



Michigan Gaming Control Board

# Annual Report to the Governor



Calendar Year 2013

# Annual Report to the Governor

**Calendar Year 2013**

Michigan Gaming Control Board  
3062 West Grand Boulevard  
Detroit, MI 48202

Submitted pursuant to the  
*Michigan Gaming Control & Revenue Act*, as amended  
(Public Act 69 of 1997)

*This document is also available online at*  
[www.michigan.gov/mgcb](http://www.michigan.gov/mgcb)



RICK SNYDER  
GOVERNOR

STATE OF MICHIGAN  
MICHIGAN GAMING CONTROL BOARD  
LANSING

RICHARD S. KALM  
EXECUTIVE DIRECTOR

February 1, 2014  
Honorable Rick Snyder  
Governor of Michigan

**AN OPEN LETTER TO GOVERNOR RICK SNYDER AND THE MICHIGAN  
LEGISLATURE:**

On behalf of the Michigan Gaming Control Board (Board), I am pleased to present the Annual Report to the Governor for calendar year 2013, pursuant to Section 15(1) of the *Michigan Gaming Control and Revenue Act*, as amended, Public Act 69 of 1997, MCL 432.201 (Act). This Annual Report is submitted not only to comply with the statutory reporting requirements under the Act, but to provide a summary of significant activities and operations of the Board and the Board's Staff. The Annual Report includes a report on the licensure, regulation, and operations of authorized commercial casino gaming in the City of Detroit for 2013.

Sincerely,

/s/

Robert L. Anthony  
Chairperson

## **FROM THE EXECUTIVE DIRECTOR**

The Michigan Gaming Control Board (MGCB) had another successful year in 2013 in maintaining its mission to ensure the conduct of fair and honest gaming to protect the interests of the citizens of the State of Michigan. We remain committed to this mission statement and our responsibilities for the licensing and regulation of commercial casino gaming, charitable gaming millionaire parties, and live horse in the State of Michigan and the oversight of compliance with the Tribal-State Compacts with the twelve federally recognized tribes in Michigan operating casinos. It is the goal of the five-member Board and MGCB to maintain and ensure the integrity of gaming, while at the same time, balancing regulation with a business friendly approach to vendors, suppliers, charities and tracks. MGCB's success as a regulatory agency is attributed to the MGCB staff who are professional, dedicated, and committed to shaping the agency's future in an ever-changing gaming environment. The MGCB continues to maintain our working relationships with our partner agencies: Detroit Police Department, Michigan State Police (MSP), and the Attorney General's Office (AG), as well as the commercial casinos' security directors to fulfill our mission.

In 2013 the three Detroit commercial casinos recorded combined revenues of \$1.3 billion. This equated to \$109.3 million in gaming taxes paid to the State and \$170.8 million to the City of Detroit, based on the adjusted gross revenue reported on the tax returns. Charitable gaming millionaire parties self-reported 2013 revenues totaled \$159.4 million, with \$13.1 million being self-reported as net profit. Horse racing revenues continued to decline in 2013 with combined horse racing revenue of \$4.5 million.

MGCB had many accomplishments in 2013 which are outlined in this report. Some of the noteworthy accomplishments included:

- Presenting new millionaire party Administrative Rules to the Joint Committee on Administrative Rules on October 31, 2013 to ensure more comprehensive regulations to ensure fair and honest gaming at millionaire party events;
- Hiring an investigator from the Michigan Attorney General's Office assigned to the Criminal Investigations Section as an added investigative resource furthering the section's ability to accomplish its mission; and
- Completing and implementing policies and procedures for adding individuals to the Exclusion List and notifying each state licensed casino.

I must express my appreciation to the Governor, the Legislature, our partner agencies, and other public officials for their cooperation and service.

My sincere appreciation goes to the Board and the MGCB employees who see that our mission of ensuring fair and honest gaming to protect the interests of the citizens of Michigan is accomplished every day. The MGCB will strive to fairly and competently regulate casino gaming, horse racing, and charitable millionaire parties to continue to meet this mission in Michigan during 2014.

If you should need additional information or assistance, please contact us.

Sincerely,

/s/

Rick Kalm  
Executive Director



## Table of Contents

<i>Page</i>	<i>Section</i>
1	Mission Statement
2	Summary of the Michigan Gaming Control & Revenue Act
4	Michigan Gaming Control Board Members
6	Organizational Chart
7	Michigan Gaming Control Board Staff
8	Michigan Attorney General, Alcohol & Gambling Enforcement Division
9	Michigan State Police, Gaming Section
10	Activities of the Board
10	Board Meetings
11	Notable Accomplishments
22	Horse Racing
31	Millionaire Party
37	Minors and Compulsive Gambling
38	Board Revenues and Expenditures
40	Statement of Revenue and Expenditures
42	Casino Revenues and State Wagering Taxes



## **Mission Statement**

*"The Michigan Gaming Control Board shall ensure the conduct of fair and honest gaming to protect the interests of the citizens of the State of Michigan."*

### **Introduction**

In November 1996, Michigan voters approved Proposal E, authorizing the development of up to three licensed commercial casinos in Detroit. Proposal E subsequently took effect as law on December 5, 1996, as the *Michigan Gaming Control & Revenue Act* (Act). The voter-initiated Act established the MGCBC as an autonomous agency within the Michigan Department of Treasury (Treasury), exclusively responsible for licensing and regulating the three commercial Detroit casinos. In July 1997, the voter-initiated Act was substantially amended by the Michigan Legislature's enactment of Public Act 69 of 1997. The amended Act provided for more stringent licensing criteria, substantially strengthened the licensing and regulatory authority of MGCBC, and provided for a system for collection of wagering taxes and fees for the City of Detroit and the State of Michigan.

The Board is comprised of five Michigan residents appointed by the Governor with the advice and consent of the Senate. One member is designated by the Governor as the chairperson. Under the Act, no more than three members may belong to the same political party. The Michigan Legislature vested the Board and the MGCBC employees with certain powers and duties specified in the Act and such other powers necessary and proper to fully and effectively implement, administer, and enforce the provisions of the Act relating to the licensing and regulation of authorized commercial casino gaming in the City of Detroit.



## Summary of the Michigan Gaming Control & Revenue Act

### *Michigan Gaming Control & Revenue Act, as amended (Public Act 69 of 1997):*

- Authorizes up to three licensed casinos in the City of Detroit (MGM Casino was licensed in July 1999; MotorCity Casino was licensed in December 1999; Greektown Casino was licensed in November 2000).
- Creates the Michigan Gaming Control Board (an autonomous agency within the Michigan Department of Treasury) and vests the Board with exclusive authority to license, regulate, and control casino gaming in the three authorized Detroit casinos.
- Authorizes the Board to promulgate necessary administrative rules to properly implement, administer, and enforce the amended Act.
- Provides for the licensing, regulation, and control of casino gaming operations; manufacturers and distributors of gaming equipment and other casino suppliers; and casino and supplier employees.
- Establishes standards and procedures for the issuance of casino licenses, casino supplier licenses, occupational licenses, and the approval of gambling games and gaming equipment and devices.
- Authorizes civil and criminal penalties for violation of the Act.
- Authorizes and imposes certain state and city wagering taxes on casinos and various fees on casino, supplier, and occupational licensees.
- Requires the deposit of state casino wagering tax revenues in the state school aid fund for K-12 public education in Michigan.
- Authorizes the City of Detroit to levy and collect wagering taxes and municipal services fees to defray the cost of hosting casinos and provide funding for police training and public safety programs, local economic development programs, youth development programs, capital improvements, local tax relief, and other programs to improve the quality of life in the City of Detroit.
- Creates the State Services Fee Fund to provide funding for the operations of the Board to license, regulate, and control casino gaming, and for the State's compulsive gambling prevention program and other casino-related programs.

- Requires annual Board registration of local labor organizations representing casino gaming employees.
- Requires certain safeguards by casino licensees to prevent compulsive and underage gambling.
- Prohibits political contributions by certain persons with interests in casino and supplier license applicants and licensees to state and local political candidates and certain committees.
- Establishes certain requirements and safeguards for members, employees, agents of the Board, license applicants, licensees, and others involved in gaming to prevent conflicts of interest.







## Michigan Gaming Control Board 2013 Board Members

### Mr. Robert L. Anthony, Chair



Mr. Anthony has been appointed by Governor Rick Snyder to serve as Board Chair for a term at the pleasure of the governor. Mr. Anthony has served on the Gaming Control Board since January 2011.

Mr. Anthony retired as a senior risk and quality partner of PricewaterhouseCoopers, LLP. Anthony served global clients over his career working closely with client audit committees and senior management on matters that included entity-wide risk analysis and risk management. He also served as a member of the PricewaterhouseCoopers Global Audit Policy Board.

Mr. Anthony graduated from the University of Michigan where he was awarded a B.A. and an M.B.A. He currently resides in Northville with his wife Catherine.

### Mr. Michael Watza



Mr. Watza, partner of Kitch, Druthas, Wagner, Valitutti & Sherwood, was reappointed by Governor Rick Snyder to serve as a board member for a term expiring December 31, 2016.

### Mr. Patrick M. McQueen



Mr. McQueen, Managing Director of McQueen Financial Advisors, was appointed by Governor Rick Snyder to serve as a board member for a term expiring on December 31, 2015.

**Mr. Andrew T. Palms**



Mr. Palms, Executive Director of Communications Systems at the University of Michigan, was appointed by Governor Rick Snyder to serve as a board member for a term expiring on December 31, 2015.

**Mr. Dennis Beagen**

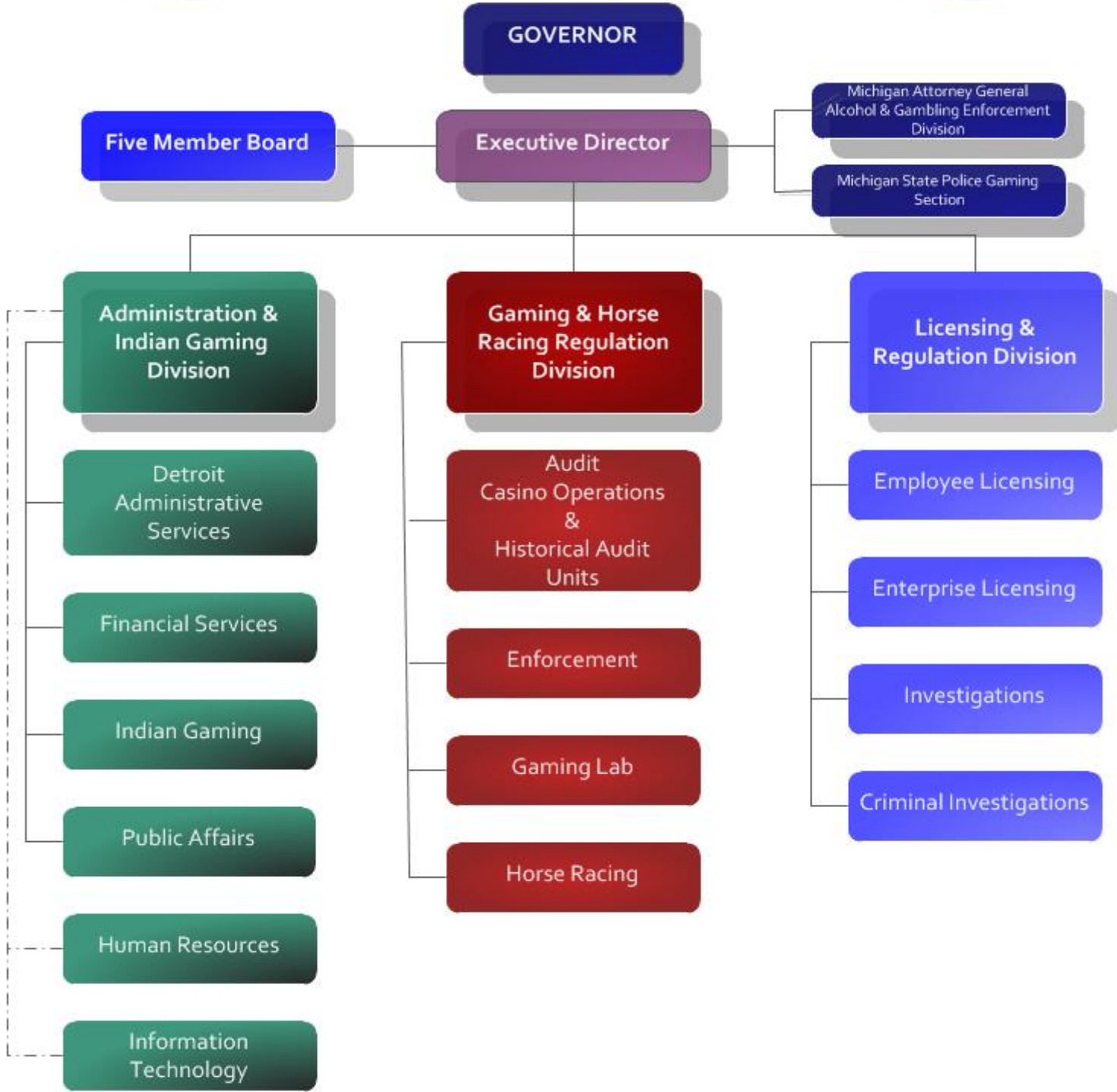


Mr. Beagen, Emeritus Professor of Communication at Eastern Michigan University, was appointed by Governor Rick Snyder to serve as a board member for a term expiring on December 31, 2016.





## MICHIGAN GAMING CONTROL BOARD ORGANIZATION CHART





# Michigan Gaming Control Board

## Michigan Gaming Control Board Staff

Executive Director.....	1
Executive Assistant .....	1
<u>Division of Administration &amp; Indian Gaming</u>	
Deputy Director .....	1
Executive Assistant .....	1
Accountant (Treasury).....	1
Communications Specialist .....	Vacant
Detroit Administrative Services Section Manager .....	1
Detroit Office Secretary .....	1 (+1 Vacant)
Departmental Manager .....	Vacant
Disassociated Persons Analyst .....	1
Departmental Analysts .....	3
Departmental Technician .....	3 (+1 Vacant)
Financial Manager .....	1
Financial Analyst.....	1
Human Resource Director (Civil Service) .....	1
Human Resource Analyst.....	2
Indian Gaming Section Audit Manager.....	1
Indian Gaming Auditor .....	5 (+1 Vacant)
Lansing Office Secretary.....	1
Database Administrator (DTMB).....	1
Information Systems Specialist (DTMB).....	Vacant
Information Technology Analyst (DTMB) .....	2
Information Technology Programmer Analyst (DTMB) .....	2 (+1 Vacant)
Information Systems Program Manager (DTMB) .....	1
Network Administrator (DTMB) .....	Vacant
<u>Division of Gaming &amp; Horse Racing Regulation</u>	
Deputy Director .....	1
Executive Assistant .....	1
Casino Operations Unit Manager .....	1
Casino Secretary .....	2 (+1 Vacant)
Auditors .....	11 (+1 Vacant)
Departmental Analyst.....	1
Departmental Technician .....	Vacant
Enforcement Section Managers.....	3
Gaming Laboratory Equipment Technician .....	1
Gaming Laboratory Auditor .....	Vacant
Gaming Laboratory Engineer .....	2 (+1 Vacant)
Gaming Laboratory Manager .....	1
Gaming Laboratory Secretary .....	1

Historical Audit Unit Manager .....	1
Horse Racing Section Manager .....	1
Information Systems Auditor .....	1
Pari-Mutuel Coordinator .....	1
Regulation Officer .....	13 (+2 Vacant)

Division of Licensing & Regulation

Deputy Director .....	1
Executive Assistant .....	1
Criminal Investigations Section Manager .....	1
Criminal Investigations Secretary .....	1
Departmental Analyst.....	1
Departmental Manager.....	Vacant
Departmental Supervisor .....	1
Departmental Technician .....	11 (+1 Vacant)
Enterprise Licensing Section Manager.....	2
Enterprise Licensing Secretary.....	1
Employee Licensing Section Manager.....	1
Financial Analyst.....	9
Investigations Section Manager .....	2
Regulation Officer .....	26 (+6 Vacant)

**\*Michigan Department of Attorney General**

Criminal Justice Bureau Chief.....1

**Alcohol & Gambling Enforcement Division**

Division Chief.....1  
Division Head Secretary .....

1  
First Assistant Attorney General.....1

Section Head .....

1  
Assistant Attorneys General .....

9  
Legal Secretaries .....

**Criminal Division, Treasury & Gaming Section**

Section Head .....

1  
Assistant Attorneys General .....

6  
Division Head Secretary .....

1  
Legal Secretaries .....

\*This is a complete listing of the positions within the Alcohol & Gambling Enforcement Division and the Criminal Division, Treasury & Gaming Section. All or portions of the listed positions are funded by MGCB, Treasury, Bureau of State Lottery and/or Liquor Control Commission.

# Michigan Department of State Police, Gaming Section

Inspector .....1  
Secretary .....1(+1 Vacant)  
Detective First Lieutenant .....1

## Casino Operation Unit

Detective Lieutenant.....1 (+1 Vacant)  
Detective Sergeants .....3 (+3 Vacant)  
Detective Specialists.....14 (+8 Vacant)



## Activities of the Board

### BOARD MEETINGS

From inception, the Board has encouraged public input regarding policies, procedures, and activities related to licensing and regulating the three Detroit commercial casinos. To conduct Board business, inform, and receive input from the public, the Board held nine public meetings in 2013. At these meetings, the Board not only conducted its official business, it also provided the public and news media with opportunities to ask questions and offer comment regarding casino gaming issues and the Board's relevant policies, procedures, and activities. The Board met at the Detroit office located at Cadillac Place, 3062 West Grand Boulevard, Suite L-700, on the following dates:

January 22, 2013	September 10, 2013
March 12, 2013	October 17, 2013*
April 9, 2013	November 5, 2013
May 14, 2013	December 11, 2013
June 11, 2013	

\*Closed session not held

The Board adjourned to closed session after the public meetings to review confidential materials that were part of casino license applications and applications for placement on the Board's Disassociated Persons List and thus protected from public review and disclosure under Sections 4c and 25 of the *Michigan Gaming Control & Revenue Act*, as amended, Public Act 69 of 1997, MCL 432.204c and MCL 432.225(4)(c). Closed Sessions are not open to the public, nor are minutes of such sessions available to the public, under Michigan's Open Meetings Act, as amended, Public Act 267 of 1976. All Board meetings, whether open or closed, were held in accordance with Michigan's Open Meetings Act.

### BOARD RESOLUTIONS

The Board adopted one resolution in calendar year 2013:

**Resolution No. 2013-01** - Adopted April 9, 2013 – Acknowledging the contributions and accomplishments of former board member Judge Benjamin J. Friedman and commending him for distinguished and honorable service to MGCB and the people of the State Of Michigan.



## **Notable Accomplishments**

### **INTRODUCTION**

The Board consists of five members. All five Board members and the Executive Director are appointed by the Governor. They are assisted in their mission of regulating the three commercial casinos in Detroit by other state agencies. The Board exercise control over the licenses of the three commercial casinos, but does not have oversight of millionaire parties, horse racing or Tribal gaming. The mission of the Board is to ensure the conduct of fair and honest gaming to protect the interests of the citizens of the State of Michigan. There are 144 budgeted staff positions assigned to the MGCB performing this mission. The headquarters for the Board is located at the State offices at Cadillac Place in Detroit. The following is a summary of yearly activity for 2013.

These activities are funded by an assessment on each of the three Detroit casinos.

### **ADMINISTRATION & INDIAN GAMING DIVISION**

#### **Administration**

The Administration & Indian Gaming Division of MGCB consists of three sections: Financial Services, Detroit Administrative Services, and Indian Gaming. Additionally, the Division serves the Agency by ensuring the effective and efficient delivery of human resources and information technology (IT) services as provided by the Department of Technology, Management, and Budget (DTMB).

In 2013, the Administration & Indian Gaming Division coordinated the development and execution of an action plan to address employee concerns expressed in the 2012 statewide employee survey. The action plan included the development of a MGCB Newsletter, *The Jackpot*, to increase communication throughout the agency. A voluntary committee of staff from various sections works to produce the employee newsletter on a bi-monthly basis. The newsletter features articles on various gaming-related topics. In addition, senior standards were established for auditor, financial analyst, and regulation officer positions to provide opportunities for career advancement.

MGCB also continued development of its business continuity program in 2013. Risk assessments for all MGCB locations have been completed and a business continuity plan was completed for the MGCB's Lansing office located in the Lottery Building. MGCB plans to continue working on its business continuity plans for all other MGCB offices in 2014.

#### **Detroit Administrative Services Section**

The Detroit Administrative Services section consists of one manager, two secretaries, two departmental analysts, four departmental technicians, and six student assistants. Its primary responsibilities are to administer the Disassociated Persons List (DPL) program and to maintain

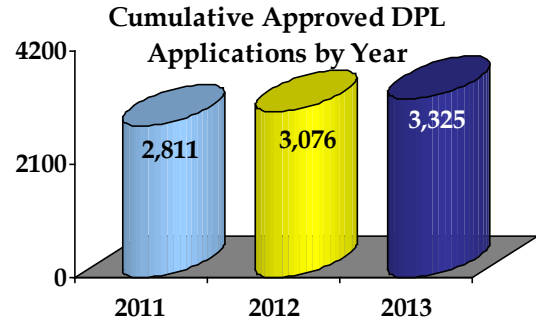
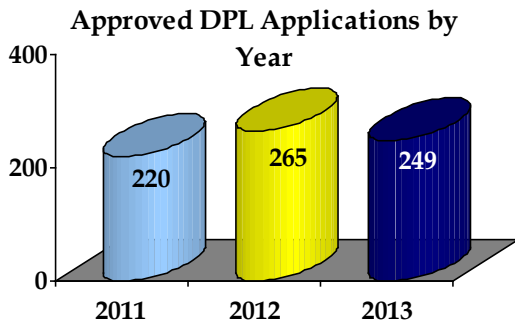


the agency's records. Additionally, the section provides administrative support services for the four MGCB offices in Detroit, which are located in Cadillac Place and an office in each of the three Detroit casinos.

***Disassociated Persons List and Problem Gambling Diversion Program***

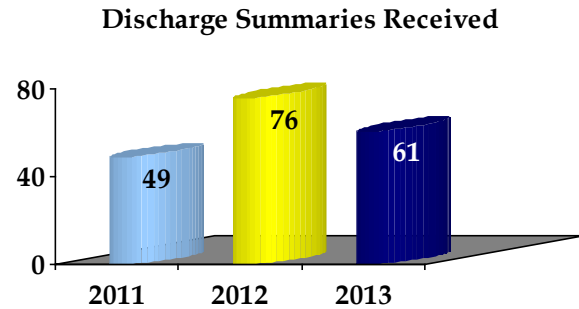
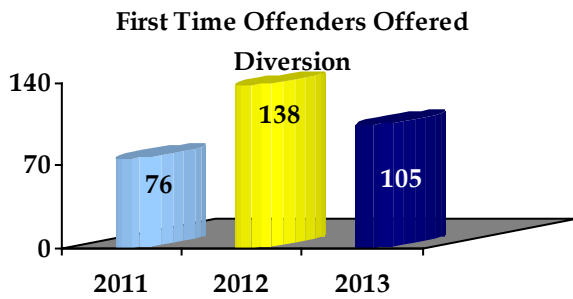
The Act created the DPL designed for problem gamblers requesting to self-exclude themselves from entering and gaming at the three casinos located in the city of Detroit for the remainder of his or her life. The law also states an individual who violates the terms and conditions of the DPL program is guilty of criminal trespassing, punishable by imprisonment for not more than 1 year, a fine of not more than \$1,000, or both. As of December 31, 2013, there were 3,325 people in the DPL program.

The Detroit Administrative Services processed the following DPLs in 2011, 2012, and 2013:



The Detroit Administrative Services Section is also responsible for accepting checks from the Michigan State Police related to DPL. The Act states any individual who places themselves on the DPL understands and authorizes the confiscation of any winnings obtained at the Detroit commercial casinos. Pursuant to the Act, any winnings collected by MGCB under this Act shall be deposited into the Compulsive Gaming Prevention Fund within the Michigan Department of Community Health (MDCH). In the calendar year 2013, MGCB transferred a total of \$62,767 of confiscated DPL funds to the Compulsive Gaming Prevention Fund. Those who are indigent participating in the diversion program can utilize those funds via the MDCH to help with the cost of treatment.

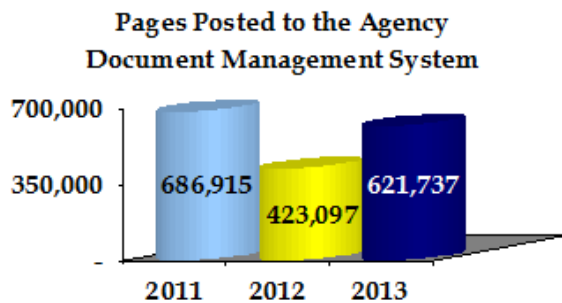
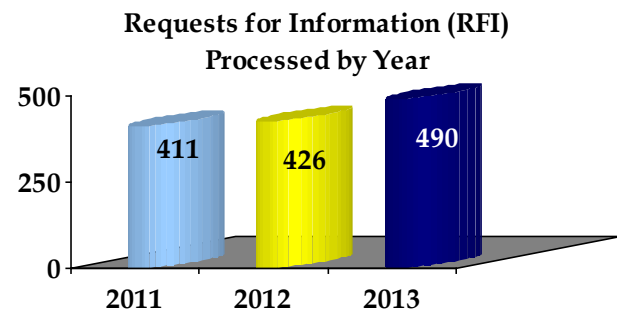
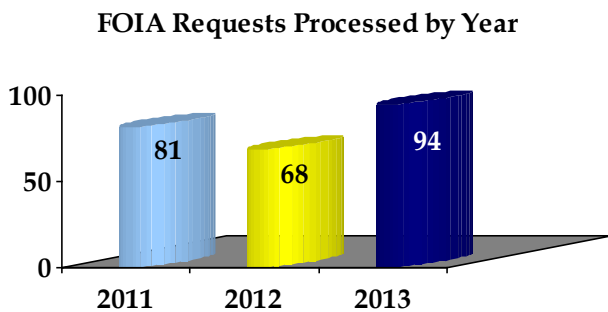
In January 2011, the Problem Gambling Diversion Program (Diversion Program) was created to provide an alternative to criminal prosecution for individuals who violate the terms of the DPL program for the first offense. The Diversion Program allows first time offenders the opportunity to enroll in a treatment program with a MDCH provider. In 2013, two additional providers were added to the Diversion Program provider list, increasing the number of providers participating in the program to six. Successful completion of the treatment program will result in dismissal of the criminal trespassing charges. First time offenders who fail to enroll in and complete the treatment program will be charged with criminal trespassing. In 2013, 105 first time DPL offenders were offered the Diversion Program. As of December 31, 2013, the cumulative number of DPL offenders offered the Diversion Program was 319. To assist in this process, in November 2013, a new Assistant Attorney General was assigned to assume responsibilities of the Diversion Program.



**Records Section**

The Detroit Administrative Services Section provides records management oversight for the agency’s paper records and ensures records are electronically imaged and available to staff in the MGCB’s online record repository. All Freedom of Information Act (FOIA) requests are processed by this section in accordance with the Michigan Freedom of Information Act, PA 442 of 1976. This section also ensures MGCB complies with the State of Michigan retention schedules established for all documents.

The Detroit Administrative Services Section processed the following in 2011, 2012, and 2013:



The Records Section processed 621,737 pages of MGCB records. In 2013 there was a 46.9% increase in the overall volume of electronic images added to the document management system when compared to 2012. The Records Section consistently attained the benchmark recognized for the unit: 97% of the documents were processed within the 72 hour timeframe.

## **Financial Services Section**

The Financial Services Section consists of one manager, four departmental analysts, one financial analyst, one accountant, one secretary, and two student assistants and is located in MGCB's Lansing office. This section is responsible for MGCB's budget, accounting, purchasing, travel, vehicles, and security system.

In 2013, the Financial Services Section staff grew to include an additional departmental analyst and secretary. Located in the MGCB Detroit office, the departmental analyst serves as an additional HR liaison to aid in the vacancy fulfillment process and to assist in MGCB human resource related issues. The addition of a secretary expedites clerical section tasks and provides assistance to the entire Administration & Indian Gaming Division from MGCB's Lansing office.

In 2013 MGCB hired 14 new employees and lost 14 employees. MGCB ended the year with 123 employees. In addition, 9 employees were promoted in 2013.

Financial Services staff worked with agency staff in 2013 to complete the Internal Control Evaluation (ICE) process. The objective of ICE was to assess MGCB's processes and to prepare a biennial report on internal controls. The report is to confirm the evaluation process and identify weaknesses in the agency's internal control system. The report was submitted to the Governor in June 2013.

Financial Services staff submitted a Request for Proposal (RFP) in 2013 to acquire a vendor for financial consulting services. The vendor assists the Licensing & Regulation Division staff in reviewing complex financial documents and business transactions related to determining the suitability, including business probity, of an applicant's request for a gaming license in Michigan. Their services are also used for other financial reviews such as federal tax law, securities law, casino accounting, and contract laws not required of Division staff. The contract was awarded to Grant Thornton with an expiration date of October 15, 2016.

The fiscal year 2014 budget, which was completed in 2013, included a one-time appropriation of \$3 million to create an enterprise-wide information technology solution. An RFP will be completed in 2014 to obtain a vendor to gather the business requirements necessary for development of the enterprise solution.

## **Indian Gaming Section**

The Indian Gaming Section of MGCB is comprised of one audit manager and six audit staff and is located at the MGCB Lansing office. The section is responsible for conducting audits/inspections of tribal casinos to verify their compliance with the Tribal-State Class III Gaming Compacts and related Consent Judgments. There are 12 federally recognized tribal governments operating 23 casinos in the State of Michigan. These casinos foster economic development and employment for the tribes and their surrounding communities while promoting tribal economic self-sufficiency on tribal lands. Each tribe has entered into its own Tribal-State Class III Gaming Compact (Compacts) with the State of Michigan. Michigan recognizes tribal governments as individual sovereign nations. Therefore, Michigan has no regulatory authority over tribal governments. Although the State of Michigan does not regulate Indian casino gaming, the State does have oversight authority over compliance with the Compacts' provisions.

“Net win” is defined as the total amount wagered on electronic games of chance less the total amount paid to players for winning wagers. Based on analysis of the 2012 two percent payments to local units of state governments, Indian gaming in Michigan recorded slot machine net win of approximately \$1.5 billion. MGCB’s oversight authority includes performing financial audits to ensure the net win totals are accurately stated and the related payments to local units of state government or local revenue sharing boards and the Michigan Economic Development Corporation or Michigan Strategic Fund are properly remitted in accordance with the relevant Compacts and related Consent Judgments. In calendar year 2013, the Indian Gaming Section presented final net win audit reports to seven tribes which encompassed twelve fiscal years. In addition, fieldwork and write-up was performed for six tribes covering ten fiscal years. The final reports from these audits/inspections are anticipated to be completed in 2014.

The Compacts contain several provisions which require compliance oversight. MGCB’s Indian Gaming Section performs audits/inspections to ensure compliance with Compact provisions pertaining to authorized Class III games, regulation of Class III gaming, employee benefits, Bank Secrecy Act, providers of Class III gaming equipment and supplies, notice to patrons, and the sale of alcoholic beverages. During calendar year 2013, the Indian Gaming Section presented seven final compliance audit reports to six tribes, which provide detail on the extent of compliance with various sections of the Compacts. In addition, fieldwork or write-up was performed for five tribes, representing six compliance audits/inspections, with the final reports from these audits/inspections anticipated to be completed in 2014. For more details regarding Indian Gaming, MGCB has submitted a separate annual report.

### **Department of Technology, Management and Budget (DTMB)**

Information Technology (IT) services are provided to MGCB by the Department of Technology, Management and Budget (DTMB). One manager, nine staff, and one student assistant are dedicated to MGCB to provide IT services. DTMB IT staff is responsible for the development and maintenance of new and existing applications, as well as server, database, and desktop support. During 2013 the DTMB IT staff supporting MGCB completed the following projects/initiatives:

- Constructed and placed into production a new application for the licensing and regulation of live horse racing – Horse Racing Information System. This system replaced a more than 30 year old application which came to MGCB with the transfer of the licensing and regulation of live horse racing from the Department of Agriculture and Rural Development (MDARD) in 2010.
- Completed data encryption for all MGCB data at rest and in transit to comply with Control Objectives for Information and Related Technology (COBIT) and National Institute of Standards and Technology (NIST) guidelines for better security performance.
- Successfully migrated the Microsoft Lync application to Office 365 – maintained on the Microsoft government cloud environment with no disruption or downtime for MGCB.

## **GAMING & HORSE RACING REGULATION DIVISION**

### **Audit Section**

To be more efficient and focused during audits, the Audit Section is divided into two units: Historical Audit and Casino Operations.

## **Historical Audit Unit**

The Historical Audit Unit completed and issued final reports for nine compliance audits and an audit review scheduled for calendar year 2013. The staff conducted compliance audits on each of the three Detroit commercial casinos' gaming operations for the following areas: cashier cage, credit and accounting, and a non-gaming audit review for each of the three casinos' purchasing departments. The overall audit objective is to provide reasonable assurance the operating activities for the three Detroit casinos is in conformance to specified conditions, rules and regulations, and control activities provide for integrity and reliability of reported gaming revenues and other financial information. The audit approach for each area audited includes:

- Observation of the area(s) processes and procedures to obtain an understanding of the operations
- Assessing risks for areas of significance within departmental reporting structures and control activities
- Examination, on a test basis, of evidence to support transaction activity is complete with proper signatory authority, accuracy in recording of information, and inventory accountability, and reconciliation of cash and cash equivalents is properly reported

The Historical Audit Unit concluded the three Detroit casino gaming operations were generally in compliance. However, for all three casinos combined, the following audit findings were noted: one Administrative Rule violation, eighteen issues of noncompliance to Internal Controls, seven administrative modifications to the licensee internal control systems, and three accounting procedure improvements.

Each licensee's management of risks for those control activities to ensure the reliability and integrity for the reporting of gaming revenue was effective.

## **Casino Operations Unit**



The Casino Operations Audit Section completed the review of 1,095 daily tax returns and 36 monthly tax returns to provide reasonable assurance the reporting of \$1.35 billion in gaming revenue to the State of Michigan was free of material misstatement. Furthermore, it was assured the proper payments of \$109 million in state wagering taxes were paid and received. The section also completed the review of monthly credit reports and quarterly reports for 2013 to ensure the licensees were in compliance with the Administrative Rules and their Internal Control Standards (ICS). Monthly and quarterly financial information, as required for submission by the licensees, have been or are being reviewed and analyzed accordingly.

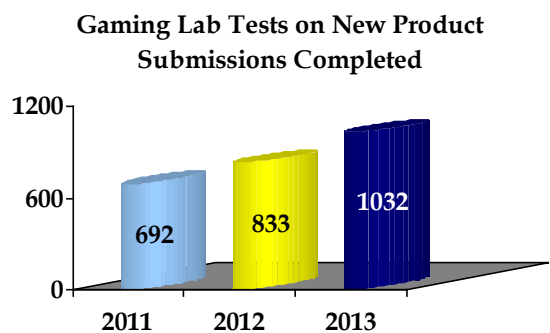
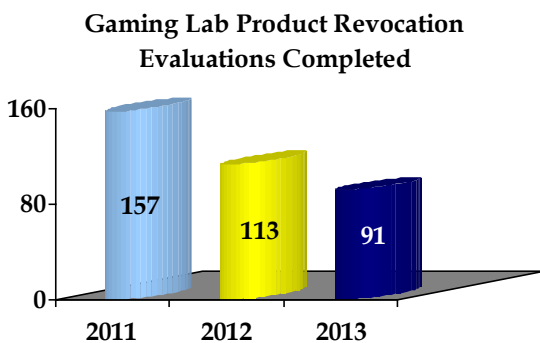
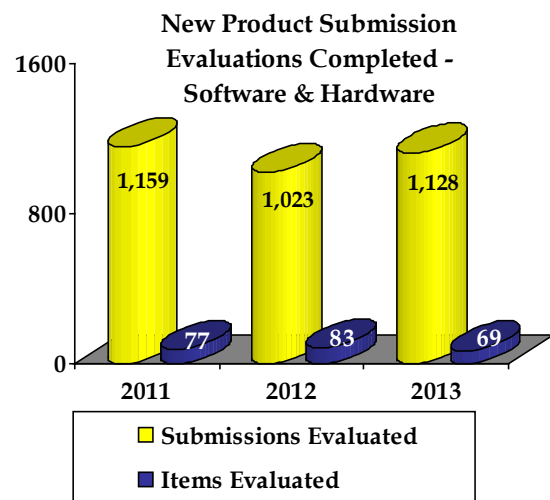
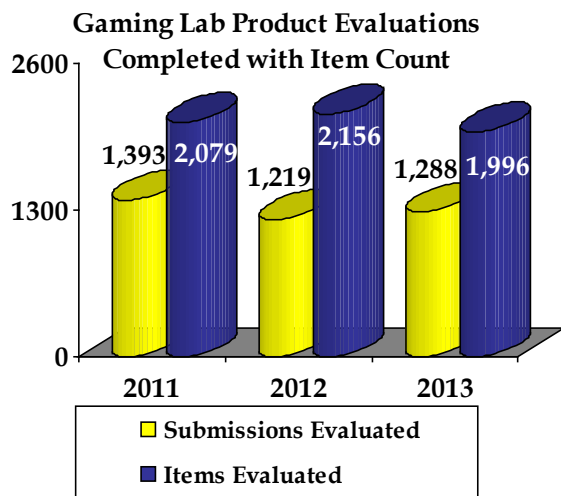
During 2013 the Internal Control Review Team (ICRT) continued to be facilitated by the Casino Operations Audit Manager. This team consisted of representatives from Audit, Gaming Lab, and Enforcement sections. The team as a group reviewed and approved or denied 69 ICS revision submissions and four Administrative Rule waiver requests during 2013.

**Gaming Lab Section**

The Gaming Lab (Lab) evaluates all gaming devices and equipment for randomness, fairness, and compliance with applicable rules and specifications. The Lab also recommends minimum internal controls for gaming technology, reviews casino and manufacturer-provided data and notifications, and assists in investigations to help ensure the integrity of casino games and accurate reporting of gaming revenue in Michigan.

Pursuant to Administrative Rules 432.1839 and 1842, casino licensees may not use gaming or certain associated equipment unless approved by MGCB. The primary function of the Lab is to evaluate electronic gaming products and associated equipment used in casino gambling for compliance with Board specifications set forth primarily in Rule 432.1839. Using engineering judgment, staff reviews product specifications and data submitted by gaming manufacturers and conducts a variety of tests as deemed necessary. Lab staff also reviews updates and notifications regarding equipment previously approved for use.

In 2013, the Lab completed 1,288 gaming product evaluations covering 1,996 items. Of these 1,288 product evaluations completed, 1,128 were for new gaming software, 69 were for new gaming hardware, and 91 were revocations of previously approved product submissions. 1,032 unique tests were randomly performed on these new product submissions.



In 2013 the Lab completed a Good Government Lean project with the help of an outside consultant sponsored by the Michigan Lean Consortium. The Lab has always been sensitive to the impact of regulations on the gaming industry and continues to make thoughtful decisions in an effort to keep that impact as small as possible while still maintaining the highest levels of public confidence in gaming. With this knowledge of Lean, and a heightened focus on measuring outcomes, the Lab now tracks these efforts and determinations. For 2013 a goal of \$100,000 in agency savings and reduced industry regulatory cost burden was set forth. This goal was exceeded as the total amount measured in 2013 was nearly \$400,000 as outlined in the chart below. The Lab will continue to pursue and track these efforts focusing on recurring savings with the ultimate goal of identifying over \$1,000,000 in annual savings and reduced regulatory cost burden by the end of 2023.

<b>Initiative / Project / Determination</b>	<b>Affected Party</b>	<b>2013 Savings</b>	<b>Annual Projected Savings</b>
<b>Resolved discrepancy between Minimum Internal Controls and Rules regarding Progressive Transfers</b> <i>(Only incremental amount of jackpot displayed transferred in accordance with Admin Rule. 27 affected transfers in 2013.)</i>	Casino	\$235,250	\$150,000
<b>Simplified Multi-Level Progressive Transfer Process</b> <i>(1 hr each x \$40/hr x 27 in 2013)(40/yr projected) (Per casino, \$40/HR is accurate approximation for wage + benefits)</i>	Casino	\$1,080	\$1,600
<b>Savings by elimination of unnecessary investigation</b> <i>(Per casino meter "Malfunction" 1150 hours x \$40/hr)(review all 3)</i>	Casino	\$46,000	\$60,000
<b>Reduced time on review process for certain investigative reports</b> <i>(Per project team 1 hr each x \$40/hr x 30/year)</i>	Agency	n/a	\$1,200
<b>No submission shipment required on certain equipment</b> <i>(Cost + time + shipping) (bv's, printers, cabinets, hardware changes)</i>	Manufacturer	\$45,000	\$40,000
<b>Verify and release status on certain software</b> <i>(cost + time + ship) (bv, printer, RAM, promo content, reporting)</i>	Manufacturer	\$30,000	\$30,000
<b>More frequent submission status list updates</b> <i>(Per casino 2 hr/mo x 12 mo x \$40/hr x 3 casinos x 6 months)</i>	Casino	\$1,440	\$2,880
<b>Simplified software inventory requirements</b> <i>(Per casino 10 hr/mo x 12 months x \$40/hr x 3 casino x .5 for 2013)</i>	Casino	\$7,200	\$14,400
<b>Simplified software seal process and requirements</b> <i>(Per casino 20 hr/mo x 12 months x \$40/hr x 3 casino x .5 factor for half of 2013)</i>	Casino	\$14,400	\$28,800
<b>Less seals &amp; time expenditures</b> <i>(17 cents/per seal x 16,000/yr x 2/3 = \$1,813 + 10 hr/yr x \$40/hr x 2/3rds)</i>	Agency	\$2,080	\$3,120
<b>Total</b>		<b>\$382,450</b>	<b>\$332,000</b>

In 2013 Lab staff worked with Treasury staff, the AG's office, the casinos, and other MGCB staff to finalize and implement changes to procedures necessary to facilitate the escheatment of funds associated with unredeemed ticket vouchers to Treasury. The amount of the unredeemed funds at

the time of voucher expiration is estimated to be over \$500,000 per year. Funds for ticket vouchers unredeemed will now be escheated to Treasury.

Lab staff also reviews progressive liability transfers performed by the casino, investigating technologies new to gaming or this jurisdiction, reviewing data and reports used in gaming tax calculations, drafting rule waivers, creating policies, and helping to address patron complaints.

The Lab continued to develop and update procedures and training tools on new methods of performing field verification and resolved anomalies found in the field by the Enforcement Section. These anomalies are tracked in assignments related to “Field Verification Issues.”

In 2013, the Lab completed 258 assignments, reports, and notifications as noted in the chart below.

<b>Gaming Lab Assignments, Reports &amp; Notifications Completed</b>			
	<b>2011</b>	<b>2012</b>	<b>2013</b>
Assist Other Sections	0	0	9
Deputy Director Assigned	2	26	10
Field Verification Issues	14	13	8
Lab Initiated	48	62	34
Lab Reports	4	2	2
Malfunction Occurrences	8	17	10
Manufacturer Notification	95	127	134
Notifications	2	1	0
Progressive Transfer Reviews	26	51	34
Regulatory Requirement & Lean Process Reviews	0	0	17
<b>Total</b>	<b>199</b>	<b>299</b>	<b>258</b>
<i>Note: To provide more detail for metrics, new assignment types were added to aid in the parsing of the data tracked, and as such, the reporting of some types may not exist in all years.</i>			

### **Enforcement Section**

The Enforcement Section continues to carry out 7 days a week/24 hours a day monitoring of the casinos' responsibilities to ensure gaming integrity. Regulation officers are located in the three Detroit casinos and are authorized by the Act to investigate alleged violations of the Act, Administrative Rules, and internal controls systems to ensure all casino facilities, activities, and games are in compliance.

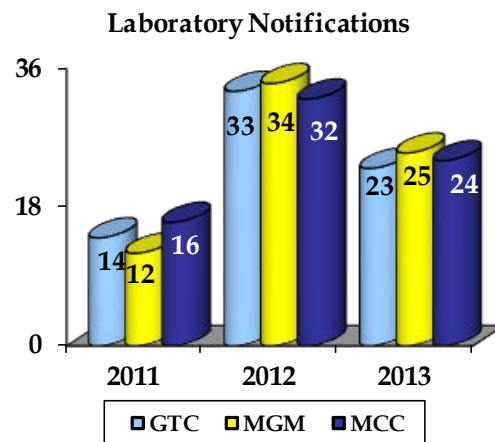
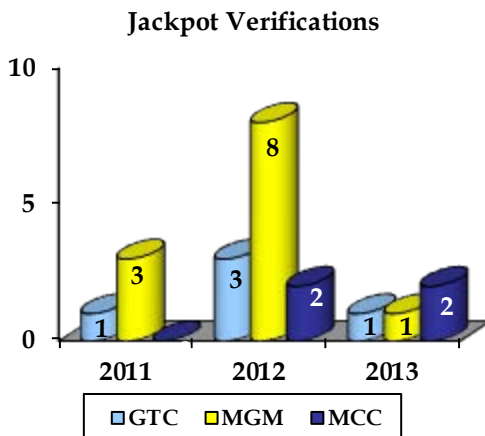
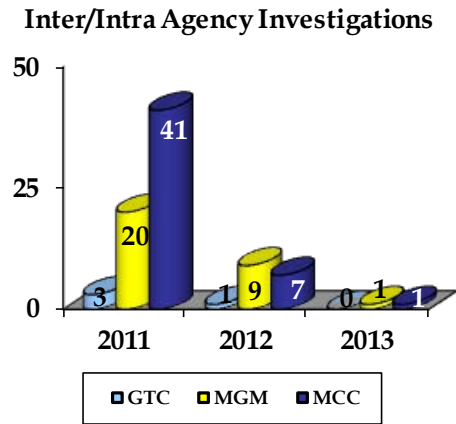
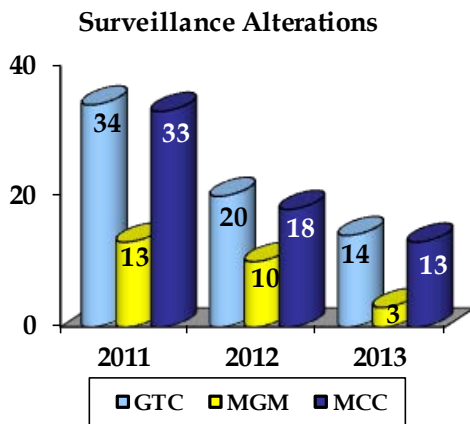
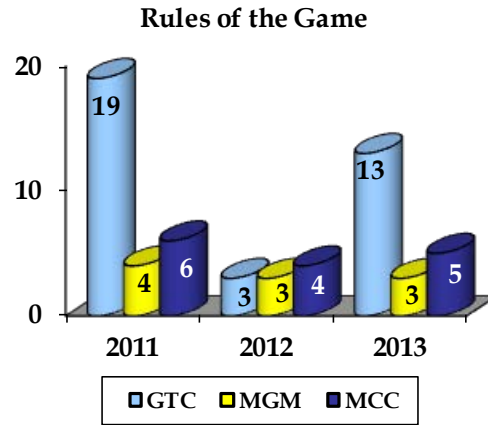
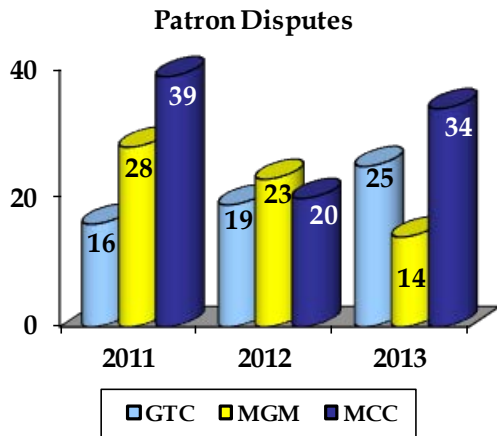
The Monitoring Inspection Review Team was established to review all existing Monitoring Inspections (MI). In 2013:

- In collaboration with the MGCB Lab, a MI was created adding a rising sequence test to the verification of card shufflers. The rising sequence test ensures the actual card output is random;
- A MI was amended to eliminate the redundancy of a marker payment test being conducted by the MGCB Audit Section;
- A MI was created to detect in the progressive table games, malfunctions, misappropriations of displayed progressive awards, proper incrementation, and accurate advertised amounts;



- A MI was enhanced to increase the compliance with Title 31 and the casino internal control systems;
- A MI was amended to ensure proper cage variance reporting requirements;
- A MI was enhanced to increase the testing of casino compliance with the disassociated persons requirements of the Act.

The Enforcement Section performed the following investigations at Greektown Casino-Hotel (GTC), MGM Grand Detroit (MGM) and MotorCity Casino- Hotel (MCC) in 2011, 2012, and 2013:



Monthly compliance meetings are scheduled with the three Detroit casinos, Detroit Police Department (DPD), and Michigan State Police (MSP) to discuss any compliance issues.

The field verification process annually tests 10% of the slot machine software located in the three Detroit casinos for authenticity and approved software.

The Lean Project was utilized and an accelerated process to appropriately address patron disputes not under the Administrative Rules definition was implemented.

Shuffler Verification and the Rising Sequence Test are used in testing card shufflers. The MGCB Lab staff developed the Rising Sequence Test to ensure the actual card output is random. This test coincides with the EPROM testing of the card shufflers to ensure the conduct of fair and honest gaming to protect the interests of the citizens of the State of Michigan.

The Enforcement Section met all quarterly and all but three monthly statistical measurements for the Governor's Dashboard.

Incident Management Training was conducted for all three Detroit casinos with DPD-Homeland Security, Detroit Fire Department, and MSP as mandated by Administrative Rule 432.11015. This year, additional City of Detroit personnel and State of Michigan agencies were involved, increasing the collaboration and future success in the event of a critical incident.

In November 2013, MGCB Enforcement staff conducted unannounced financial counts of all three Detroit casinos' cage and cage departments to verify the reporting and accountability of cash and cash equivalents.

#### Violations Issued/Fines Imposed

During 2013, the Enforcement Section issued violations and imposed fines as follows:

##### Greektown Casino, LLC (GTC)

- On 2/8/13, MGCB issued warning letters to two GTC managerial occupational licensed employees for failing to operate a promotion in accordance with the approved Administrative Rule 432.1907 (1), and failing to provide immediate written notification of the incident whereas the rules were violated as required by MCL 432.209 (10), which requires immediate written notification when there is a violation of the Act or Administrative Rules.

##### Detroit Entertainment, LLC d/b/a MotorCity Casino-Hotel (MCC)

- On 3/12/2013, the Board issued fines against a supplier licensee for the distribution of software to MCC which was not approved and was in violation of Administrative Rule 432.1842(1). Aristocrat Technologies was fined \$15,000 from previous abeyance in addition to \$45,000 for this offense.

### MGM Grand Detroit, LLC (MGM)

- On 12/19/2013, MGCB issued a warning letter to MGM for failing to have promotions with the toll-free compulsive gaming helpline telephone number on signs/posters which were displayed in the casino as per Administrative Rule 432.209(c).

### Supplier Fines

- On 3/12/13, the Board issued fines against a supplier licensee for the distribution of software to MGM which was not approved and was in violation of Administrative Rule 432.1842(1). This supplier was fined \$15,000 from previous abeyance plus \$45,000 for the instant offense.

### Horse Racing Section



The Horse Racing Section has reached the allocated staffing levels.

Horse Racing staff continues to review and rewrite the section's rules, policies, and procedures to ensure they are within horse racing standards.

<b>Summary of Horse Racing Revenue</b>	
<b>January 1, 2013, through December 31, 2013</b>	
Pari-Mutuel Simulcast Wagering Taxes	\$4,187,557
Occupational License Fees	51,770
Outs	291,763
Racing Fines	12,250
Track Licenses	800
Other Revenue	6,120
Revenue Transfers	<u>(20,146)</u>
<b>Total Horse Racing Revenue</b>	<b>\$4,530,114</b>
<b>State Tax Summary</b>	
<b>Mixed Breed</b>	
Mount Pleasant Meadows	\$ 45,024
<b>Harness</b>	
Hazel Park Harness Raceway	\$2,008,317
Northville Downs	1,653,021
Sports Creek Raceway	<u>537,519</u>
<b>Harness Totals</b>	<b><u>\$4,198,857</u></b>
<b>Total State Tax</b>	<b>\$4,243,881</b>

\*"Pari-mutuel Simulcast Wagering Taxes" include 3.5% State Racing Tax on Simulcast races, a Civil Service Assessment, and a Compulsive Gambling Assessment.

\*\* "Outs" are uncashed winning tickets. Governed by Public Act 505 of 1998, the race meeting licensee (the track) keeps 50% of the winning payout on the tickets and the other 50% is deposited into the Agriculture Equine Fund. The funds were received as revenue in 2012.

MGCB issues licenses for owners, trainers, assistant trainers, drivers, jockeys, apprentice jockeys, veterinarians, farriers, racing officials, track and association employees, grooms, stable help, vendors, corporations, partnerships, and temporary licenses for authorized access to various restricted areas of the track. There are a total of 58 licensing categories. During 2013 there were 2,203 individuals licensed who held a total of 2,632 licenses. Some licensees hold more than one license.

## **LICENSING & REGULATION DIVISION**

### **Enterprise Licensing Section**

During 2013 the Enterprise Licensing Section added several new positions, including 3 financial analysts, 2 departmental technicians, and 1 departmental manager, primarily to assist in the licensing and regulation of millionaire parties.

The Enterprise Licensing Section is responsible for the licensing function for commercial casinos, suppliers to commercial casinos, administering licensing exemptions, reviewing casino debt transactions, reviewing transfers of ownership in casino and supplier licensees, licensing related to

the millionaire party program (refer to the Millionaire Party section below for additional information), and assisting the Investigations Section with analytical review of financial documentation related to ongoing investigations.

The Act and related Administrative Rules require all gaming related suppliers and non-gaming suppliers exceeding \$300,000 of goods or services with a commercial casino to obtain a license with the MGCB. As of December 31, 2013, there were 133 active supplier licensees.

Vendor exemptions and supplier license exemptions are conditional waivers of the supplier licensing requirements of the Act and Administrative Rules. Vendor exemptions must be approved by the Executive Director and are only eligible for nongaming entities providing less than \$300,000 of goods or services to a single casino or less than \$600,000 of goods or services to multiple casinos. As of December 31, 2013, there were 1,161 entities holding a vendor exemption with MGCB. Supplier license exemptions are approved by the Executive Director for nongaming entities which are not deemed necessary to protect the public interest or accomplish the policies and purposes of the Act, including entities providing greater than \$300,000 of goods or services to the casinos. As of December 31, 2013, there were 403 entities holding a supplier license exemption.

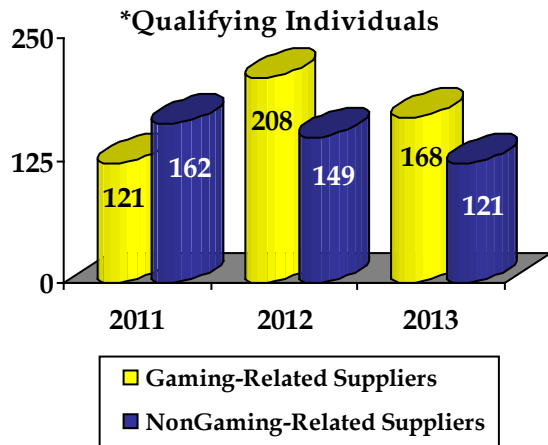
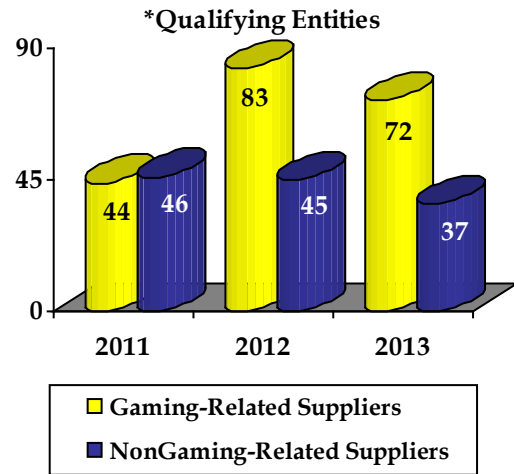
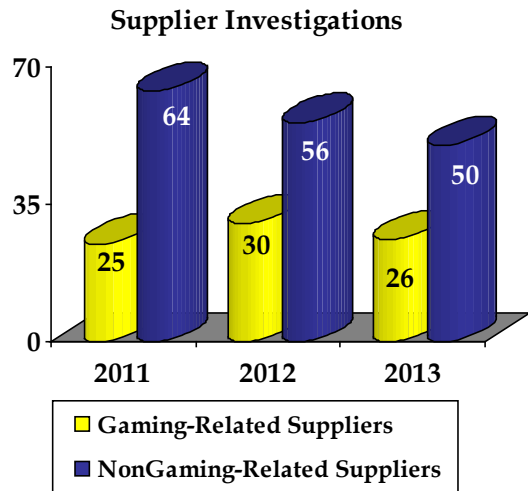
Entities Licensed or Exempt Through MGCB (As of December 31, 2013)	
Commercial Casinos	3
Licensed Suppliers	133
Supplier License Exemptions	403
Vendor Exemptions	1,161
<b>Total</b>	<b>1,700</b>

In 2013 MGCB adopted the use of the Multi-Jurisdictional Personal Disclosure Form as an alternative to the Michigan Personal Disclosure Form. This form benefits individuals who are required to submit a personal disclosure across multiple gaming jurisdictions (i.e. limiting redundancy between filings).

### **Investigations Section**

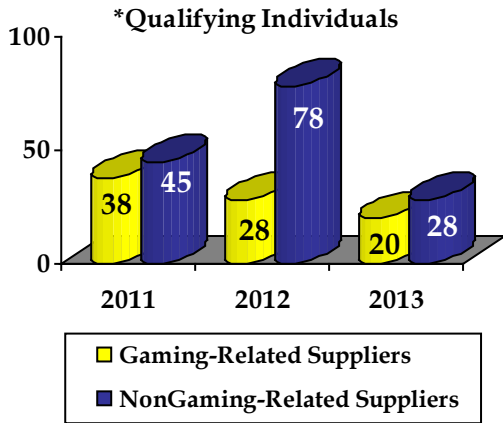
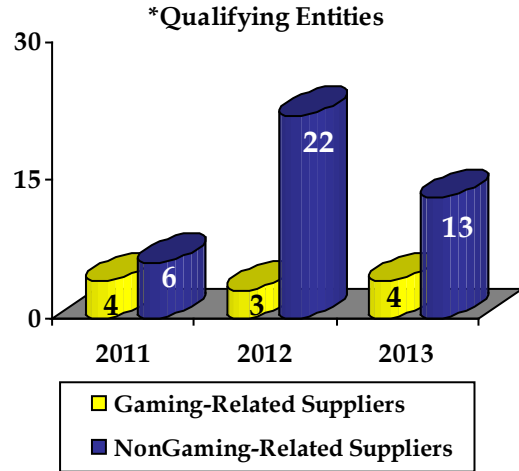
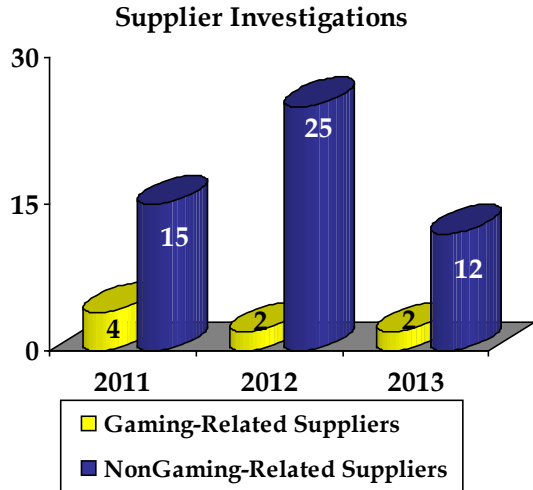
The Act requires each supplier to renew its license on an annual basis. In 2011, the policy for conducting the annual review of suppliers was updated to only require an onsite investigation every five years for the applicants, while the investigation occurs remotely for the four interim years. This policy has reduced costs associated with the renewal for the suppliers and has proved to be a more efficient and cost-saving method for MGCB to perform its annual renewal of supplier licenses.

The following Supplier Renewal Investigations were received and investigated in 2011, 2012, and 2013:



MGCB staff conducted supplier investigations within the State of Michigan and throughout the United States in 2013.

The following Initial Supplier Investigations were received and completed in 2011, 2012, and 2013. The 2013 numbers reflect the reduction in companies seeking initial supplier licensing.



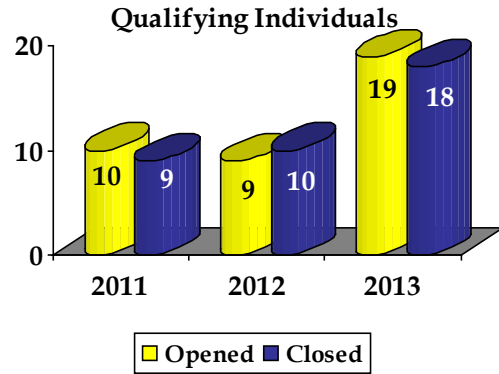
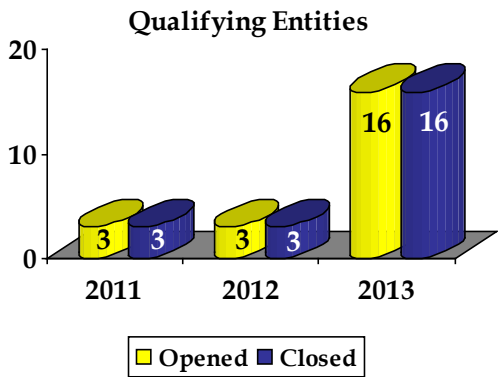
\*The Act requires the Board to investigate and determine eligibility of all applicants. These applicants are referred to as “qualifiers”. Qualifiers, persons referred to in the definition of applicant are: affiliates, affiliated companies, officers, directors, or managerial employees of the person making application and persons who hold a greater than 1% direct or indirect interest in the person making application for a license.

### Casino Licenses

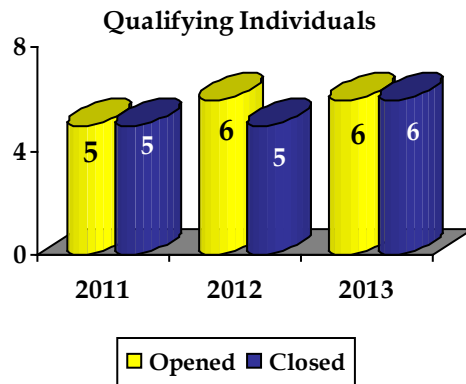
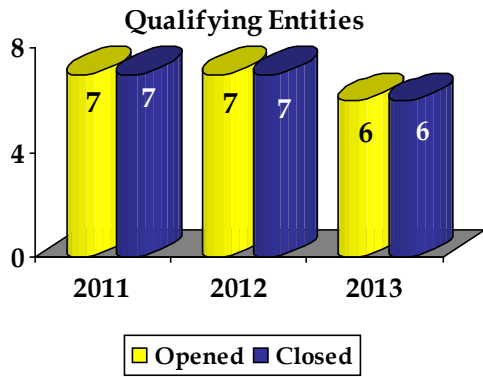
The Investigations Section conducted two casino renewal investigations and an investigation on the change in ownership of the Greektown Casino-Hotel to Athens Acquisition, LLC, wholly owned by Daniel Gilbert. This change of ownership was approved by the Board on April 9, 2013. Recommendations for approval of the three casino renewals were approved by the Board on August 13, 2013.

The three casino renewals were received and completed in 2011, 2012, and 2013 as shown below. The increase in 2013 reflects the new ownership for GTC.

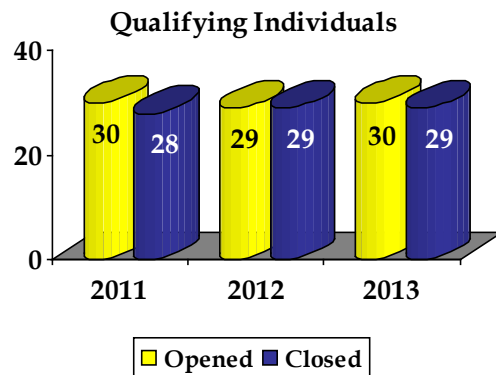
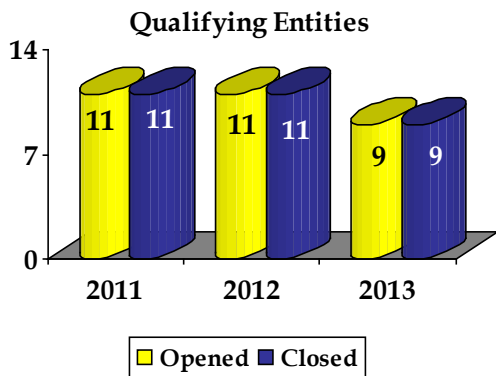
Greektown Casino, LLC (GTC)



Detroit Entertainment, LLC d/b/a MotorCity Casino (MCC)



MGM Grand Detroit, LLC (MGM)





**Employee Licensing Section**

The Detroit casinos and related suppliers employ approximately 7,000 personnel in positions requiring an occupational license. The Employee Licensing Section has successfully investigated and licensed, on average, 99 percent of those employees. The remaining employees were issued temporary licenses pending completion of a background investigation. In 2013, the Section received 4,344 occupational and renewal applications for investigation.

<b>Occupational and Renewal Applications Received in 2013</b>	
Supplier/Vendor Applications	1,298
MGM Grand Casino Applications	1,311
MotorCity Casino Applications	948
Greektown Casino Applications	787
<b>Total</b>	<b>4,344</b>

The average number of days from receipt of an occupational license application to license grant recommendation to the Board or Executive Director during 2011, 2012, and 2013 was:

	<b>2011</b>	<b>2012</b>	<b>2013</b>
Level 1 Applications	20	20	15
Level 2 Applications	18	17	18
Level 3 Applications	11	10	9

During the normal course of conducting background investigations, staff discovered licensees who had possibly filed false or unsubstantiated business losses on their income tax returns (1099). These individuals were given an option to show compliance with all tax filings, amend the tax returns, surrender their occupational license, or face sanctions from MGCB. Most individuals amended their returns and are dealing with the taxing authorities on any outstanding tax obligations. Others are currently facing administrative action against their occupational license.

The following licensing actions have been taken against occupational licensees in 2013 due to various violations of the Act and Administrative Rules:

	<b>Employee Licensing</b>	<b>Criminal Investigations</b>	<b>Enforcement Section</b>	<b>Totals</b>
Voluntary Surrenders	7	8	1	16
Voluntary Withdrawals	27	0	0	27
Warning Letters	2	4	2	8

The Employee Licensing Section purchased new fingerprinting equipment for improved optics in capturing an applicant’s prints. Due to the heightened sensitivity of the new equipment, the number of failed prints will be reduced.

Since November 2005, licensee prints have been stored in the MSP archives for purposes of alerting MGCB when a licensee has been arrested by a law enforcement agency in Michigan through a system called Rap-Back. Licensees printed prior to November 2005 were not entered in the Rap-Back system, so if they had criminal arrests after having already been fingerprinted,

individuals were not timely reporting those arrests to MGCB. Criminal history checks done during the renewal of their occupational licenses revealed felony arrests and convictions. A database check revealed 1,258 current licensees were fingerprinted prior to November 2005; we have since reprinted 1,040 of those licensees. This process will continue through fiscal year 2014 until fingerprinting of all licensees requiring new fingerprints have been completed.

**Criminal Investigations Section**

The Criminal Investigations Section (CIS) functions as a professional resource providing gaming expertise to MGCB staff as well as federal, state, county, and local agencies. The main purpose of the CIS is to investigate criminal activity related to any matter which comes under the jurisdiction and authority of MGCB or its Executive Director. The Section conducts investigations into allegations of illegal gambling which could constitute a violation of the Michigan Penal Code. In addition, the CIS also conducts regulatory and administrative investigations into matters falling under the jurisdiction of MGCB and/or its Executive Director.

In 2013 an investigator from the AG’s office was assigned to the CIS as an added investigative resource furthering the section’s ability to accomplish its mission. The following table illustrates the investigation types conducted by the CIS over the past three years.

**Investigations Conducted**

<b>Type of Activity</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Agency Assist - Criminal	2	16	25
Agency Assist – Non-Criminal	15	7	3
Vendor Related Investigations	5	15	0
Casino Related - Criminal	32	67	52
Casino Related – Non-Criminal	20	35	24
Exclusion List Candidate	11	13	14
Exclusion List Violation - Criminal	0	3	0
Horse Racing - Criminal	1	4	9
Horse Racing – Non-Criminal	0	1	13
Illegal Gambling – Criminal	3	52	59
Millionaire Party Related - Criminal	1	2	6
Millionaire Party Related – Non-Criminal	0	0	1
Pre-Employment Background Check	9	68	54
Other – Criminal	0	4	1
Other – Non-Criminal	9	1	2
<b>Total</b>	<b>108</b>	<b>288</b>	<b>263</b>

In 2011 MGCB established an anonymous tip line and email address to report illegal or suspected illegal gambling criminal activity. The following table illustrates the types of activity reported to the MGCB through the tip line over the last three years:

### Anonymous Tips Received

Type of Activity	2011	2012	2013
50/50 Raffle	3	0	0
Bingo	3	1	0
Book Making	0	3	0
Casino Related	15	19	50
Other Charitable Gaming	7	10	15
Cheating	0	1	0
Horse Racing Related	5	2	1
Illegal Gambling	26	93	85
Illegal Machines	53	45	37
Internet Gambling	14	1	0
Millionaire Party Related	0	0	25
Raffle	0	1	0
Theft / Fraud	0	5	0
Other	8	3	9
<b>Total</b>	<b>134</b>	<b>184</b>	<b>222</b>

#### Joint Investigations

In the last year, MGCB has been involved in the following activities as a result of joint investigations with partner agencies:

- Assisted in serving 6 search warrants – 4 related to internet cafés and 2 to other illegal gambling activity
- Conducted 29 undercover operations - 5 related to charitable gaming and 24 related to internet cafés
- As a result of the investigations conducted by the CIS, Section members have been subpoenaed and/or testified in circuit court, civil court, administrative hearings, and stewards' hearings
- Assisted in the service of 45 Cease and Desist Orders – 14 related to internet cafés and 31 related to online betting websites
- Conducted intelligence gathering on 40 internet cafés and 5 charities
- Conducted visual Link analysis for 4 investigations - 1 related to internet cafés, 1 related to millionaire parties, and 2 related to money laundering
- On-site inspection of 40 suspected illegal gambling machines for other agencies

#### Occupational Licensee Investigations

During 2013 the CIS conducted 60 investigations into alleged criminal violations on the part of holders of an occupational license issued by the MGCB. These particular investigations, which centered on licensee suitability, paralleled an investigation conducted by the MSP Gaming Section. As a result of these investigations, three individuals were summarily suspended, eight individuals voluntarily surrendered their occupational license, and four warning letters were issued.

## Exclusion List

The MGCB is committed to ensuring a safe environment for those who patronize the three commercial casinos in Detroit. One method for accomplishing this goal is by excluding individuals from entering any of the casinos who may adversely affect the public's confidence and trust in the integrity of casino gaming in the three Detroit commercial casinos as outlined in MCL 432.204a(1)(l). The Exclusion List, which is posted on the MGCB website, contains the names of individuals who meet the criteria for exclusion and are not allowed into any of the three Detroit commercial casinos. In 2013 the CIS completed and implemented policies and procedures for adding individuals to the Exclusion List and notifying each state licensed casino.

## Millionaire Party



Governor Rick Snyder signed Executive Order 2012-4 on April 11, 2012, transferring the licensing and regulation of millionaire parties from the Michigan Lottery (Lottery) Commissioner to the Executive Director of MGCB effective sixty days from the date of signing of the Order. In 2013 MGCB assumed its first full year of regulatory oversight. The Executive Director enforces the oversight of millionaire party events through the *Traxler-McCauley-Law-Bowman Bingo Act*, Public Act 382 of 1972 (Bingo Act).

A millionaire party is an event where wagers are placed on games of chance customarily associated with casino gaming, using imitation money or chips. The most common millionaire party poker game conducted throughout the state is Texas Hold'em poker, either tournament style or player against player. Other preferred games include Omaha, which is played player against player; and blackjack, which is player against the house. Millionaire parties are held by non-profit organizations to generate funds. The amount of cash activity from these games has grown from less than \$7.8 million in 2004 to nearly \$197.3 million in 2011.

## Qualified Organizations

Qualified organizations (commonly referred to as "charities") are defined in the Bingo Act as bona fide religious, educational, service, senior citizens, fraternal, or veterans' organizations that operate without profit to its members and either have been in existence continuously as an organization for a period of 5 years or is exempt from taxation as a 501(c).

## Millionaire Party Event Locations

Initially, millionaire party event locations were predominately at church venues, Knights of Columbus halls, Veterans of Foreign Wars halls, etc. However, charities and location owners recognized the profitability of offering millionaire party events, 365 days a year, which created gambling halls throughout the state. The overwhelming number of millionaire party events made it almost impossible for Lottery to effectively regulate. In response, Lottery implemented a moratorium on January 7, 2011, on the number of new locations and suppliers for millionaire party events. When the Executive Director assumed oversight of millionaire parties in September 2012,

the Executive Director continued to honor the moratorium in order to properly assess all aspects of the millionaire party event locations. When MGCB received oversight authority over the millionaire party program, it was found locations were not licensed and only a few locations had a licensed supplier involved. When the Executive Director received oversight, there were 74 recurring active millionaire party locations throughout the state. The majority of the locations were located in Southeast Michigan, along with the Grand Rapids and Kalamazoo areas. As of January 2014, there were 38 active recurring millionaire party locations statewide.

Suppliers

Millionaire party suppliers are licensed by the Executive Director to provide goods and services to a qualified organization. In 2013, a total of 41 entities submitted a millionaire party supplier application to MGCB. The following is the status of those applications:

21	Investigations completed and approved
9	Inactive due to withdrawal or failed to respond
7	Applications pending administrative hearings or action
2	Denied, suspended, or recommendation to not renew
2	Renewal investigations still pending

Regulation Officer Duties

MGCB regulation officers perform many duties associated with the millionaire party program, including conducting on-site and post-event inspections of the millionaire party events, and conducting interviews with charities and suppliers. Post-event inspections and interviews include, but are not limited to, reviewing game records to ensure the records are completed correctly, ensuring the charity operates its event within the guidelines of the Bingo Act and Administrative Rules, ensuring all proceeds are being deposited, and are being spent and accounted for appropriately per their bylaws, and articles of organization.

Post and On-Site Inspections

In 2013 the MGCB staff conducted 785 on-site inspections and 225 post inspections resulting in the following compliance actions:

73	Notice of Opportunity to Show Compliance (NOSC) letters issued resulting in the loss of 185 licenses to charities
119	Written Warnings issued to charitable organizations for various violations
314	Verbal Warnings issued to charitable organizations for various violations

Compliance Actions

There are 22 locations at which qualified organizations can no longer get approval to hold a millionaire party event due to various violations occurring at the location during the event. Some of the more serious violations by these locations included, but are not limited to:

- Assisting charities in the sale of more than \$15,000 of chip sales
- Removal of charity computers in order to alter sales figures

- Remotely accessing computers from an off-site location to alter sales figures
- Requesting charitable organizations obtain one-day liquor licenses in order for the location to purchase and sell beer and liquor
- Agents of the location coercing charities to give a large portion of the gross profits to location agents. If the charities refused to pay the agents, the charities would be denied date(s) to hold their millionaire party events
- Location agents booking charities, but holding the millionaire party event without charity participation on the agreement of splitting the profits of the events between the charity and location

The Executive Director also suspended the issuance of millionaire party licenses at one location for a period of 30 days. The location owner and employees had been advised of the “No chips for tips” rule, yet when regulation officers conducted an on-site inspection, they found the location dealers were still violating the rule by accepting chips for tips.

## Action Against Suppliers

### Summary Suspensions

MGCB’s ongoing investigations into various allegations relating to suppliers led to two summary suspensions as a result of various violations, including, but not limited to:

- After receiving anonymous information and conducting covert operations to verify the information, MGCB staff, in conjunction with the local police department, conducted a raid on a location on the west side of the state. The raid revealed a high-stakes gaming operation within the location. MGCB staff was able to obtain evidence from the raid, implicating the supplier as the entity sponsoring the illegal gaming. MGCB seized \$16,200 in cash, which was subsequently forfeited by the courts and turned over to the local police department. The summary suspension went to court, and an Administrative Law Judge upheld the suspension of the supplier license by the Executive Director in November 2013. Due to the summary suspension, the supplier was required to cease operations out of a second location which they operated in Southeast Michigan.
- A Complaint for Revocation against a supplier was filed in late 2013. After the complaint was filed and a court date was set, a Summary Suspension Order was issued against the supplier in December 2013 for the following reasons:
  - Providing false information to the Executive Director
  - Encouraging and assisting charities in exceeding the \$15,000 sales limit
  - Engaging in counting, distributing, handling, selling, or redeeming chips
  - Receiving, handling, or counting cash
  - Collecting the house rake
  - Paying out cash prizes
  - Paying millionaire party workers
  - Completing millionaire party game records and financial statements

The summary suspension is currently pending court action.

Revocations

The Executive Director initiated the revocation process against one supplier for the following reasons:

- Board staff issued an NOSC to a supplier for violation of the Bingo Act, Section 432.111b(10), which states: "...a person who is directly or indirectly connected to the sale of...millionaire party equipment...shall not be involved directly or indirectly with the rental or leasing of a facility used for an event." The renewal investigation of the supplier's license application found evidence the supplier was paying two locations approximately \$150,000 a year for the use of their facility. A two-day administrative hearing was held and the case is pending the Administrative Law Judge's decision.

In relation to the closing of locations and summary suspensions of suppliers, 115 licenses issued to various charitable organizations, scheduled to hold millionaire party events at one of the closed locations, were surrendered voluntarily by the charitable organizations.

Licensing Activity

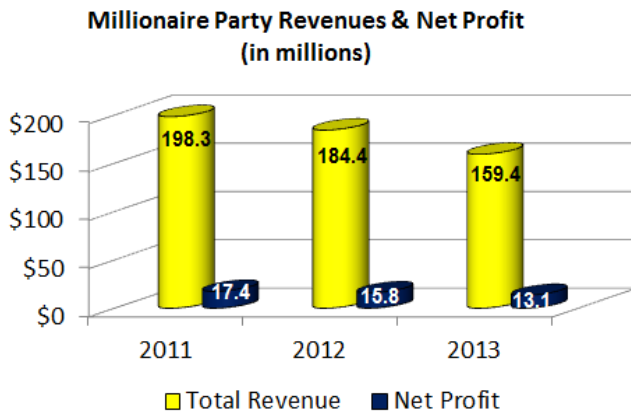
For calendar year 2013, there was a total of 5,339 millionaire party licenses issued, compared to 7,218 in 2012, representing a 26% reduction year over year. A significant portion of this reduction is attributed to enforcement action taken against some millionaire party locations and suppliers which were in violation of the law.

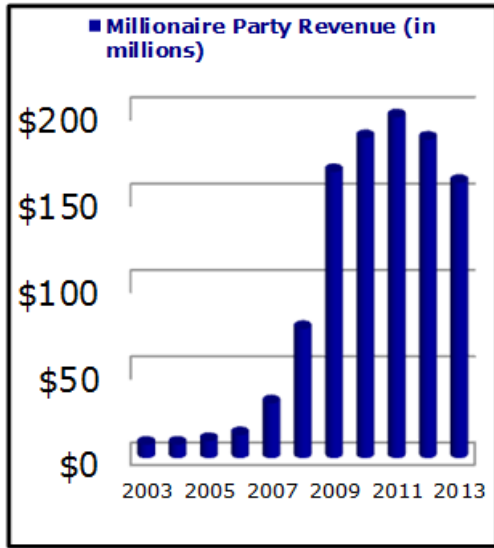
Financial data self-reported by charitable organizations supports the following estimated annual financial results of the millionaire party program for calendar year 2013:

Revenue.....	\$159,362,986
Net Profit.....	\$ 13,070,994

Financial data self-reported by charitable organizations supports the following estimated annual financial results of the millionaire party program for calendar year 2012:

Revenue.....	\$184,349,052
Net Profit.....	\$ 15,799,022





Millionaire Party Revenue (in millions)	
2003	7.8
2004	7.8
2005	9.9
2006	13.3
2007	31.7
2008	74.8
2009	165.6
2010	185.3
2011	197.3
2012	184.4
2013	159.4

In 2004, a new directive allowed Texas Hold'em to be played at millionaire parties.

In 2011, a moratorium was put in place restricting new millionaire party locations and suppliers.

The reduction in millionaire party revenue in 2013 is largely attributed to compliance actions taken against suppliers and the closure of locations involved in violations of the law.

#### Qualified Organizations & Event Days

	2007	2008	2009	2010	2011	2012	2013
Qualified Organizations	1,491	1,968	3,183	2,939	2,720	2,537	1,993
Licenses Issued	2,822	4,029	8,140	8,217	7,894	7,218	5,339
Party Event days	6,138	14,020	32,005	29,964	29,212	27,119	18,997

#### Millionaire Party Rules Changes Proposed

Section 113 of the Bingo Act (MCL 432.113) gave the Michigan Lottery Commissioner the authority to promulgate administrative rules. Executive Order 2012-4 transferred the Commissioner's authority to license and regulate millionaire parties to the Executive Director of MGCB.

In 2013 MGCB proposed new Administrative Rules to the Bingo Act to ensure millionaire party events are conducted in a manner to ensure fair and honest gaming. The proposed Administrative Rules were drafted after the Executive Director and MGCB staff conducted over 100 inspections and met with licensed suppliers, qualified organizations, trade groups, and individual legislators.

The proposed Administrative Rules are designed to regulate qualified organizations that are permitted to conduct millionaire parties. The proposed Administrative Rules also license and regulate suppliers of millionaire party equipment. The Administrative Rules previously governing the licensing and regulation of millionaire parties in the State of Michigan are obsolete and inconsistent with the intent of the Bingo Act.



The proposed Administrative Rules are designed to ensure proper regulation of this public gaming and provide sufficient protection to the public, qualified organizations, and suppliers participating in these events.

Below is the noted progress in 2013:

September 9, 2013 - Request for Rulemaking (2013-088 TY) was approved by the Office of Regulatory Reinvention (ORR)

October 28, 2013 - Proposed Draft Rules 432.101 *et. seq.* were approved by ORR and Legislative Services Bureau (LSB)

October 31, 2013 - Joint Committee on Administrative Rules held a meeting for the MGCB to present background on the proposed draft Administrative Rules

November 15, 2013 - Michigan Register issue number 20 published proposed draft Administrative Rules

November 22, 2013 - Public Hearing was held to receive views and comments on the proposed Administrative Rules

December 31, 2013 – Executive Director reviewed and addressed 43 verbal and 681 written public comments on the proposed Administrative Rules



## Minors and Compulsive Gambling

### ANNUAL UNDERAGE AND COMPULSIVE GAMING STUDIES

Section 15(2) of the Act, MCL 432.215(2), requires that each casino licensee conduct an annual study on minors and compulsive gaming. Section 15(1) of the Act further requires MGCB include certain information regarding minors on casino premises, which each licensee must compile as part of their annual study. The following is a summary chart of the required information compiled and reported by each of the three Detroit commercial casino licensees in their respective annual studies on minors and compulsive gaming for calendar year 2013:

#### Casino Licensees' Reported Contacts with Minors on Licensed Casino Premises During Calendar Year 2013

	MGM Grand	MotorCity	Greektown
1. Minors denied entry into the casino	2,471	9,736	860
2. Minors escorted from the casino premises	588	0	8
3. Minors detected participating in gambling games other than slot machines	1	3	7
4. Minors detected using slot machines	3	1	1
5. Minors taken into custody by a law enforcement agency on the casino premises	20	0	7
6. Minors detected illegally consuming alcohol on the casino premises	4	0	2

## **Board Revenues and Expenditures**

### **STATE SERVICES FEE FUND**

Section 432.212a of the Act provides all casino-related regulatory and enforcement costs, compulsive gambling programs, and other casino-related programs, activities, and services conducted by MGCB, the MSP, AG's office, MDCH, and other state agencies shall be paid from annual fees assessed on the three Detroit casino licensees. Under the Act, each casino is required to pay an annual assessment fee on or before the date on which the licensee first began operating its casino and each year thereafter on that date. The amount of each licensee's annual assessment is equal to 1/3 of \$25,000,000 adjusted annually by multiplying the previous year's assessment by the Detroit consumer price index, as defined and reported by the United States Department of Labor, Bureau of Labor Statistics. Based on this formula, each of the three Detroit casinos were assessed and paid a total of \$32,993,894 for calendar year 2013 and \$32,564,508 for fiscal year 2013.

From the annual assessment fees paid each year by the licensees, \$2,000,000 must be deposited in the State of Michigan's Compulsive Gaming Prevention Fund. Up to \$1,040,000 may be distributed annually to the Domestic Violence and Treatment Board administered by the Department of Human Services. The remaining \$960,000 is to be used exclusively for the treatment, prevention, education, training, research, and evaluation of compulsive gamblers and their families, as determined by the director of the MDCH.

### **APPLICATION AND LICENSE FEES, FINES, AND COSTS**

MGCB is authorized by the Act to collect various license application fees to fund MGCB's cost of conducting required background investigations of applicants for casino, supplier, and occupational licenses. After an applicant is determined eligible and suitable for licensure, the Act authorizes MGCB to assess and collect license fees for both the initial issuance and subsequent renewals of casino, supplier, and occupational licenses. In addition to application and license fees, the Act authorizes MGCB to order reimbursement of investigative costs and to impose fines as disciplinary actions to penalize violators of the Act or Administrative Rules of the Board. MGCB collected application and license fees and other authorized fees, fines, and reimbursement of costs totaling \$2,495,015 for calendar year 2013, and \$2,434,205 for fiscal year 2013.

### **NATIVE AMERICAN CASINO FUND**

The Indian Gaming Oversight program was originally established within the Office of Racing Commissioner, Department of Agriculture. The Governor of Michigan officially designated and authorized the Executive Director of MGCB and his designees, agents, and employees as the State of Michigan's representative to conduct the State's authorized inspections of tribal Class III gaming facilities and records, pursuant to and in accordance with the provisions of the various Tribal-State Compacts for the conduct of tribal Class III gaming on Indian lands in Michigan. Oversight responsibilities include conducting financial and compliance audits of the tribal casino's operations to determine the extent of compliance with the Tribal-State Gaming Compacts and related Consent Judgments. Board members of MGCB have no oversight role or authority over the Tribal-State Gaming Compacts. Within each of these compacts, it is outlined that the tribe

shall make annual payments to the State to fund the costs incurred for carrying out functions authorized by the terms of the compacts.

Subject to certain exclusivity provisions, the Tribal-State Compacts and related consent agreements stipulate a percentage of annual net win, derived from all Class III electronic games of chance, are to be paid to the Michigan Strategic Fund (MSF) or Michigan Economic Development Corporation (MEDC). The MEDC provides funding to the Board for oversight related to these payments.

## **LAB FUND**

Administrative Rule 432.1842 of the Act provides that all gaming devices and equipment distributed to a casino licensee must be approved by the Board prior to being placed on the gaming floor of the Detroit casinos. It further provides the manufacturer or distributor of the equipment is required to pay the cost of testing. The lab has an established fee schedule for payments of various testing which is designed to fund the costs associated with testing.

## **EQUINE DEVELOPMENT FUND (HORSE RACING)**

Per Executive Order 2009-45 the Office of the Racing Commissioner and the position of Racing Commissioner were abolished and those functions were transferred to the Executive Director of MGCB. All powers, duties, and functions of regulating live horse racing were placed with the Executive Director effective January 17, 2010. Board members of MGCB have no authority or role in regulating live horse racing. Prior to Executive Order 2009-45, the Office of Racing Commissioner was a Type-I agency under the Michigan Department of Agriculture. Executive Order 2009-54 maintains the authority, powers, duties, and functions under Section 20 of the *Horse Racing Law of 1995*, Public Act 279 of 1995, MCL 431.320 (Equine Development Fund) within the Michigan Department of Agriculture effective March 15, 2010. These Executive Orders gave regulatory authority of racing to the Executive Director, but the funding of this function is still retained by the MDARD.

## **STATE LOTTERY FUND (MILLIONAIRE PARTY)**

Per Executive Order 2012-04 the licensing and regulation of charitable millionaire party gaming was transferred from Lottery to the Executive Director of MGCB. This Executive Order transferred the licensing and regulatory authority of millionaire party under the Bingo Act to the Executive Director of MGCB, however the funding of this function is still retained by Lottery through the State Lottery Fund. All fees collected by MGCB in connection with Millionaire Party are remitted for deposit into the State Lottery Fund and all necessary expenses incurred by MGCB will be financed from the State Lottery Fund. Regulation of other forms of charitable gaming such as bingo and raffles will remain with Lottery.

## **BOARD STATEMENT OF REVENUES AND EXPENDITURES**

Section 432.215(1) of the Act requires MGCB's Annual Report include an account of financial position and the results of operations under the Act, for the period covered by the report. While MGCB, like other state agencies, operates on a fiscal year (October 1 – September 30) basis, the Act requires MGCB's Annual Report be based on the calendar year. To give a more comprehensive account of financial position and the results of operations, the following financial statement reports MGCB's revenues and expenditures for both calendar year and fiscal year 2013.

## **Statement of Revenues and Expenditures**

*(In Thousands)*

<b>REVENUES</b>	<u>Fiscal Year 2013</u>	<u>Calendar Year 2013</u>
<b>State Casino Gaming Fund</b>		
Casino and supplier fines	\$195.0	\$195.0
Other	0.0	0.0
<b>State Services Fee Fund</b>		
Annual assessments	32,564.5	32,993.9
Application fees:		
Casinos	154.1	156.8
Suppliers	207.1	194.5
Occupational	140.4	153.9
Vendors	26.8	34.6
License fees:		
Casinos	75.0	75.0
Suppliers	610.0	655.0
Occupational	352.4	349.9
Vendors	71.0	66.4
Other fees:		
Badge replacement fees	5.5	5.5
Other	0.1	0.1
<b>Native American Casino Fund</b>		
Oversight fees	802.5	754.8
Other	-	-
<b>Lab Fund</b>		
Testing fees	596.8	608.3
<b>Total Revenues</b>	<b>35,801.2</b>	<b>36,243.7</b>
<b>EXPENDITURES</b>		
<b>State Services Fee Fund</b>		
Board	13.4	13.8
Administration	17,732.1	17,438.8
Information technology	1,630.6	1,603.9
<b>Native American Casino Fund</b>	666.7	678.8
<b>Lab Fund</b>	589.7	587.6
<b>State Lottery Fund</b>	2,501.9	2,619.2
<b>Equine Development Fund</b>	1,877.4	1,860.6
<b>Total Expenditures</b>	<b>\$25,011.8</b>	<b>\$24,802.7</b>

## **Statement of Revenues and Expenditures (cont.)**

(In Thousands)

<b>OTHER FINANCING SOURCES (USES)</b>	<b><u>Fiscal Year 2013</u></b>	<b><u>Calendar Year 2013</u></b>
<b>Transfers From Other Funds:</b>		
Department of Agriculture	1,889.8	1,889.8
Michigan State Lottery	2,543.3	2,769.9
<b>Total Transfers From Other Funds</b>	<b>4,433.1</b>	<b>4,659.7</b>
<b>Transfers To Other Funds:</b>		
<b>State Services Fee Fund</b>		
Department of Community Health	(960.0)	(960.0)
Department of Human Services	(1,040.0)	(1,040.0)
Michigan Office of the Auditor General	(1,152.4)	(1,152.4)
Department of Treasury	(300.3)	(300.3)
Michigan State Police	(11,252.6)	(11,252.6)
Department of Agriculture	-	-
Department of Civil Service	(165.0)	(165.0)
<b>Native American Casino Fund</b>		
Department of Civil Service	(6.9)	(6.9)
<b>Lab Fund</b>		
Department of Civil Service	(7.1)	(7.1)
<b>State Lottery Fund</b>		
Department of Treasury	(39.5)	(39.5)
Department of Civil Service	(1.9)	(1.9)
<b>Equine Development Fund</b>		
Department of Civil Service	(12.5)	(12.5)
<b>Total Transfers To Other Funds</b>	<b>(14,938.2)</b>	<b>(14,938.2)</b>
<b>Total Other Financing Sources (Uses)</b>	<b>(10,505.1)</b>	<b>(10,278.5)</b>
<b>Excess of Revenues and Other Sources over</b>		
<b>(under) Expenditures and Other uses</b>	<b>\$284.3</b>	<b>\$1,162.5</b>

**Footnotes:**

1. Approval for calendar year presentation was received from the Department of Management and Budget, Office of Financial Management.
2. Governmental fund types are accounted for using the modified accrual basis of accounting.
3. Fiscal year presentation reconciles to published State of Michigan Comprehensive Annual Financial Report (CAFR).



## Casino Revenues and State Wagering Taxes

### STATE CASINO WAGERING TAX

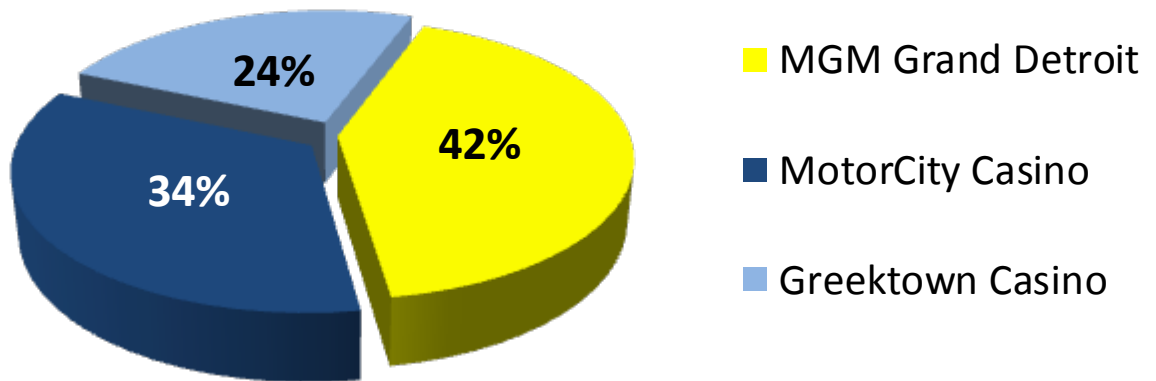
Section 432.212 of the Act imposed an 8.1% State Wagering Tax on the adjusted gross receipts received by each Detroit casino licensee from casino gaming authorized by the Act. The Act defines “adjusted gross receipts” as being the licensee’s gross gaming receipts less winnings paid to wagerers. The 8.1% is deposited in the State’s School Aid Fund to provide additional funds for K-12 public classroom education. Public Act. 306 of 2004 amended the original Act.

In calendar year 2013, the combined 8.1% State Wagering Taxes paid by the three Detroit casino licensees and deposited in the School Aid Fund totaled \$109,309,797.

The following is a monthly and annual summary of the adjusted gross receipts and State Wagering Tax payments for the three Detroit casinos for calendar year 2013:

### Detroit Casino Adjusted Gross Receipts

**\$1,349,503,669**



# CALENDAR YEAR ADJUSTED GROSS RECEIPTS AND STATE WAGERING TAXES DETAIL

Calendar Year 2013

	MGM GRAND		MOTORCITY CASINO		GREEKTOWN CASINO		DETROIT CASINOS	
	Total Adjusted Revenue	State Wagering Tax (8.10%)	Total Adjusted Revenue	State Wagering Tax (8.10%)	Total Adjusted Revenue	State Wagering Tax (8.10%)	Total Adjusted Gross Receipts	Total State Wagering Tax
January	\$ 45,053,238	\$ 3,649,312	\$ 35,104,652	\$ 2,843,477	\$ 26,014,039	\$ 2,107,137	\$ 106,171,928	\$ 8,599,926
February	\$ 46,465,031	\$ 3,763,667	\$ 38,280,264	\$ 3,100,701	\$ 26,554,877	\$ 2,150,945	\$ 111,300,172	\$ 9,015,314
March	\$ 54,317,934	\$ 4,399,753	\$ 45,753,509	\$ 3,706,034	\$ 34,689,130	\$ 2,809,820	\$ 134,760,574	\$ 10,915,606
April	\$ 48,995,130	\$ 3,968,606	\$ 39,735,196	\$ 3,218,551	\$ 31,309,702	\$ 2,536,086	\$ 120,040,027	\$ 9,723,242
May	\$ 48,326,081	\$ 3,914,413	\$ 39,604,093	\$ 3,207,932	\$ 28,589,982	\$ 2,315,789	\$ 116,520,156	\$ 9,438,133
June	\$ 41,794,972	\$ 3,385,393	\$ 35,431,762	\$ 2,869,973	\$ 26,630,622	\$ 2,157,080	\$ 103,857,357	\$ 8,412,446
July	\$ 51,507,666	\$ 4,172,121	\$ 34,639,219	\$ 2,805,777	\$ 26,177,227	\$ 2,120,355	\$ 112,324,111	\$ 9,098,253
August	\$ 47,374,526	\$ 3,837,337	\$ 38,690,226	\$ 3,133,908	\$ 26,833,700	\$ 2,173,530	\$ 112,898,452	\$ 9,144,775
September	\$ 45,258,505	\$ 3,665,939	\$ 35,689,062	\$ 2,890,814	\$ 25,392,634	\$ 2,056,803	\$ 106,340,201	\$ 8,613,556
October	\$ 46,324,033	\$ 3,752,247	\$ 35,088,107	\$ 2,842,137	\$ 24,912,775	\$ 2,017,935	\$ 106,324,915	\$ 8,612,318
November	\$ 46,441,530	\$ 3,761,764	\$ 39,522,041	\$ 3,201,285	\$ 25,877,473	\$ 2,096,075	\$ 111,841,043	\$ 9,059,124
December	\$ 44,954,708	\$ 3,641,331	\$ 36,806,201	\$ 2,981,302	\$ 25,363,825	\$ 2,054,470	\$ 107,124,734	\$ 8,677,103
<b>TOTAL</b>	<b>\$ 566,813,353</b>	<b>\$ 45,911,882</b>	<b>\$ 454,344,330</b>	<b>\$ 36,801,891</b>	<b>\$ 328,345,986</b>	<b>\$ 26,596,025</b>	<b>\$ 1,349,503,669</b>	<b>\$ 109,309,797</b>





This Annual Report was not produced at taxpayer expense.

[www.michigan.gov/mgcb](http://www.michigan.gov/mgcb)