amount of the application fee.
Not Applicable (See Application for Distributor/Supplier License)	Not Applicable (See Application for Distributor/Supplier License)	Not Applicable (See Application for Distributor/Supplier License)	None Reported	Not Applicable (Non-Gaming or Gaming Distributor/Supplier License Fee Only)	None Reported
Not Applicable (See Application for Gaming or Non-Gaming Employee License)	None Reported	Not Applicable (See Application for Employee Non-Gaming License)	None Reported	Not Applicable (Casino Service Employee Registration Fee Only)	None Reported

Appendix A: Descriptions of Regulatory or Other Fees and Taxes Charged by Other States with Legalized Casino Gaming

Fee Category	Colorado	Illinois	Indiana	Iowa	Louisiana
Application Fees (Continued)				Allowed by statute but set by the board.	
Application for Employee License (gaming non-supervisory)	None Reported	\$200 non-refundable (Applicant to pay any investigative costs that exceed the amount of the fee at the discretion of the Illinois Gaming Board Administrator)	\$200 non-refundable (Applicant to pay any investigative costs that exceed the amount of the fee)	None Reported	Not Applicable (Employee Gaming Non-Supervisory (a.k.a. Non-Key Employee) Permit Fee Only)
Application for Employee License (non-gaming)	None Reported	\$75 non-refundable (Applicant to pay any investigative costs that exceed the amount of the fee at the discretion of the Illinois Gaming Board Administrator)	\$75 non-refundable (Applicant to pay any investigative costs that exceed the amount of the fee)	None Reported	Riverboat Gaming: None Noted Land Based Casino: Employee Non-Gaming Employee Permit Fee Only
Application for Key Employee License (gaming supervisory)	None Reported	\$1,000 non-refundable (Applicant to pay any investigative costs that exceed the amount of the fee at the discretion of the Illinois Gaming Board Administrator)	\$1,000 non-refundable (Applicant to pay any investigative costs that exceed the amount of the fee)	Not Applicable (See employee license - gaming supervisory)	Not Applicable (Employee Gaming Supervisory (a.k.a. Key Employee) Permit Fee Only)
Application Fee for Gaming School Employee License	None Reported	None Reported	None Noted	None Reported	None Noted
Application Fee for Gaming School License	None Reported	None Reported	None Noted	None Reported	None Noted
Application Fee for Gaming School Student License	None Reported	None Reported	None Noted	None Reported	None Noted
Application Fee for Junket Representative License	None Reported	See Application for Gaming Distributor (Supplier) License	None Noted	None Reported	None Noted

Appendix A: Descriptions of Regulatory or Other Fees and Taxes Charged by Other States with Legalized Casino Gaming

Michigan	Mississippi	Missouri	Nevada	New Jersey	South Dakota
Allowed by statute but set by the board.					
\$100 non-refundable (Applicant to pay any investigative costs that exceed the amount of the fee at the discretion of the Michigan Gaming Control Board)	<i>Not Applicable (Employee Gaming Non-Supervisory Fee Only)</i>	\$75.00 (non-refundable). Applicant may be required to pay any investigative costs that exceed the amount of the fee at the discretion of the Missouri Gaming Commission	\$75 to register with the Gaming Control Board. Employees are not required to be licensed but must register every five years.	Not Applicable (Employee License - Gaming Non-Supervisory Fee Only)	\$50.00 plus any investigative costs that exceed the amount of the application fee.
\$50 non-refundable (Applicant to pay any investigative costs that exceed the amount of the fee at the discretion of the Michigan Gaming Control Board)	<i>None Reported</i>	\$75.00 (non-refundable) if license for a particular type of non-gaming employee determined necessary by the Missouri Gaming Commission	None Reported	Not Applicable (Employee License - Non-Gaming Fee Only)	None Reported
\$500 non-refundable (Applicant to pay any investigative costs that exceed the amount of the fee at the discretion of the Michigan Gaming Control Board)	<i>Not Applicable (Employee Gaming Supervisory Fee Only)</i>	\$1,000.00 (non-refundable). Applicant may be required to pay any investigative costs that exceed the amount of the fee at the discretion of the Missouri Gaming Commission	\$75 to register with the Gaming Control Board. Employees are not required to be licensed but must register every five years.	Minimum \$750 (applied to license fee) plus reimbursement for all unusual or out of pocket expenses plus hourly rate set by the New Jersey Gaming Control Commission. Fee not to exceed \$4000	\$150.00 plus any investigative costs that exceed the amount of the application fee.
None Reported	<i>\$100 plus any investigative costs that exceed the amount of the fee at the discretion of the Mississippi Gaming Commission Executive Director</i>	None Reported	None Reported	None Reported	None Reported
None Reported	<i>\$1,000 plus any investigative costs that exceed the amount of the fee at the discretion of the Mississippi Gaming Commission Executive Director</i>	None Reported	None Reported	None Reported	None Reported
None Reported	<i>\$75 plus any investigative costs that exceed the amount of the fee at the discretion of the Mississippi Gaming Commission Executive Director</i>	None Reported	None Reported	None Reported	None Reported
Not Applicable (See Application for Distributor/Supplier License)	<i>None Reported</i>	\$75.00 (non-refundable) plus investigative costs that exceed fee at discretion of Commission	No application fee - Subject to \$750 fee covering costs of investigation	Not Applicable (Junket Representative License Fee Only)	None Reported

Appendix A: Descriptions of Regulatory or Other Fees and Taxes Charged by Other States with Legalized Casino Gaming

Fee Category	Colorado	Illinois	Indiana	Iowa	Louisiana
Application Fees (Continued)				Allowed by statute but set by the board.	
Application Fee for Junket Enterprise License	None Reported	See Application for Gaming Distributor (Supplier) License	None Noted	None Reported	Not Applicable (Non-Gaming Supplier Permit Fee Only)
Application Fee for Restricted License	None Reported	None Reported	None Noted	None Reported	None Noted
Application Fee for Non-restricted License	None Reported	None Reported	None Noted	None Reported	None Noted
Application Fee for Special Event License	None Reported	May be established at the option of the Illinois Gaming Board	None Noted	None Reported	None Noted
License Fees				Allowed by statute but set by the board.	Allowed by statute but set by the board.
Owner's License	\$4,500 for 2-year license (non-refundable) for Type 1 applicants (six or fewer persons with a 5 percent or more interest, all Colorado residents); \$6,500 for 2-year license (non-refundable) for Type 2 applicants (all others)	\$25,000 for first year and \$5,000 each year (plus investigative costs if cause) thereafter	\$25,000 for one riverboat for five years and \$5,000 each year subsequent to expiration of initial license	Fee for initial license ranges from 5 million to 20 million depending on county population plus an annual fee of \$5.00 per riverboat person capacity each year	Riverboat Gaming: \$50,000 for first year and \$100,000 for every year thereafter for riverboat gaming operation. Land Based Casino: No fee noted.
Manufacturer License	\$3,000 for 2-year license (non-refundable) for Type 1 applicants (six or fewer persons with a 5 percent or more interest, all Colorado residents); \$6,000 for 2-year license (non-refundable) for Type 2 applicants (all others)	See Distributor/Supplier License	Not Applicable (See Distributor/Supplier License)	\$250 annually	Riverboat Gaming: \$15,000 annually for manufacturer of slot machines and video draw poker machines. \$7,500 annually for other manufacturers Land Based Casino: \$2,500 plus \$10 per slot machine plus \$40/hr for investigative time and \$30/hr travel for a two year permit
Gaming Distributor (Supplier) License	\$3,000 for 2-year license (non-refundable) for Type 1 applicants (six or fewer persons with a 5 percent or more interest, all Colorado residents); \$6,000 for 2-year license (non-refundable) for Type 2 applicants (all others)	\$5,000 for first year and \$5,000 each year (plus investigative costs if cause) thereafter	\$5,000 annually	\$1,000 annually	Riverboat Gaming: \$3,000 annually Land Based Casino: \$1,500 plus \$40/hr for investigative time and \$30/hr travel for a two year permit

Appendix A: Descriptions of Regulatory or Other Fees and Taxes Charged by Other States with Legalized Casino Gaming

Michigan	Mississippi	Missouri	Nevada	New Jersey	South Dakota
Allowed by statute but set by the board.					
Not Applicable (See Application for Distributor/Supplier License)	\$1,000 (\$500 plus \$500 to cover investigative costs)	\$10,000 (non-refundable) plus investigative costs that exceed the fee at discretion of Commission	None Reported	Not Applicable (Junket Enterprise License Fee Only)	None Reported
None Reported	None Reported	None Reported	\$150 for each individual requiring investigation	None Reported	None Reported
None Reported	None Reported	None Reported	\$500 (non-refundable)	None Reported	None Reported
None Reported	None Reported	None Reported	None Reported	None Reported	None Reported
\$25,000 annually	\$5,000 for a maximum of three years	\$25,000 annually	None (See Wagering Tax)	\$200,000 for first year and \$100,000 each year thereafter	\$250.00 for initial annual license to allow public gaming at one's place of business and \$100.00 each year thereafter
Not Applicable (See Gaming or Non-Gaming Distributor/Supplier License)	\$1,000 annually for a maximum of three years	\$5,000 annually	\$1,000 annually	Not Applicable (See Distributor/Supplier License)	\$1000.00 for initial annual license and \$250.00 each year thereafter
\$5,000 annually	\$500 annually	\$5,000 annually	\$500 annually	\$5,000 for initial three year license, renewable at \$5,000 for a five-year license thereafter	\$1,000.00 for initial annual license and \$250.00 each year thereafter

Appendix A: Descriptions of Regulatory or Other Fees and Taxes Charged by Other States with Legalized Casino Gaming

Fee Category	Colorado	Illinois	Indiana	Iowa	Louisiana
License Fees (Continued)				Allowed by statute but set by the board.	
Non-Gaming Distributor (Supplier) License	None Reported	See Distributor/Supplier License	None Noted	\$10.00 every two years	Riverboat Gaming: \$250 annually Land Based Casino: \$250 initial fee plus \$40/hr for investigative time and \$30/hr travel for a two year permit (applicable if aggregate business \$50,000 or more); \$100 every two years thereafter
Operator License	\$3,000 for 2-year license (non-refundable) for Type 1 applicants (six or fewer persons with a 5 percent or more interest, all Colorado residents); \$6,000 for 2-year license (non-refundable) for Type 2 applicants (all others)	None Reported	None Noted	Not Applicable (See Distributor/Supplier License)	None Noted
Vendor Employee License	None Reported	None Reported	None Noted	\$10.00 every two years	Not Applicable (Gaming Distributor/Supplier and Non-Gaming Distributor/Supplier Permit Fee Only)
Employee License (gaming non-supervisory)	\$100.00 for initial two year license (non-refundable) and \$60.00 (non-refundable) every two years thereafter	\$50 for first year and \$50 each year (plus investigative costs if cause) thereafter	\$50 annually	\$20.00 every two years	Riverboat Gaming: \$200 every two years Land Based Casino: \$100 for first year plus \$40/hr for investigative time and \$30/hr travel; \$35 each year thereafter plus \$40/hr for investigative time and \$30/hr travel
Employee License (non-gaming)	None Reported	\$50 for first year and \$50 each year (plus investigative costs if cause) thereafter	\$25 annually	\$10.00 every two years	Riverboat Gaming: None Noted Land Based Casino: \$25 for first year; \$15 each year thereafter

Appendix A: Descriptions of Regulatory or Other Fees and Taxes Charged by Other States with Legalized Casino Gaming

Michigan	Mississippi	Missouri	Nevada	New Jersey	South Dakota
Allowed by statute but set by the board.					
\$5,000 annually	<i>None Reported</i>	None Reported	None Reported	\$2,000 for initial three year license, renewable at \$2,500 for a four-year license thereafter	None Reported
None Reported	<i>None Reported</i>	None Reported	\$500 annually for slot machine route operator, mobile gaming system operator, or inter-casino linked system operator	None Reported	\$1000.00 for initial annual license to place slot machines at one's place of business and \$200.00 each year thereafter
Not Applicable (See Gaming or Non-Gaming Employee License)	<i>None Reported</i>	Not Applicable (See Employee Non-Gaming License)	None Reported	See Non-Gaming Employee License	None Reported
\$100 every two years	<i>\$75 for a maximum of three years; \$125 for renewal</i>	\$50 annually (non-refundable)	None (See Application for Employee License - gaming non-supervisory)	\$350 for initial three year license, renewable at \$250 for a four-year license thereafter	\$50.00 for initial annual license and \$25.00 each year thereafter
\$50 every two years	<i>None Reported</i>	\$50.00 annually (non-refundable) if license for a particular type of non-gaming employee determined necessary by the Missouri Gaming Commission	None Reported	\$60 one-time fee	None Reported

Appendix A: Descriptions of Regulatory or Other Fees and Taxes Charged by Other States with Legalized Casino Gaming

Fee Category	Colorado	Illinois	Indiana	Iowa	Louisiana
License Fees (Continued)				Allowed by statute but set by the board.	
Key Employee License (gaming supervisory)	\$250.00 (non-refundable) for initial two year license and \$200.00 (non-refundable) every two years thereafter	\$50 for first year and \$50 each year (plus investigative costs if cause) thereafter	\$100 annually	Not Applicable (Same as employee license - gaming non-supervisory)	Riverboat Gaming: \$500 every two years Land Based Casino: \$500 for first year plus \$40/hr for investigative time and \$30/hr travel; \$200 each year thereafter plus \$40/hr for investigative time and \$30/hr travel
Gaming School License	None Reported	None Reported	None Noted	None Reported	None Noted
Gaming School Employee License	None Reported	None Reported	None Noted	None Reported	None Noted
Gaming School Student License	None Reported	None Reported	None Noted	None Reported	None Noted
Junket Representative License	None Reported	See Distributor/Supplier License	None Noted	None Reported	None Noted
Junket Enterprise License	None Reported	See Distributor/Supplier License	None Noted	None Reported	Riverboat Gaming: Not Applicable (See Non-Gaming Supplier Permit Fee) Land Based Casino: None Noted
Special Event License	None Reported	May be established at the option of the Illinois Gaming Board	None Noted	None Reported	None Noted
License Transfer Fees	None (Licenses are not transferable)	Transfer of owners license only allowed upon approval of Illinois Gaming Board and upon payment of investigative cost by holder of license.	None Noted	None (Reported as not applicable)	None Noted

Appendix A: Descriptions of Regulatory or Other Fees and Taxes Charged by Other States with Legalized Casino Gaming

Michigan	Mississippi	Missouri	Nevada	New Jersey	South Dakota
Allowed by statute but set by the board.					
\$250 every two years	Gaming Suitability Review: \$150 annually for upper management; \$90 annually for mid-level management	\$250 annually - Gaming; \$100 annually - Supplier	None (See Application for Employee License - gaming supervisory)	\$750 for three year license, renewable at \$750 for a five-year license	\$150.00 for initial annual license and \$75.00 each year thereafter
None Reported	\$1,000 per occurrence (no license term noted)	None Reported	None Reported	None Reported	None Reported
None Reported	\$100 per occurrence (no license term noted)	None Reported	None Reported	None Reported	None Reported
None Reported	\$75 for a maximum of three years; \$125 for renewal	None Reported	None Reported	None Reported	None Reported
Not Applicable (See Application for Distributor/Supplier License)	None Reported	\$50 annually	None (See Application Fee for Junket Representative License)	\$350 for initial three year license, renewable at \$250 for a four-year license thereafter	None Reported
Not Applicable (See Application for Distributor/Supplier License)	No fee indicated for license (See Junket Enterprise License Application Fee. No license term indicated.)	\$5,000 annually	None Reported	\$3,000 for initial three year license, renewable at \$3,750 for a four-year license thereafter	None Reported
None Reported	None Reported	None Reported	None Reported	None Reported	None Reported
None (Licenses are not transferable)	None (Reported as not applicable)	None (Licenses are not transferable)	None (Reported as not applicable)	None (Reported as not applicable)	None (Reported as not applicable)

Appendix A: Descriptions of Regulatory or Other Fees and Taxes Charged by Other States with Legalized Casino Gaming

Fee Category	Colorado	Illinois	Indiana	Iowa	Louisiana
Monitoring Fees					
Equipment Testing	Actual cost plus applicable investigative costs	Not Applicable (Cost paid by licensee)	Actual cost	Included in regulatory fee	Actual cost
Internal Control (SAS 70) Review	None Reported	None Reported	None Noted	None Reported	None Noted
Independent Audit	Not Applicable (Cost paid by licensee)	Not Applicable (Cost paid by licensee)	Not Applicable (Cost paid by licensee)	Not Applicable (Cost paid by licensee)	Not Applicable (Cost paid by licensee)
Electronic Gaming Device Registration Fee	None Reported	None Reported	None Noted	None Reported	Riverboat Gaming: \$100 per device Land Based Casino: \$10 per device
Labor Organization Registration Fee	None Reported	None Reported	None Noted	None Reported	None Noted
Miscellaneous Fees					
Duplicate Employee Badge	\$5 each occurrence	\$10.00 per occurrence	\$10.00 per occurrence	None Reported	None Noted
Preliminary Determination of Location's Suitability for Conduct of Gaming (i.e., purchase of an existing or constructing a new gaming establishment.	\$63.00 per hour plus all travel costs and significant costs for administration, temporary staff, document reproduction, preparation time, etc.	None Reported	None Noted	None (Reported as not applicable)	None Noted

Appendix A: Descriptions of Regulatory or Other Fees and Taxes Charged by Other States with Legalized Casino Gaming

Michigan	Mississippi	Missouri	Nevada	New Jersey	South Dakota
Cost will be billed at \$105.00 per hour for actual hours spent on testing for specialized equipment. Routine test have a fee schedule with the intent of breaking even on cost.	\$225 per line item Equipment Inspection Fee plus \$100 per machine for each new machine that enters the state and each machine that leaves the state: May charge up to actual cost at the discretion of the Mississippi Gaming Commission Executive Director Associated Equipment Inspection: \$125 per hour Field Gaming Machine Verification: \$30 per machine	Not Applicable (Cost paid by licensee)	Actual Cost	Minimum \$500 plus reimbursement for all unusual or out of pocket expenses plus hourly rate set by the New Jersey Gaming Control Commission.	Actual cost
None Reported	None Reported	None Reported	None Reported	None Reported	None Reported
Not Applicable (Cost paid by licensee)	Not Applicable (Cost paid by licensee)	Not Applicable (Cost paid by licensee)	Not Applicable (Cost paid by licensee)	Not Applicable (Cost paid by licensee)	Not Applicable (Cost paid by licensee)
None Reported	None Reported	None Reported	None Reported	None Reported	None Reported
None Reported	None Reported	None Reported	None Reported	\$250 annually	None Reported
None Reported	Duplicate license is \$10.00 per occurrence (including change in license type from gaming school student to gaming operation employee)	\$15.00	None Reported	Replacement of any lost license is \$6.00 per occurrence	None Reported
None Reported	None (Reported no fee is charged)	Market study is conducted by Missouri Gaming Commission staff -- no cost attached.	\$500 (non-refundable)	None (Reported as not applicable)	None (Reported as not applicable)

Appendix A: Descriptions of Regulatory or Other Fees and Taxes Charged by Other States with Legalized Casino Gaming

Fee Category	Colorado	Illinois	Indiana	Iowa	Louisiana
Tax Rates				Allowed by statute but set by the board.	
Wagering Tax	Tax rates are dependent upon the level of adjusted gross proceeds (amount wagered less winnings to patrons) and are as follows: 0.25% (2 million or less); 2% (over 2 million to 5 million); 9% (over 5 million to 8 million); 11% (over 8 million to 10 million); 16% (over 10 million to 13 million); 20% (over 13 million)	Tax rates are dependent upon the level of adjusted gross receipts (amount wagered less winnings to patrons) and are as follows: 15% (25 million or less); 22.5% (over 25 million to 50 million); 27.5% (over 50 million to 75 million); 32.5% (over 75 million to 100 million); 37.5% (over 100 million to 150 million); 45% (over 100 million to 200 million) or a specific yearly base dollar amount (defined by statute) from specific riverboats or riverboats located in specific cities.	Tax rates are dependent upon whether river boat scheduling is flexible or non-flexible and the level of adjusted gross receipts (amount wagered less winnings to patrons less uncollected receivables (not to exceed 2% of amount wagered less winnings to patrons)) and are as follows: Flexible Scheduling: 15% (25 million or less); 20% (over 25 million to 50 million); 25% (over 50 million to 75 million); 30% (over 75 million to 150 million); 35% (over 150 million) Non-Flexible Scheduling: 22.5%	Tax rates are dependent upon the level of adjusted gross proceeds (amount wagered less winnings to patrons) and are as follows: 5% (1 million or less); 10% (over 1 million to 3 million); 22% (over 3 million)	Riverboat Gaming: 21 1/2% of the amount wagered less winnings to patrons Land Based Casino: (changed to match the Riverboat rate but still includes the 60 million each year)
Equipment (Device) Tax - Annual	None Reported	None Reported	None Noted	None Reported	None Noted
Equipment (Device) Tax - Quarterly Non-Restricted Licensee	None Reported	None Reported	None Noted	None Reported	None Noted

Appendix A: Descriptions of Regulatory or Other Fees and Taxes Charged by Other States with Legalized Casino Gaming

Michigan	Mississippi	Missouri	Nevada	New Jersey	South Dakota
Allowed by statute but set by the board.					
<p><u>State/City Wagering Tax</u> - The State/City Wagering Tax totals 24% of the three casinos' Net Win.</p> <p>Annual State Services Fee - The day-to-day operating expenses of the MGCB are paid for by the Annual State Services Fee (this fee is not related to the casinos' gaming revenues).</p>	<p>Tax rates are dependent upon the level of gross revenue (amount wagered less winnings to patrons) and are as follows: 4% (50 thousand or less per calendar month); 6% (over 50 thousand but less than 134 thousand per calendar month); 8% (over 134 thousand per month)</p>	21% of AGR	<p>Tax rates are dependent upon the level of gross revenue (amount wagered less winnings to patrons) and are as follows:</p> <p>3.5% (50 thousand or less per calendar month); 4.5% (over 50 thousand but less than 134 thousand per calendar month); 6.75% (over 134 thousand per month)</p>	8% of the amount wagered less winnings to patrons	8% of the amount wagered less winnings to patrons
None Reported	<p>Annual tax rate dependent on number of games operated as follows: \$50 (one game); \$100 (two games); \$200 (three games); \$375 (four games); \$875 (five games); \$1,500 (six or seven games); \$3,000 (eight to ten games); \$500 per game (more than 10 but less than 17 games); \$8,000 plus \$4,800 per game (each additional game over 16 but less than 27); \$56,000 plus \$2,800 per game (each additional game over 26 but less than 36); \$81,200 plus \$100 per game (each additional game over 35)</p>	None Reported	<p>Annual tax rate dependent on number of games operated as follows:</p> <p>\$100 (one game); \$200 (two games); \$400 (three games); \$750 (four games); \$1,750 (five games); \$3,000 (six or seven games); \$6,000 (eight to ten games); \$6,000 plus \$650 per game (each additional game over 10 but less than 14 games); \$7,950 plus \$1,000 per game (each additional game over 13 but less than 17 games); \$16,000 plus \$200 per game for each additional game over 16</p>	\$500.00 annually for each slot machine plus 8% of amount wagered less winnings to patrons on slot machines interconnected to more than one casino facility	\$2,000.00 annually for each card game or device
None Reported	None Reported	None Reported	\$20.00 per slot machine quarterly	None Reported	None Reported

Appendix A: Descriptions of Regulatory or Other Fees and Taxes Charged by Other States with Legalized Casino Gaming

Fee Category	Colorado	Illinois	Indiana	Iowa	Louisiana
Tax Rates (Continued)				Allowed by statute but set by the board.	
Equipment (Device) Tax - Quarterly Restricted Licensee	None Reported	None Reported	None Noted	None Reported	None Noted
Equipment (Device) Tax - Excise	None Reported	None Reported	None Noted	None Reported	None Noted
Equipment (Device) Tax - Quarterly for 10 Games or Less	None Reported	None Reported	None Noted	None Reported	None Noted
Equipment (Device) Tax - Quarterly for More Than 10 Games	None Reported	None Reported	None Noted	None Reported	None Noted

Appendix A: Descriptions of Regulatory or Other Fees and Taxes Charged by Other States with Legalized Casino Gaming

Michigan	<i>Mississippi</i>	Missouri	Nevada	New Jersey	South Dakota
Allowed by statute but set by the board.					
None Reported	<i>None Reported</i>	None Reported	Quarterly rate dependent upon number of slot machines as follows: \$81 each (one but less than five machines); \$405 plus \$141 each (more than five but less than 15 machines)	None Reported	None Reported
None Reported	<i>None Reported</i>	None Reported	\$250 per machine annually	None Reported	None Reported
None Reported	<i>None Reported</i>	None Reported	Quarterly tax rate dependent on number of games operated as follows: \$12.50 (one game); \$25 (two games); \$50 (three games); \$93.75 (four games); \$218.75 (five games); \$375.00 (six or seven games); \$750.00 (eight to ten games)	None Reported	None Reported
None Reported	<i>None Reported</i>	None Reported	Quarterly tax rate dependent on number of games operated as follows: \$125 each game (one but less than seventeen games); \$2,000 plus \$1,200 each game (seventeen but less than twenty-seven games); \$14,000 plus \$700 each game (twenty-seven but less than thirty-six games); \$20,300 plus \$25.00 each game (over 35 games)	None Reported	None Reported

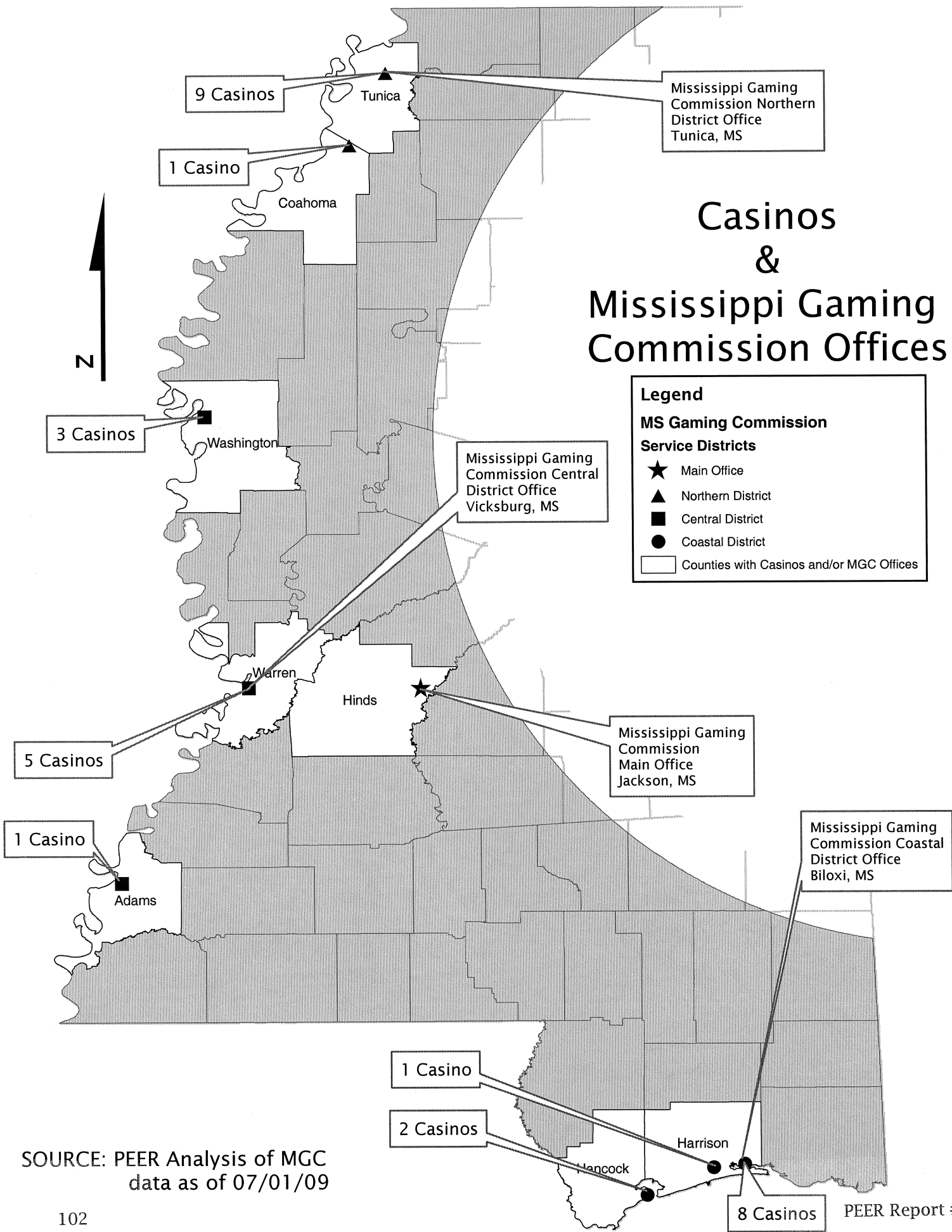
Appendix A: Descriptions of Regulatory or Other Fees and Taxes Charged by Other States with Legalized Casino Gaming

Fee Category	Colorado	Illinois	Indiana	Iowa	Louisiana
Tax Rates (Continued)				Allowed by statute but set by the board.	
Admission Tax	None Reported	Admission Tax: Admission dependent upon the number of patrons admitted during the previous calendar year as follows: \$2 per person admitted (1 million or less); \$3 per person admitted (over 1 million) Admission Fee: \$3 (1 million or less); \$4 (over 1 million to 2.3 million); \$5 (more than 2.3 million)	Flexible Scheduling: \$4 per person admitted if riverboat docks in a county with an historic hotel district; \$3 per person for all other counties Non-Flexible Scheduling : \$3 per person per excursion	None Reported	None Noted

Appendix A: Descriptions of Regulatory or Other Fees and Taxes Charged by Other States with Legalized Casino Gaming

Michigan	<i>Mississippi</i>	Missouri	Nevada	New Jersey	South Dakota
Allowed by statute but set by the board.					
None Reported	<i>None Reported</i>	\$2.00 per person per 2-hour excursion	None Reported	None Reported	None Reported

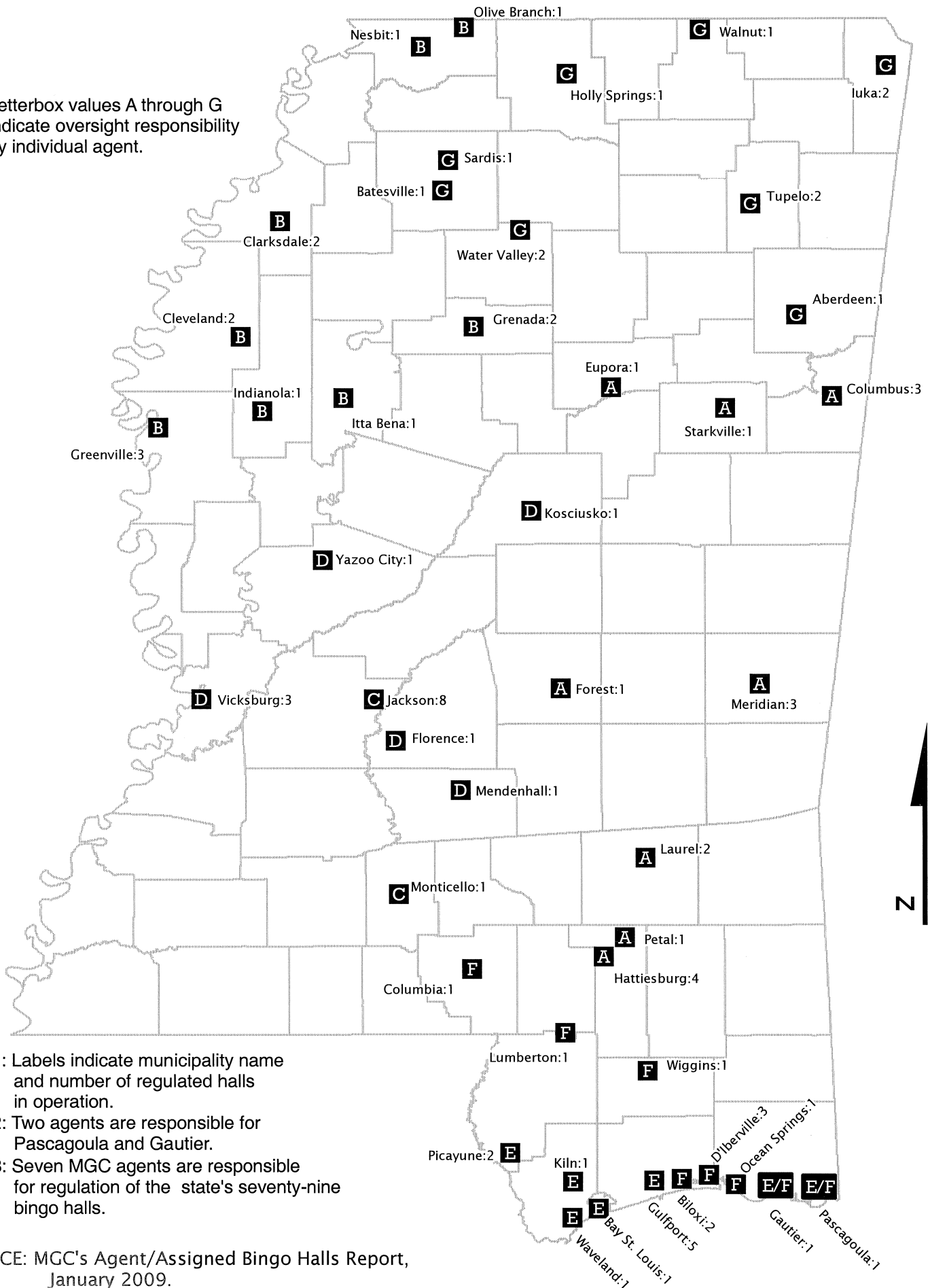
Appendix B: Casinos and Mississippi Gaming Commission Offices



SOURCE: PEER Analysis of MGC data as of 07/01/09

Appendix C: Bingo Halls Regulated by the MGC Charitable Gaming Division

X Letterbox values A through G indicate oversight responsibility by individual agent.



Note 1: Labels indicate municipality name and number of regulated halls in operation.

Note 2: Two agents are responsible for Pascagoula and Gautier.

Note 3: Seven MGC agents are responsible for regulation of the state's seventy-nine bingo halls.

SOURCE: MGC's Agent/Assigned Bingo Halls Report, January 2009.

PEER Report #522

Appendix D: Casino Gross Gaming Revenues for Calendar Years 1993 through 2008

Calendar Year	Gulf Coast Counties	Mississippi River Counties	Total Revenues
2008	\$1,258,534,361	\$1,463,135,722	\$2,721,670,083
2007	1,302,102,369	1,589,444,058	2,891,546,427
2006	910,696,342	1,660,187,243	2,570,883,585
2005	886,158,035	1,582,318,836	2,468,476,871
2004	1,226,874,812	1,550,095,500	2,776,970,312
2003	1,173,314,320	1,526,522,916	2,699,837,236
2002	1,158,158,105	1,559,100,576	2,717,258,681
2001	1,151,112,775	1,549,325,030	2,700,437,805
2000	1,110,445,713	1,538,850,404	2,649,296,117
1999	1,029,919,576	1,486,326,643	2,516,246,219
1998	813,668,601	1,360,532,585	2,174,201,186
1997	757,568,501	1,226,798,344	1,984,366,845
1996	749,339,088	1,112,707,243	1,862,046,331
1995	716,016,554	1,008,326,452	1,724,343,006
1994	727,326,701	735,467,945	1,462,794,646
1993	789,835,710	N/A	789,835,710
Grand Total	\$15,761,071,563	\$20,949,139,497	\$36,710,211,060

*Numbers are rounded to nearest dollar.

SOURCE: Mississippi State Tax Commission, Miscellaneous Tax Bureau, Casino Gross Gaming Revenues

Appendix E: Tax Revenues from Gaming for Fiscal Years 1993 through 2008

Fiscal Year	General Fund Transfer	Bond Sinking Fund And Highway Fund	Transfer to Local Governments	Totals
2008	\$194,040,324	\$36,000,000*	\$114,548,406	\$344,588,730
2007	185,846,916	36,000,000*	110,438,574	332,285,489
2006	145,710,583	36,000,000*	91,843,078	273,553,661
2005	168,542,499	54,593,492**	111,489,811	334,625,802
2004	167,323,271	54,199,655	110,705,761	332,228,687
2003	166,145,175	53,780,372	109,508,421	329,433,968
2002	164,721,939	53,297,532	109,372,690	327,392,162
2001	161,495,233	52,139,020	106,864,321	320,498,574
2000	158,954,245	51,118,737	104,991,878	314,464,860
1999	141,763,467	45,730,706	94,015,825	281,509,968
1998	126,872,536	40,556,422	82,906,717	250,345,675
1997	119,540,774	38,258,927	75,858,651	233,658,352
1996	110,415,642	34,223,742	69,074,471	213,713,855
1995	128,776,225	N/A	60,513,226	189,289,451
1994	95,033,771	N/A	33,736,025	128,769,796
1993	33,315,922	N/A	11,095,707	44,411,629
Grand Total	\$2,353,759,674	\$603,908,605	\$1,448,479,779	\$4,406,148,058

* Solely Bond Sinking Fund

** Budget Contingency Fund in lieu of Bond Sinking Fund and Highway Fund

SOURCE: Mississippi State Tax Commission, Miscellaneous Tax Bureau, Tax Revenues From Gaming

Appendix F: MGC Quarterly Survey, January 11, 2009, through March 31, 2009

MISSISSIPPI GAMING COMMISSION - PUBLIC INFORMATION Quarterly Survey Information: January 1, 2009 - March 31, 2009

Visitor Detail *	North River Region		South River Region		OVERALL STATE TOTAL PATRONS	APPROXIMATE PATRON TOTALS BY STATE			OVERALL PATRON TOTALS	OVERALL STATE PERCENTAGES
	Coastal Region	North River Region	South River Region	1,284,045		Coastal	North River	South River		
Total # Patrons This Quarter	4,091,562	3,868,048	1,284,045	9,243,655	591,417	221,252	15,195	827,864	8.96%	
Alabama	14.45%	5.72%	1.18%		10,824	698,260	115,207	824,291	8.92%	
Arkansas	0.26%	18.05%	8.97%		644,421	26,844	5,422	676,687	7.32%	
Florida	15.75%	0.69%	0.42%		253,416	89,159	8,560	351,135	3.80%	
Georgia	6.19%	2.31%	0.67%		41,436	107,068	4,936	153,440	1.66%	
Illinois	1.01%	2.77%	0.38%		19,788	42,897	1,398	64,083	0.69%	
Indiana	0.48%	1.11%	0.11%		888,390	16,130	183,818	1,088,338	11.77%	
Louisiana	21.71%	0.42%	14.32%		31,579	141,184	2,882	175,645	1.90%	
Missouri	0.77%	3.65%	0.22%		1,044,464	697,912	823,144	2,565,520	27.75%	
Mississippi	25.53%	18.04%	64.11%		31,542	18,335	1,327	51,204	0.55%	
North Carolina	0.77%	0.47%	0.10%		39,502	32,027	1,441	72,971	0.79%	
Ohio	0.97%	0.83%	0.11%		4,947	35,045	2,468	42,460	0.46%	
Oklahoma	0.12%	0.91%	0.19%		42,701	1,299,007	9,174	1,350,881	14.61%	
Tennessee	1.04%	33.58%	0.71%		102,735	39,957	30,218	172,910	1.87%	
Texas	2.51%	1.03%	2.35%		344,398	402,973	78,855	826,226	8.94%	
Other	8.42%	10.42%	6.14%		4,091,562	3,868,048	1,284,045	9,243,655	100.00%	

Hotel Detail	Coastal Region	North River Region	South River Region	STATE TOTALS / AVG
Casinos w/ Hotels	5,559	5,891	844	12,294
# Rooms	-	-	-	-
% Rooms Under Construction	84.68%	80.65%	62.21%	75.85%
% Occupancy	\$73.64	\$57.92	\$65.38	\$65.65
ADR	1,363	1,278	353	2,994
# Hotel Employees				
Revenue & Expenditures	Coastal Region	North River Region	South River Region	STATE TOTALS
Gross Revenue	\$460,900,095	\$345,380,638	\$122,912,364	\$ 929,193,097
Capital Investments	\$2,871,272,942	\$1,582,733,557	\$701,839,328	\$ 5,155,845,827
In-State	\$4,144,750	\$4,055,315	\$3,430,716	\$ 11,630,781
Out-of-State	\$0	\$275,081	\$780,715	\$ 1,055,796
Land	-\$319,306	\$0	\$1,158,718	\$ 839,412
Facility	\$1,715,644	\$380,881	\$1,670,366	\$ 3,766,891
Gaming Equipment	\$1,792,032	\$1,415,341	\$1,292,153	\$ 4,499,526
Payroll	\$93,644,353	\$76,415,790	\$23,052,670	\$ 193,112,813
Operating Expenditures	\$273,295,873	\$170,296,876	\$57,018,693	\$ 500,611,442
Advertising	\$9,148,464	\$8,925,953	\$5,333,914	\$ 23,408,331
Donations / Public Service	\$152,594	\$63,667	\$23,942	\$ 240,202
Other	\$2,143,978	\$2,534,175	\$90,194	\$ 4,768,347

* - Visitor Detail is an approximate percentage per state.

5/13/2009

SOURCE: MGC obtains information from the individual casinos. The casinos obtain the information from Players' Club Cards.

Agency Response

Jerry St. Pe'
Chairman

Nolen Canon
Commissioner

John M. Hairston
Commissioner



Larry Gregory
Executive Director

MISSISSIPPI GAMING COMMISSION
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Jackson, Mississippi 39225-3577
(601) 576-3800



July 31, 2009

Dr. Max Arinder
Executive Director
PEER Committee
Post Office Box 1204
Jackson, MS 39215-1204

Dear Dr. Arinder:

The Mississippi Gaming Commission ("MGC") has received the draft report of the recent evaluation of our agency. As Executive Director, let me first congratulate you on the manner in which the investigation was performed by your professional and courteous staff. This letter will serve as our response to the recommendations in the evaluation.

The evaluation shows the clear progress our agency has made since the last review in 2001. We are proud that there has never been a finding where the integrity of gaming operations in our state has been compromised. Gaming in Mississippi has a good reputation nationally and internationally for fair, honest, strict regulation. The MGC will continue to strive for improvement. Since the beginning of the year the MGC has been developing plans to implement new programs which would address many of the recommendations contained in the report.

Thank you for the opportunity to respond to the draft report.

Sincerely,

A handwritten signature in black ink, appearing to be "L. Gregory".

Larry Gregory
Executive Director

cc: Commissioners

PEER Committee Staff

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James Barber, Deputy Director
Ted Booth, General Counsel

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