



Minnesota Gambling Control Board

Suite 300 South
1711 West County Rd B
Roseville, MN 55113
651-639-4000

December 29, 2004

Mr. James Nobles
Office of the Legislative Auditor
658 Cedar Street
Centennial Office Building – 140
St Paul, MN 55155

Dear Mr. Nobles:

Thank you for the opportunity to respond to your evaluation report involving the regulation of gambling in Minnesota. Please extend my thanks to your staff for their thorough analysis and hard work to complete this evaluation. The evaluation pertaining to the responsibilities of the Gambling Control Board covered a wide range of issues involving lawful (charitable) gambling and confirms the complexity of regulating this huge, cash-based industry.

The report supports the Gambling Control Board's efforts for maintaining the integrity and security of the games but also recognizes the limited oversight of the licensed charitable organizations. A concern of the Board and supported by your evaluation, is the limited resources available for regulatory oversight of lawful gambling. The recommendations in your report will help facilitate changes and foster discussions with the Legislature involving the focus of responsibilities for regulating lawful gambling in Minnesota.

Many of the recommendations identified in the report have already been acted on or included in the Board's legislative initiatives for consideration during the 2005 session. The Board is also aggressively moving forward this fiscal year with the implementation of a new information system that will improve efficiencies for compliance review and licensing of non-profit organizations.

Again, thank you for your efforts and the constructive recommendations in the report.

Sincerely,

/s/ Tom Barrett

Tom Barrett
Executive Director



MINNESOTA RACING COMMISSION

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December 28, 2004

Mr. James R. Nobles
Legislative Auditor
100 Centennial Office Building
658 Cedar Street
St. Paul, MN 55155

Dear Mr. Nobles,

The Minnesota Racing Commission sincerely appreciates the work of the staff of the Office of the Legislative Auditor. Throughout this engagement, your staff conducted themselves with a high degree of professionalism and respect toward Commission staff in recognizing the importance of our activities regarding these forms of gaming.

In response to the recommendations contained in the report, there is nothing here that surprises us. All of the recommendations have at one time or another been discussed by staff and in some cases have been documented as needs of this Commission.

For instance, the recommendation regarding streamlining our licensing procedures has been a desire of mine for about the last three to four years when we became aware that the FBI was moving toward electronic scanning of an individual's fingerprints. As your staff knows, that is now online. We have been informed, by the Alcohol and Gambling Enforcement Division of the Department of Public Safety, that as of next August they will be able to process scanned fingerprints. We will need to purchase the necessary scanning equipment and have included that as an initiative for the Governor's '06-'07 Biennial Budget.

The recommendation regarding expanding the oversight of the card club can be responded to by saying that we have done the best that we were and are able to under the funding restraints that have been in place during the two previous biennia. Five years ago when we began working on the racetrack's plan of operation we did not hire additional personnel at that time and have not added staff since. The public policy on spending during that time was to hold the line on spending, and that meant all spending, not just the general fund. Commission staff does maintain a limited presence in the surveillance room, reviews daily report logs of both surveillance and security, and reviews players' pool promotional proposals. We have not performed a recent test of card room procedures. A review of the plan of operation and its internal controls was done during 2001. With the popularity of poker increasing enormously over the past two years, there

is a need to increase our staffing in this area. That recommendation will be pursued with the Commission.

Passage of the card club legislation has accomplished exactly what the Legislature intended; that the horse racing industry be improved by improving purses. However, in that regard we have not focused on the need to periodically have Commission staff perform an audit of the purse account as there are other indicators that would disclose any potential problems with the racetrack's management of this account. For instance the racetrack and the Minnesota Horsemen's Benevolent and Protective Association (HBPA) annually negotiate, during the fall, their contract for the next live race meet, which includes purses. At no time has that process been brought to the Commission alleging that there may be a problem or irregularity in purse amounts. As well, as required by the card club legislation, we annually review the card club financial reports with the racetrack and members of the Board of Directors of the HBPA to be sure that the card club revenues are being used for the purpose intended by the Legislature. Those meetings have not disclosed any problems with the purse account management or amounts. Those meetings are based on the audited financial report that must be provided to the Commission on an annual basis. Those audit reports have not disclosed any problems or questions regarding the management of the purse account. But having said that, I can understand where this recommendation is coming from and will work with current Commission staff in developing periodic audit procedures and reporting to satisfy that recommendation.

The recommendation regarding tote reliability and improving technology use falls entirely outside the capability of the Commission's current staff. We do not have on staff a trained, professional information technologist. To acquire that capability, the Commission will need additional staff resources to implement this recommendation.

Much like Powerball, simulcasting of races from other racetracks is a multi-state game. In that regard we rely on our colleagues in other states to assist us in assuring the integrity of racing and pari-mutuel betting. Many of those state commissions have more staff and more technology staff to review the tote standards and security.

The two recommendations regarding automatic downloading of tote information and eliminating the redundancy of data entry for the pari-mutuel auditing system and the breeders' fund system have been discussed many times by me and other Commission staff. To accomplish these goals will require a significant programming effort that we are not capable of doing nor have we had the financial resources available for this effort. In our Strategic Information Resources Management Plan that was submitted to the Office of Technology in April, 2001, we did include the updating and integration of the pari-mutuel system and the breeders' fund system at a cost estimated at \$20,000-\$25,000. So this is an enhancement that we have been and remain aware of but funding has been the hurdle to overcome. It would be appreciated by us if the Auditor's Office could assist us in pursuing the possibility of perhaps sharing with another small agency the services of trained, professional information systems specialist or manager.

Soon, these recommendations will be discussed with the Commission to gain their insights for recommendation and resolution. I feel confident that their expectations as to the regulatory oversight have been met despite the financial and staffing limitations that we have endured over the past biennia. But, we will need support from the Legislature to adequately satisfy all of the recommendations.

Again I want to express my appreciation to you and your staff in the work that you have done and the approach that was taken. This report will hopefully support enhancements to our regulatory and enforcement oversight thereby furthering our ability to accomplish the goals of the pari-mutuel horse racing law and the card club law.

With Sincerest Regards,

/s/ Richard G. Krueger

Richard G. Krueger
Executive Director

c: Racing Commission Members



January 3, 2005

Mr. James Nobles, Legislative Auditor
Office of the Legislative Auditor
Centennial Building, Room 140
St. Paul, Minnesota 55155

Dear Mr. Nobles:

Thank you for the opportunity to respond to your evaluation report: "Gambling Regulation and Oversight." We appreciate the hard work and analysis that went into this report.

The report recognizes the complexity of the subject matter and the extensive and comprehensive measures undertaken by the Lottery to ensure the security and integrity of lottery games. While the report sets forth a few recommendations directed to the Lottery, none of them reflects adversely on the Lottery's efforts to ensure the integrity and security of its games.

The Lottery agrees with three of the recommendations in the report directed to the Lottery and has already begun implementation. The Lottery has implemented procedures to ensure that the results of security tests conducted on Scratch Games by an independent laboratory are reported in writing to the Lottery prior to the launch of that game, and that Lottery personnel follow adopted written procedures relating to Scratch Game ticket testing. Further, a comprehensive information security audit is currently being conducted on the Lottery's information systems and annual audits will be conducted hereafter.

As to the last recommendation directed to the Lottery, the Lottery currently conducts criminal history checks in Minnesota on all retailers which provides some assurance that retailers do not have a criminal history. While the OLA believes that national checks should be used to ensure that the Lottery meets the intent of the law by providing a more thorough assurance that a retailer does not have a criminal history, to expand this check nationwide is not cost-effective and would have no appreciable effect on the security of lottery games. First, unlike persons licensed by the Gambling Control Board and the Racing Commission who can directly affect the integrity of their games, retailers selling lottery tickets pose little or no threat to the integrity or security of any game. Second, to conduct national checks on the owners and officers of each of the more than 3,000 retailers selling lottery tickets in Minnesota would cost the Lottery in excess of \$250,000 a year (with comparable costs on the part of individual retailers), with little or no benefit to the integrity and security of lottery games.

Again, we would like to thank you for the opportunity to comment on this report.

Sincerely,

A handwritten signature in cursive script that reads "Clint Harris".

Clint Harris
Executive Director

MINNESOTA DEPARTMENT OF PUBLIC SAFETY



Office of the Commissioner

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December 29, 2004

Mr. James Nobles
Legislative Auditor
Office of the Legislative Auditor
Room 140, Centennial Office Building
658 Cedar Street
St. Paul, MN 55155

Dear Mr. Nobles:

Thank you for your thoughtful and thorough review of the Alcohol and Gambling Enforcement Divisions (AGED) work relating to casino oversight, division resources and background and criminal investigations. The Department appreciates the legislature's interest in the delicate balance of gambling oversight and enforcement throughout Minnesota.

Since the inception of AGED, we have worked to fulfill our statutory obligations to the citizens of the state by keeping lawful forms of gambling fair and vigorously investigating those individuals trying to illegally profit from gambling. As evidenced by the absence of any major controversies, the historical growth of the industry and the financial resources allotted in 1989, we believe that AGED has done a good job.

However, your report does identify some areas of concern and we appreciate the recommendations you have made. AGED has already begun developing a comprehensive strategy for casino oversight and will develop a standardized casino inspection that better uses the authorities afforded us by the gaming compacts. AGED has also initiated a meeting of the Gambling Control Board, Lottery and Racing Commission for the purpose of developing the policies and procedures relating to the administration of criminal investigations.

The audit recommendation to move from generalist agents to specialized agents will be implemented as it is more consistent with other divisions within the Department of Public Safety.

We appreciate your recognition of the need for enhanced training of the division's agents and for the recommendation to the legislature to allow us to directly bill all licensees or vendors for the full cost of background investigations.

Thank you for the opportunity to review the *Gambling Regulation and Oversight Report*. The Department of Public Safety will work to fully and completely implement the constructive recommendations and the identified procedural changes.

Sincerely,

/s/ Michael Campion

Michael Campion
Commissioner

Alcohol &
Gambling
Enforcement

Bureau of
Criminal
Apprehension

Capitol Security

Driver & Vehicle
Services

Emergency
Management/
Emergency
Response
Commission

Office of
Homeland
Security

Office of Justice
Programs

State Fire
Marshal/
Pipeline Safety

State Patrol

Traffic Safety