

Alcohol and Gambling Enforcement Division

SUMMARY

The Minnesota Department of Public Safety's Alcohol and Gambling Enforcement Division (AGED) is the only state agency with authority to oversee the state's Indian casinos, although that authority is limited. Overall, the division's inspections of slot machine and blackjack gambling at the state's 18 casinos have not revealed significant compliance problems. However, the division does not make effective use of its inspection authority, so its judgments regarding casino game compliance are based on limited information.

Limitations in the scope of the state's oversight authority and shortcomings in AGED inspections are mitigated by regulation by tribes and the federal government. We recommend that the division fully exercise its inspection authority and expand its casino-related staffing. The division also contributes to oversight of legal gambling by conducting background and criminal investigations, but AGED does not use its investigative resources as strategically as it could. The division could make its background investigation resources go farther by assessing risk and being more flexible in determining the scope and depth of investigations. The division could better target its criminal investigation resources by working with the state's other gambling regulatory agencies to establish criminal investigation priorities and protocols for handing off the right cases at the right time.

The Minnesota Department of Public Safety's Alcohol and Gambling Enforcement Division (AGED) plays multiple roles in the state's regulation of gambling. It implements Minnesota's oversight authority under tribal-state gambling compacts, conducts background investigations of businesses and individuals engaged in the gambling industry, and investigates criminal gambling allegations.

This chapter addresses the following questions:

- **To what extent does the Alcohol and Gambling Enforcement Division effectively exercise its casino oversight authority?**
- **How well does the Alcohol and Gambling Enforcement Division fulfill its roles related to background and criminal investigations?**
- **What opportunities exist to use the division's resources more strategically?**

To answer these questions, we interviewed AGED managers and staff, officials of the other state regulatory agencies that routinely interact with the division, counsel from the Minnesota Attorney General's Office, the U.S. Attorney for Minnesota, and officials from the National Indian Gaming Commission's regional office with jurisdiction over Minnesota. We reviewed tribal-state slot machine and blackjack compacts and associated amendments and observed a casino slot machine inspection. We analyzed available AGED data on casino inspections, background investigations, and criminal investigations. Finally, we visited 5 Indian casinos operated by 4 of Minnesota's 11 tribes.¹ We interviewed tribal leaders, casino managers, and casino regulators to discuss (1) tribes' obligations and actions as primary casino regulators and (2) their opinions regarding the strengths and weaknesses of AGED oversight.

This chapter is divided into two sections. In the first, we discuss the extent of AGED's oversight of Indian casinos; the interaction of federal, state, and tribal oversight; and issues related to compact technical amendments. In the second section, we discuss background and criminal investigations. Recommendations are included at the end of the chapter.

CASINO OVERSIGHT

Minnesota's 11 Indian tribes have primary responsibility to regulate the casinos they operate.

Indian casinos operate in a complicated regulatory environment that involves multiple layers of oversight and a comprehensive set of industry standards designed to protect against cheating, theft, and organized crime. Guidance for how casinos are operated and regulated comes from several sources, including: (1) federal laws and regulations, (2) tribal laws, (3) tribal-state compacts, and (4) tribe-specific policies and procedures. In general, casino oversight involves monitoring compliance with laws, compact terms, and internal control standards. As illustrated in Table 5.1, internal controls are work practices intended to minimize the risk of problems that affect the integrity of casino gambling or loss of casino assets. Internal controls provide both the structure for day-to-day casino operations and criteria for oversight.²

Minnesota's Indian tribes are both the owners of gambling enterprises and their primary regulators. As casino owners, tribes hire casino management teams who are, in turn, responsible for day-to-day operation of the casinos, including implementation of internal controls. As regulators, tribes implement oversight policies and procedures to serve as a check on casino management. In some Minnesota tribes, the tribal council serves as the gambling regulatory authority; other tribes have established separate regulatory commissions.

¹ Because they are sovereign nations, our office does not have jurisdiction over Minnesota's Indian tribes. However, four tribes volunteered to participate in our evaluation—the Bois Forte Band of Chippewa, Mille Lacs Band of Ojibwe, Prairie Island Indian Community, and Upper Sioux Community. We visited both of the casinos operated by the Mille Lacs Band of Ojibwe.

² National Indian Gaming Commission regulations (25 *CFR*, Part 542 (2002)) establish minimum internal control standards for Indian casinos, but tribes may apply internal controls that exceed federal requirements.

Table 5.1: Sample Casino Internal Control Standards

Internal Control Category	Sample Standards
Playing Cards	Playing cards shall be maintained in a secure location to prevent unauthorized access and to reduce the possibility of tampering.
Chip and Token Standards	The tribal gaming regulatory authority, or the gaming operation as approved by the tribal gaming regulatory authority, shall establish and the gaming operation shall comply with procedures for the receipt, inventory, storage, and destruction of gaming chips and tokens.
Blackjack Supervision	Pit supervisory personnel (with authority equal to or greater than those being supervised) shall provide supervision of all table games.
Slot Machine Jackpot Payouts and Fills	For jackpot payouts and gaming machine fills, documentation shall include the following information: (1) date and time; (2) machine number; (3) dollar amount of cash payout or gaming machine fill; and (4) signatures of at least two employees verifying and witnessing the payout or gaming machine fill.
Slot Machine Auditing and Accounting	For online gaming machine monitoring systems, procedures shall be performed at least monthly to verify that the system is transmitting and receiving data from the gaming machines properly and to verify the continuing accuracy of the coin-in meter readings as recorded in the gaming machine statistical report.

SOURCE: National Indian Gaming Commission, Minimum Internal Control Standards, 25 CFR, Part 542 (2002).

States are secondary regulators of Indian casinos, with the terms of the state role established in tribal-state compacts. Minnesota's compacts designate the Department of Public Safety as the state oversight authority. Within the Department of Public Safety, the state's responsibilities are assigned to AGED. These responsibilities include: (1) inspecting casinos for compliance with compact terms, (2) negotiating technical amendments to the compacts,³ and (3) conducting criminal history checks on casino employees and applicants. Our evaluation focused primarily on how AGED has used its inspection authority.

The primary purpose of state oversight is to verify compliance with tribal-state gambling compacts.

State Casino Inspections

Casino inspections are the primary means through which the state directly observes casino operations. The state's oversight authority is bound by Minnesota's tribal-state compacts, which are limited to certain aspects of slot machine and blackjack gambling.⁴ However, the compacts allow a fairly broad range of inspection activity. For example, the video slot machine compact grants the following inspection authority:

³ Only certain sections of the compacts are subject to technical amendment.

⁴ The state does not, for example, have authority over casino hospitality operations, bingo or pull-tab gambling, or most casinowide management practices.

The tribal-state compacts allow the state's Alcohol and Gambling Enforcement Division (AGED) access to a broad array of information for its inspections of slot machine and blackjack gambling.

Agents of the Department of Public Safety of the State of Minnesota ... shall have the right to gain access, without notice during normal business hours, to all premises used for the operation of video games of chance, or the storage of video games of chance or equipment related thereto, and may inspect all premises, equipment, records, documents, or items related to the operation of video games of chance in order to verify compliance with the provisions of this compact.⁵

The state has parallel rights of inspection relative to blackjack equipment and the play of blackjack games.⁶

In addition to requiring independent testing of all slot machines acquired by Minnesota tribes, the compacts specify rules of play for video slot machines and blackjack, which serve as criteria for AGED inspections. For video slot machines, the compact spells out hardware requirements (for example, the computer component that controls game play must be secured using specified procedures) and software requirements (for example, the minimum and maximum payout percentages for different types of games). Similarly, the blackjack compact establishes staffing and surveillance requirements along with rules of game play, including procedures for shuffling, dealing, and wagering.

Because site inspections are the primary means through which AGED conducts its compact compliance activities, our work focused on how AGED conducts inspections and what they have revealed. We found that:

- **Overall, state inspections have not revealed significant compliance problems at Minnesota casinos.**

However:

- **The Alcohol and Gambling Enforcement Division does not make effective use of its inspection authority, so its judgments regarding compliance and game integrity are based on limited information.**

Over the past five years, AGED's casino oversight activity has focused primarily on inspecting individual slot machines. These inspections revealed few problems that affected game play or payouts to winners. But, given the extent of AGED's inspection authority, the division's focus on individual slot machines is too narrow. Overall, AGED's approach to casino inspections does not result in well-justified, documented decisions regarding compact compliance.

AGED Casino Inspections

AGED agents inspect casinos relatively infrequently. According to AGED officials, the division's goal is to visit each casino four times per year, but they have not met this goal. As shown in Table 5.2, AGED makes, on average, about

⁵ *Tribal-State Compact for Control of Class III Video Games of Chance*, Section 4.4; <http://www.dps.state.mn.us/alcgamb/gamslcmp.html>; accessed August 24, 2004.

⁶ *Tribal-State Compact for Control of Class III Blackjack*; Section 4.4; <http://www.dps.state.mn.us/alcgamb/gambjcom.html>; accessed August 24, 2004.

Table 5.2: Casino Site Inspections by Minnesota State Gambling Enforcement Agents, FY 2000-04

Tribe and Casino	Number of Site Inspections					Total
	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	
Bois Forte Band of Chippewa Fortune Bay	3	4	3	3	3	16
Fond du Lac Band of Chippewa Black Bear	4	4	4	4	3	19
Fond du Luth	3	4	3	3	2	15
Grand Portage Band of Chippewa Grand Portage	3	4	3	3	2	15
Leech Lake Band of Ojibwe Northern Lights	4	4	3	2	1	14
Palace	3	4	3	3	1	14
White Oak	n/a ^a	2	2	1	2	7
Lower Sioux Community Jackpot Junction	0	0	3	2	0	5
Mille Lacs Band of Ojibwe Grand Casino Hinckley	2	3	1	1	1	8
Grand Casino Mille Lacs	2	2	2	1	1	8
Prairie Island Indian Community Treasure Island	0	1	0	2	1	4
Red Lake Band of Chippewa Seven Clans – Red Lake	2	1	2	3	2	10
Seven Clans – Thief River Falls	3	4	4	4	1	16
Seven Clans – Warroad	3	4	3	3	2	15
Shakopee Mdwakanton Sioux Community Mystic Lake	1	1	1	2	1	6
Little Six	0	0	0	0	0	0
Upper Sioux Community Prairie's Edge	1	1	2	2	2	8
White Earth Band of Chippewa Shooting Star	<u>3</u>	<u>4</u>	<u>5</u>	<u>3</u>	<u>1</u>	<u>16</u>
All Casinos	37	47	44	42	26	196
Average Number of Site Inspections per Casino	2.2	2.6	2.4	2.3	1.4	10.9

NOTES: According to the Department of Public Safety, department data may undercount the number of site inspections at Jackpot Junction, Treasure Island, Mystic Lake, Little Six, and Prairie's Edge because the department inadvertently destroyed some computerized records for inspections at these casinos. The Upper Sioux Community later provided updated data from its inspection records for the Prairie's Edge Casino, which are reflected in the table.

^aNot applicable because the White Oak Casino opened in fiscal year 2001.

SOURCE: Office of the Legislative Auditor analysis of Alcohol and Gambling Enforcement Division inspection records.

On average, AGED has inspected each casino about twice per year.

two site visits per year per casino.⁷ These site visits—most of which were unannounced—were generally of three types: slot machine inspections, blackjack inspections, or inspections of select internal control procedures, such as those governing access to slot machine keys. Most AGED inspections focus on slot machines, although not every casino received a slot machine inspection every year. In addition, the number of slot machines inspected is a very small proportion of the machines on casino floors. AGED agents generally test three to seven slot machines per inspection. In fiscal year 2004, AGED inspected about 118 of an estimated 20,000 slot machines in operation, or less than 1 percent of the total.



In most inspections, AGED agents identified only minor compliance problems related to slot machine technical standards. AGED agents test for several things when inspecting a slot machine, all of which relate to specific requirements included in the video slot machine compact. They check that: (1) the slot machine's computer and back-up mechanical meters properly record money inserted and paid out,⁸ (2) the casino's computer system properly records when someone opens the slot machine to access its internal compartments, (3) the internal compartment that holds the machine's computer is properly secured, (4) the slot machine's computer program is the correct one, and (5) the slot machine's prize payout percentage is within the compact limits. As shown in Table 5.3, about one quarter of slot machines inspected over the past five fiscal years have been found to be out of compliance with one or more of these requirements. About two-thirds of the noncompliant machines were cited because a mechanical back-up meter failed. According to AGED officials and the slot machine technicians we interviewed, mechanical meters routinely wear out during the course of slot machine play. As a result, maintaining mechanical meters is an ongoing challenge. Most of the remaining compact compliance problems were noted because the casino's computer system did not properly record when the slot machine door was open. This problem usually occurs because of a faulty switch in the slot machine door.

Most inspections focus on slot machine compliance and have identified only minor compliance problems.

Neither problem—mechanical meter or door switch malfunction—directly affects play of the game or proper payout of winnings. According to AGED and tribal

⁷ According to AGED officials, these data may underestimate inspection activity because some inspection records maintained on a laptop computer were inadvertently destroyed. AGED does not have a central, uniform database of casino inspections and results, so it did not have a backup of the lost data. We compiled inspection data from numerous sources: the available computer records, letters to casinos reporting the inspection results, letters from casinos indicating that a compliance problem had been fixed, and other documents provided by AGED.

⁸ Every video slot machine in Minnesota must have mechanical back-up meters. These meters function like the odometer on an automobile. For example, when a coin or bill is inserted into a slot machine, the coin-in meter logs the value of the coins or bill. When credits won are cashed out, the coin-out meter logs the coins taken from the machine.

Table 5.3: Slot Machine Inspection Results, FY 2000-04

	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	Total
Types of Noncompliance						
Mechanical Meter Failed	21	32	23	23	27	126
Monitoring System Did Not Record Open Slot Machine Door	5	5	4	11	20	45
Logic Control Compartment Not Secured	6	1	2	0	1	10
Reason Unknown	0	0	5	0	0	5
Other ^a	<u>1</u>	<u>0</u>	<u>1</u>	<u>3</u>	<u>0</u>	<u>5</u>
Total Instances of Noncompliance	33	38	35	37	48	191
Total Slot Machines Inspected	129	166	127	169	118	709
Total Slot Machines With at Least One Instance of Noncompliance	31	37	32	31	42	173
Percentage of Slot Machines Noncompliant	24%	22%	25%	18%	36%	24%

NOTE: An inspected slot machine may have had more than one failure.

^a“Other” includes finding a revoked computer program, inability to test the computer program, and a casino's failure to provide requested information.

SOURCE: Office of the Legislative Auditor analysis of Alcohol and Gambling Enforcement Division information on inspection results.

Neither one of the most common slot machine compliance problems affects game play or payout.

officials, slot machine money-in and money-out activity is recorded in three places: on a casino computer network; in the slot machine's internal, computerized meter; and on the mechanical meter. As a result, in normal circumstances, the casino has two other sources of information regarding slot machine activity if a mechanical meter fails.⁹ Failure of the computer system to record when a slot machine door has been opened affects the casino's ability to monitor unauthorized access to the slot machines. However, casinos have other procedures in place to monitor access to slot machines' internal compartments, including surveillance, a light on top of the slot machine that flashes when the door is open, and monitoring by patrons and employees who work on the casino floor.

Blackjack inspections, though infrequent, have also revealed few problems. For fiscal years 2000-04, about 21 percent of AGED site visits included an inspection of blackjack game play. As with inspections of slot machines, the frequency of blackjack inspections has not been consistent, with some casinos going several years without blackjack reviews. For a blackjack inspection, AGED agents observe game play and check that the proper number of supervisors is present. According to our review of inspection records, over the past five fiscal years, AGED agents identified one instance of game play noncompliance and three instances in which a casino needed an additional supervisor in the blackjack pit.

⁹ Some casino and tribal officials said they would prefer that mechanical meters not be required because they wear out so often. Others, however, thought that a back-up meter not dependent on electricity was useful even with the frequent malfunctioning.

The scope of AGED casino inspections is too narrow.

The division has access to more information than it uses.

Use of Inspection Authority

One of our chief concerns regarding the casino inspection process is that the scope of AGED inspection activities is too narrow, particularly for slot machine gambling. Although the tribal-state compacts allow AGED access to relevant documents and records, AGED has generally limited itself to physical inspections of slot machines. We agree with AGED that it should concentrate its efforts on slot machines because they account for the vast majority of casino gambling activity. However, threats to the integrity of slot machine operations extend beyond the functioning of individual machines, and the division's judgments regarding compact compliance should consider a broader array of information.

Under the compacts, AGED has access to many information sources to make such assessments, including relevant casino information systems, casino financial and internal control audits, compliance data from tribal regulatory authorities, and AGED's own observations and assessment of slot machine play. The tribal officials we interviewed said that their tribes would provide ready access to this information during AGED site visits, but with a few exceptions, AGED has not asked for it.

By not fully using these resources, AGED is not operating as effectively as it could. For example, because slot machines operate on networked computer systems, relying only on tests of individual slot machines is both an inefficient and insufficient way to get an accurate picture of how slot machines are functioning casino-wide. Using the slot machine information system, casinos can easily monitor and analyze data on slot machine play and payout for individual machines *and* for the system as a whole. These systems can generate reports on a daily basis showing payout percentages for every slot machine on the casino floor and can identify slot machines operating outside of expected norms (e.g., an unusual number of coin refills in a day or a payout percentage deviating by more than a few percentage points from the manufacturer's settings).¹⁰ Although AGED uses information system data to some extent when it inspects individual slot machines, the division does not use these data to systematically assess slot machine compliance.

Furthermore, AGED does not pay sufficient attention to other aspects of slot machine and blackjack gambling. At most of the casinos in fiscal year 2002, AGED conducted inspections that focused on select internal controls, such as access to slot machine keys and disposal of old decks of cards. According to the resulting inspection



¹⁰ During our casino visits, tribal officials told us that casino managers, internal auditors, and tribal regulatory authorities obtain and analyze these data continually to assess slot machine operations. Among other uses, for example, officials said casinos on a daily basis reconcile slot machine information system meter data on money inserted and paid out with accounting department data.

reports, AGED found most controls to be sound, but identified some areas at certain casinos where changes needed to be made, including tighter security over access to keys. Tribal officials that we interviewed reported that the internal control inspections were more useful than AGED's normal inspections, but since 2002, AGED has not repeated them. In addition, AGED does not check tribes' compliance with other aspects of the compact, including requirements for background checks and licensing.

Compact Regulatory Standards for Slot Machines

During our evaluation, AGED officials raised concerns that the compact standards are out of date. As discussed earlier, the hardware and software technical requirements in the video slot machine compacts are key criteria for state oversight of slot machine gambling. But, AGED officials said that many of these requirements do not reflect the technology used in slot machines currently being produced because slot machine technology has changed substantially since the compacts were originally signed nearly 15 years ago. As a result, the division believes that the technical standards for new slot machine models are unclear. AGED managers want the Commissioner of Public Safety and tribes to use the technical amendment process to adopt new hardware and software standards that reflect those currently used in the industry.¹¹

The tribal officials we interviewed generally did not see an urgent need for technical amendments. The officials said that before their tribes purchase slot machines built with a new technology, they ensure that an independent laboratory has certified the machines for use in Minnesota and that tribal regulators are trained on how they operate. Tribes said that, as a result, the slot machines they buy comply with the compacts and can be tested to ensure proper functioning. Although tribal officials said they would consider certain technical amendments, they argued that if AGED agents had training on the new technology similar to that of tribal regulators, AGED would have fewer concerns.

Because casinos operate in a shared regulatory environment, it is in the best interests of the state and tribes to reach a mutual understanding on the issues in dispute. Whether agreement is reached through common training, technical amendments, or both is an issue for AGED and tribal leaders to resolve.

Regulation by Tribes and Other Agencies

Because AGED serves in a secondary oversight role, we felt it was important to understand, to the extent possible, how tribes and other oversight authorities ensure the integrity of slot machine and blackjack gambling. According to AGED officials, the division has always relied on an understanding that casino regulation is an interrelated system that crosses many governmental jurisdictions—primarily the tribes, but also the federal Interior, Treasury, and Justice departments, among others. As a result, the impact of limitations in state oversight is balanced by tribal or federal regulatory authority. For example, although AGED does not

¹¹ AGED is concerned, for example, about new slot machines for which substantial game functions are controlled by a computer network server, not a stand-alone computer within the slot machine itself. The current compacts, as amended, are silent regarding regulatory standards for this type of technology.

The state and tribes disagree on whether the compacts' technical standards for slot machines need to be amended.

verify compliance with the compacts' background check and licensing requirements, at the casinos we visited, the National Indian Gaming Commission (NIGC) has assessed compliance with similar federal and tribal requirements. Our work on the effectiveness of other jurisdictions' oversight was limited, but based on our review of the laws and rules governing Indian casino oversight and interviews with tribal, state, and federal regulators, we found that:

- **Regulation of Indian casino gambling by tribes and the federal government mitigates limitations in state oversight authority.**

Taken together, we believe that tribal, state, and federal government agencies provide comprehensive oversight of Indian casinos.

For example, the four tribes that participated in our review had multi-layered controls and regulatory mechanisms in place to protect the integrity of games. Throughout our visits, tribal officials and casino managers emphasized that the integrity of casino gambling rests on designing and implementing strong internal control procedures for all aspects of casino gambling—from receiving a new slot machine on the loading dock to specifying the number and types of employees who must be present when a slot machine is opened. Casino managers have day-to-day responsibility for implementing these procedures, and tribal regulators are responsible for testing and reporting on the procedures' effectiveness.

In addition to enacting industry internal controls, the tribes we visited had also established oversight policies and procedures. For example, two of the four tribes that participated in our study have separate units of tribal government in charge of casino regulation; the other two have compliance officials who report directly to the tribal council. Generally, these gaming regulatory authorities make licensing decisions, monitor and report on casino compliance with policies and procedures, recommend changes to procedures, and have authority to issue directives to casino managers. In some cases, casino surveillance staff work for the regulatory authority rather than for casino management. In addition, some tribes have internal audit departments that scrutinize all tribal-owned businesses. In all cases, tribal officials said that they take compliance seriously.

Minnesota casinos are also subject to other external oversight and reviews that evaluate the effectiveness of tribal oversight. For example, the NIGC, through its regional office in St. Paul, conducts regular site reviews of casino operations. These reviews are generally targeted at one or two specific areas, such as employee background checks or handling of cash. According to NIGC officials, the commission has few concerns regarding Minnesota casino operations and thinks tribal regulation in this state is generally sound. In addition, casinos must have annual, independent financial and internal

Taken together, tribal, state, and federal governments provide comprehensive oversight of Indian casinos.



control compliance audits conducted by certified public accounting firms. Along with oversight by the U.S. Interior and Justice departments, the U.S. Department of the Treasury and the Internal Revenue Service also impose significant regulatory requirements and provide external oversight in their areas of interest, which include reporting of suspicious activity and large cash transactions. Tribal officials told us that the Internal Revenue Service regularly audits their casinos.

INVESTIGATIONS

In addition to overseeing casinos, AGED conducts two distinct types of gambling-related investigations: (1) in-depth background investigations of businesses and certain individuals involved in Minnesota's gambling industries and (2) law enforcement investigations regarding allegations of criminal misconduct.¹² AGED does both types of investigations for its own areas of direct oversight and on behalf of the other state gambling regulatory agencies.

Background Investigations

AGED conducts background investigations of businesses involved in Minnesota's legal gambling industries.

Background investigations provide gambling regulators with detailed information relevant to an applicant's suitability for licensing, including criminal history, regulatory history, and other conduct. By law, AGED conducts background investigations on (1) the manufacturers and distributors of gambling devices that it licenses directly; (2) businesses licensed by or under contract with the other three state regulatory agencies, such as the Lottery's online games vendor and the pari-mutuel "tote" company licensed by the Racing Commission; and (3) certain individuals involved in the conduct or regulation of gambling, such as the directors of the gambling regulatory agencies.¹³ AGED generally conducts about six to eight background investigations each year, most of which are of businesses.

Based on our review of AGED investigation procedures and reports and interviews with AGED investigators and officials from the other regulatory agencies, we found that:

- **AGED background investigations are generally very thorough, but some take too long.**

AGED investigators use a standard approach to conducting background investigations, though each investigation proceeds according to the applicant's circumstances and the issues or concerns that are uncovered. For example, an investigation for a small business owned and operated by one or two individuals will be quite different from an investigation of a multinational corporation. As illustrated in Table 5.4, investigations are generally broad in scope and quite

¹² Background investigations discussed in this section differ materially from the routine criminal history checks referred to in Chapters 2-4. Casinos, the Racing Commission, the Lottery, and the Gambling Control Board routinely request arrest and conviction records, which are considered when making hiring, licensing, and contracting decisions. For these criminal history checks, AGED is an intermediary, forwarding requests to the state's Bureau of Criminal Apprehension and, for national criminal history checks, to the Federal Bureau of Investigation.

¹³ *Minn. Stat.* (2004), §§299L.02 and 299L.07.

Table 5.4: Elements of Background Investigations for Businesses

Process	Description
Obtain license application and background investigation query form and request documents	<p>On the application and query form, applicants provide, among other things, information on gambling licenses in other jurisdictions, involvement in allegations of criminal violations related to gambling, banking institutions, and lists of key personnel.</p>
Identify individuals who will be investigated and request documents	<p>AGED agents submit a standard document request, which generally includes the following information for the past five years:</p> <ul style="list-style-type: none"> • Financial information, including check registers or disbursement ledgers, a list of wire transfers, cash receipt and disbursement journals, expense or accounts payable journals, year-end general ledgers, fixed asset and expense payable invoices, and a list of all persons with bank account signature authority • Business relationship information, including letters of intent, contracts, or other agreements between the business and banking institutions; lease agreements; private placement agreements; and consulting contracts • Customer and vendor lists • Corporate minutes, shareholder meeting minutes, and minutes from all internal meetings related to gaming • Listing and brief description of all litigation pending • All correspondence, internal memoranda, letters of engagement, management letters, etc., between the business and its audit firms • Expense reports, corporate credit card statements, and employment contracts for individuals included in the investigation (see below) <p>Individuals subject to investigation generally include owners or shareholders holding 5 percent or more of the company, board members, the chief executive officer, president, chief operating officer, and chief financial officer (typically six to eight people).</p>
Conduct interviews	<p>From these individuals, AGED agents collect personal history statements, statements of net worth, state and federal tax returns, personal check registers, bank statements, and fingerprints.</p> <p>AGED agents conduct personal interviews with individuals being investigated and, as needed, other officers and employees, auditors, attorneys, and federal or state law enforcement and regulatory agency personnel.</p>
As needed, investigate further and make additional document requests	<p>AGED agents further investigate the business, as needed, through contacts with other gambling or financial regulatory agencies, attorneys, audit firms, etc.</p> <p>AGED agents request additional documentation if interviews or initial document review reveal areas of concern or previously undisclosed issues.</p>

SOURCE: Office of the Legislative Auditor compilation from Alcohol and Gambling Enforcement Division license application and background investigation documents.

On average, background investigations take about a year to complete, but some have taken considerably longer.

detailed. The investigation steps and information requested at each stage are derived from the licensing criteria established in law for manufacturers and distributors that AGED licenses directly, but the other regulatory agencies apply similar licensing criteria.¹⁴ For example, when deciding whether to grant a license, AGED must assess whether an applicant or one of its key employees makes false statements, has had a gambling-related license revoked in another state, has been convicted of a felony, or has engaged in conduct found to be contrary to the integrity of gambling or that poses a threat to effective regulation. Thus, the background investigation should be structured to support this decisionmaking. According to AGED agents, to thoroughly investigate all aspects of a business (and the six to eight key employees generally included in an investigation) requires sifting through hundreds of documents, including complex financial reports; conducting site visits and interviews; and following up on potential problems.

Background investigations of this nature are time-consuming, but some background investigations have taken too long. On average, an investigation takes about a year to complete, but other investigations have taken significantly longer. For example, the Lottery requested an investigation of its new online game vendor (GTECH) in July 2002 but did not receive the investigation report until March 2004. The background investigation for Autotote, Canterbury Park's pari-mutuel "tote" company, was done in two phases. The original investigation took about a year-and-a-half; the second phase, initiated after another company acquired Autotote, took an additional 10 months. AGED acknowledged that the GTECH investigation took too long because the division did not direct enough attention or resources to the investigation to get it done more quickly. According to AGED, the Autotote investigation took longer because of a variety of complexities, including the Racing Commission's request for additional work, international travel to investigate a new foreign owner, concerns regarding the parent company's involvement in Internet gambling, and conflicts with the Racing Commission regarding the investigation process. One consequence of long investigations is that businesses can work in the gambling industry for extended periods of time without a completed background investigation.

In general, AGED prefers to err on the side of expansive background investigations.

A variety of factors contribute to the length of background investigations, some within and some outside of the division's control. The division's philosophy is to err on the side of expansive background investigations, which contributes to their complexity and length. AGED agents said that they choose to cast a wide net when conducting background investigations because they cannot rely on applicants to self-disclose possible problems. As a result, agents must sift through original documentation and personally conduct interviews. Also, as a matter of policy, AGED agents do not rely on the work of other states' regulatory agencies, although they use the results of other states' investigations as "pointers" for Minnesota's investigation. In general, AGED officials believe that a mistake resulting from a too-narrowly scoped background investigation or reliance on other states' investigations could have serious consequences for the public's trust in the integrity of gambling in Minnesota. While we agree that background investigations should provide a sufficient basis for licensing decisions,

¹⁴ *Minn. Stat.* (2004), §§240.06; 240.07; 240.08; 299L.07; 349A.07; and 349.155. Licensing criteria used by the Gambling Control Board, Racing Commission, and Lottery are discussed in Chapters 2, 3, and 4, respectively.

investigators should exercise reasonable judgment in defining the scope and depth of an investigation.

The duration of an investigation is also influenced by factors outside of AGED's control.

AGED staffing decisions also affect timeliness. For the most part, three special agents conduct background investigations on a part-time basis, balancing background investigations with criminal investigations and other division work. Delays in starting an investigation and diversion of staff during an investigation also contribute to long turnaround times. AGED officials said that background investigations are balanced against other workload needs, and that some investigations were slow to start or were temporarily suspended because agents were needed on higher priority work.

However, the duration of an investigation is also heavily influenced by factors that AGED is less able to control, including: (1) how quickly the applicant and individuals being investigated respond to requests for information, (2) the time it takes to schedule necessary personal interviews, and (3) the extent of new information requests and follow-up required if something unusual surfaces during the investigation. Although the average investigation takes about a year, the direct staff time per investigation averages about 165 hours, or a little over a month. So, much of the investigation's duration can be explained by wait time. AGED could be more aggressive in scheduling the necessary investigation steps and could potentially change its staffing policies, but investigations would likely continue to stretch over several months.

Criminal Investigations

AGED special agents are the state law enforcement officers who investigate illegal gambling and criminal allegations associated with legal gambling. Gambling-related criminal complaints are referred to AGED by the other gambling regulatory agencies or come directly from organizations that conduct gambling, citizens, and other law enforcement offices. Our review focused primarily on criminal investigations related to legal gambling.

AGED does not have the resources to investigate every gambling-related criminal allegation.

As shown in Table 5.5, AGED's criminal caseload has grown over the past five fiscal years. About half of the division's cases are related to illegal gambling, and roughly 30 percent involve charitable gambling crimes. (Most theft-related cases are associated with charitable gambling.) Investigations of crimes related to horse racing, the card club, and casinos are much less prevalent, and AGED does not investigate Lottery-related crimes, such as stolen tickets, because the Lottery generally refers its cases to local law enforcement agencies. Over the past five years, AGED data show that roughly 8 percent of gambling-related cases resulted in arrests.

AGED does not have the resources to investigate every potential criminal gambling case and must balance competing priorities in choosing which cases to pursue. According to AGED, to best use its resources, the division tries to focus on (1) the most serious allegations and (2) those cases with the best chance of prosecution and conviction. For cases referred from the other gambling regulatory agencies, AGED agents like to get involved relatively early to ensure that the investigation proceeds in a manner that protects suspects and supports criminal prosecution.

Table 5.5: Gambling-Related Criminal Investigation Cases Opened, FY 2000-04

	Number of Investigations Opened					Total	Percentage of Total
	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004		
Illegal Gambling	62	80	102	105	103	452	48.4%
Theft or Theft-related ^a	42	35	18	19	35	149	16.0
Charitable Gambling	5	14	33	40	32	124	13.3
Casino	4	9	10	4	6	33	3.5
Card Club	2	7	3	6	3	21	2.2
Horse Racing	0	0	2	1	2	5	0.5
Case Referred to Other Jurisdiction	3	10	6	5	3	27	2.9
Miscellaneous ^b	<u>12</u>	<u>31</u>	<u>26</u>	<u>30</u>	<u>24</u>	<u>123</u>	<u>13.2</u>
Total	130	186	200	210	208	934	100.0%

^aTheft cases are most often related to charitable gambling.

^bOf all miscellaneous cases, about 77 percent were cases in which gambling enforcement agents provided miscellaneous assistance and advice to other agencies, and the remaining 23 percent were divided equally among cases opened to install a surveillance camera and cases involving falsifying or destroying documents (including falsifying license applications).

SOURCE: Office of the Legislative Auditor analysis of Alcohol and Gambling Enforcement Division investigation case data.

We did not evaluate how AGED agents conduct criminal investigations; rather, we assessed how cases are referred to AGED and prioritized. We found that:

- **The process for transferring criminal cases from other gambling regulatory agencies to AGED is not always effective; in some instances, the division is not getting involved early enough in case development or focusing on the highest priority cases.**

The Gambling Control Board and Racing Commission refer criminal cases to AGED, but this hand-off process does not always go smoothly.¹⁵ The issue is particularly relevant to the Gambling Control Board, which makes most of the regulatory agencies' case referrals. Over the past several years, AGED and the Gambling Control Board have disagreed over which cases to hand off and when. According to AGED agents, regulatory agency investigators sometimes held on to cases because they viewed hand-off to AGED as optional. According to the Gambling Control Board, though, board investigators continued to develop possible criminal cases because, once referred, AGED did not work the cases promptly. AGED agrees that it often has a backlog of cases that are not being actively investigated.

Timely involvement of law enforcement officers has important consequences when prosecuting cases. According to AGED officials, the proper time to move a case from the regulator's jurisdiction to criminal jurisdiction is when it has gone far enough to demonstrate criminal activity, but before the case involves investigation steps, such as interviewing suspects, that are important in building a criminal case for court and protecting suspects' rights. An investigation that proceeds according to criminal case standards can later be used as the basis for

¹⁵ The Lottery does not transfer cases to AGED; instead, it works directly with local law enforcement offices and county attorneys.

Timely referral of cases from the Gambling Control Board to AGED has been a problem.

regulatory action, but material learned through civil investigation often cannot be used in criminal prosecutions.

Prioritizing cases for criminal investigation is another ongoing challenge. Because evaluating complaints to determine whether to open an investigation uses AGED staff resources, it is important that other gambling regulatory agencies refer cases that are most likely to lead to investigations. In general, the division wants to focus its criminal investigations on the most serious crimes (that is, possible felony cases should receive a higher priority than misdemeanor cases). According to AGED, the Gambling Control Board refers many lower-level cases that, from a resource perspective, the board should handle. For example, holding a non-permitted or otherwise illegal raffle is a misdemeanor, but it is unlikely that AGED will pursue it as a criminal case. Both AGED and the board would resolve the case in the same way—with a phone call to the organization that held the illegal raffle informing the organization of the law and stating the offense should not be repeated. Hence, illegal raffle cases of this nature should rarely be referred to AGED for evaluation.

AGED and the other gambling regulatory agencies do not have written protocols to guide which criminal cases should receive highest priority.

The Gambling Control Board, Racing Commission, Lottery, and AGED do not have written protocols to guide appropriate transfer of cases to AGED, although historically, the Lottery has referred its criminal cases to local law enforcement offices and county attorneys. Currently, prompt and appropriate case referrals result most often when there is a good relationship between an AGED special agent and an investigator at another agency. Ideally, AGED agents would—across regulatory agencies—like to hear informally about any allegation that looks criminal and then direct the next steps, including which cases to hand off to AGED and when.

Although most AGED agents specialize in certain forms of gambling, they do not regularly work out of the other agencies' offices, which impedes this type of informal, routine communication. AGED staff assignments at Canterbury Park are an exception. AGED assigns staff weekly to monitor the Canterbury Park card club, but their occasional presence does not provide meaningful oversight. AGED agents are assigned on a weeklong, rotating basis. The assigned agent generally visits the card club for several hours, two to three times during the week. The agent looks through the Canterbury Park surveillance logs, may talk with surveillance personnel to get more information on incidents of interest, and occasionally checks in with the Racing Commission. However, agents have varying levels of interest and expertise in card club operations, contributing to an inconsistent AGED oversight presence. In addition, the nature of the oversight—relatively short and sporadic periods of time during a week—make it difficult for AGED agents to provide meaningful oversight. For example, Racing Commission and Canterbury Park surveillance personnel believe that AGED agents systematically review surveillance logs for recurring problems and trends. In reality, the extent of analysis of these logs depends on which agent is assigned to the card club that week. In our opinion, AGED's presence at the card club could be useful. However, the division needs to assign the responsibility primarily to one or two agents (rather than rotating it among all special agents), and those agents need to have a more substantive presence at Canterbury Park.

STRATEGIC USE OF RESOURCES

AGED's role in gambling oversight is a unique blend of law enforcement and regulatory work, and we recognize the difficulties the division faces in balancing its various responsibilities, particularly in a time of tight state budgets. Nevertheless, we found that:

- **AGED does not use its resources as strategically as it could.**

AGED needs to use a risk-based approach to better target its casino inspections and background investigations.

The division does not have well-articulated strategies to target its casino oversight activities. As discussed earlier, AGED has chosen to focus its inspection resources on testing of individual slot machines (and occasional observations of blackjack play). We think the division could, across the board, more fully utilize its authority. However, given limited resources, the division needs to be strategic in its inspection approach by tailoring its inspection activities to each casino's unique circumstances and by using available information to its best advantage. For example, as discussed earlier, the division could get a clearer picture of slot machine compliance by better using data from casinos' slot machine management systems.

AGED could also use a more risk-based approach in conducting background investigations. As we said earlier, we agree that background investigations must provide enough information on which to comfortably base licensing or contracting decisions; however, the goal of regulation is not to eliminate risk, but to minimize it. Accordingly, as a standard practice, investigators need to exercise reasonable judgment in defining the scope of a background investigation. For example, a Minnesota-based business that is subject to other government or professional oversight may require a less detailed investigation than a new business that has little regulatory history here or in other states. By varying the intensity of background investigations based on a risk assessment, the division could make more efficient use of its resources.

AGED managers have expressed similar concerns regarding the best use of the division's criminal investigation resources. AGED and the other regulatory agencies have not agreed on (1) gambling vulnerabilities that are most important to address statewide, such as insider pull-tab sales or dealer thefts at the Canterbury Park card club; (2) the types of cases that AGED should work to address these vulnerabilities; or (3) the cases that should be handled through other means, such as referral to local law enforcement offices or civil regulatory action. To date, AGED has relied on personal relationships with other agency regulators to encourage timely and appropriate referrals, but formally agreed upon protocols may be more effective. Referral of some cases, such as theft by pull-tab sellers, to local law enforcement offices may be especially appropriate in those localities that assess a local gambling tax on charitable gambling organizations. These taxes are, by law, supposed to be used to cover local regulation of charitable gambling.¹⁶

¹⁶ *Minn. Stat.* (2004), §349.213, subd. 3.

The division's ability to develop and implement a more strategic approach to its work depends heavily on staff capabilities, but we found that:

- **AGED staffing policies have hindered the division's effectiveness.**

As of November 2004, the AGED gambling enforcement group included 12 professional staff members (including supervisors, but excluding administrative assistants) and 3 vacant positions. A fourth position will be vacant by the end of the year when a supervisory special agent retires. As has been the division's policy for several years, all 12 of these staff are sworn peace officers (special agents), and for the most part, they serve as generalists moving among the division's various duties.¹⁷ All of the special agents who work on casino oversight, for example, do so only part-time. At one time, the division had a civilian employee doing casino-related work, but division managers decided that they wanted its non-administrative staff to be sworn officers to give maximum flexibility in assigning work—that is, that all division employees would be available to work criminal investigations.

AGED uses law enforcement officers to do work that may be better suited to staff with different professional backgrounds.

However, to some degree, employing only sworn officers and using them largely as generalists has hindered the division's effectiveness. For example, some agents have received specialized training in casino auditing, slot machine technology, and other aspects of casino management. However, because of staff realignments over the years, not all agents that have received this training are currently assigned to tribal gaming matters. AGED officials also told us that staff could use more specialized training, but added that budget constraints have made such training more difficult to obtain. In our opinion, few, if any, AGED staff who oversee casinos need to be sworn law enforcement officers. Over time, adding staff with different professional backgrounds may help the division expand its expertise. In addition, while having a law enforcement officer on the team can be a benefit when conducting a background investigation—particularly when seeking information from other law enforcement jurisdictions—not all background investigation work requires law enforcement skills. For example, having a background investigator with experience in corporate financial structures could be useful. We believe that AGED could use its existing staff positions more strategically by, over time, developing a more diverse skill set among its staff, and AGED managers agreed.

AGED managers are concerned that staff reductions over the past several years have left the division ill-positioned to do an effective job, and they have suggested two ways to increase available budget resources. First, AGED currently does not get fully reimbursed for costs associated with background investigations of Lottery vendors, and the division would like the law changed to require it.¹⁸ State law includes a mechanism for the division to be fully reimbursed by AGED,

¹⁷ According to AGED, at the peak of its staff complement in the mid-1990s, the division had 15 sworn officers (including the division director) and one auditor for gambling enforcement.

¹⁸ The Lottery does not license its vendors, but makes contracts contingent on successful completion of a background investigation. The Lottery reimburses AGED for some expenses, such as travel, but not for staffing costs associated with a background investigation.

Gambling Control Board, and Racing Commission license applicants.¹⁹ The law does not contain a similar mechanism for passing background investigation costs to Lottery vendors. Instead, reimbursement by these vendors is at the Lottery's discretion, which in the past, it has not chosen to exercise.

Second, the Commissioner of Public Safety can negotiate with tribal communities for an increase in the administrative fee paid by Minnesota's tribes. When the blackjack compacts were first negotiated, the 11 tribes agreed to pay a total of \$150,000 annually (\$13,636 each) to the state to offset the state's costs in administering the compact. This fee is contained in a compact section that can be amended by mutual agreement of the Commissioner of Public Safety and each tribe. With the tribes' cooperation and a well-justified plan showing how additional resources will be used, the state may be able to negotiate a larger payment.

CONCLUSIONS

The primary responsibility for ensuring that casinos operate with integrity rests with tribes. AGED has said that, in general, tribes manage and regulate slot machine and blackjack gambling in compliance with the compacts. While we have no basis to conclude that noncompliance has gone undetected, we have concluded that AGED inspection and oversight activities need to be improved. AGED would better serve the state, casino patrons, and tribes if it were to more fully use its authority to observe, evaluate, and test slot machine and blackjack play to assess compact compliance.

AGED makes important contributions to gambling integrity statewide, but could use its resources more effectively.

In addition to inspecting casinos, AGED investigators make important contributions to the integrity of gambling by conducting background investigations of potential licensees and investigating gambling crimes. Our evaluation, however, identified ways to fine-tune both investigative processes to improve effectiveness. Background investigations need to be thorough but timely, and we think the division can make its resources go farther by exercising professional judgment to adjust the scope and depth of investigations. Criminal law enforcement is an essential element in maintaining gambling's integrity. But again, the division could extend the impact of its work through collaborative agreements with the state's other gambling regulatory agencies that define criminal investigation priorities and protocols for handing off the right cases at the right time.

The gambling enforcement unit is a small group with a broad mission, and it needs to use its resources as effectively as possible. The division needs to adopt a more strategic approach. In both casino oversight and criminal investigations, for example, our work showed the need to develop clear regulatory goals that are based on known areas of concern and to target resources accordingly. In keeping with this strategic focus, the division will need to change its staff mix over time to

¹⁹ *Minn. Stat.* (2004), §§240.08, subd. 3; 349.151, subd. 8; and 349A.07. Under current law, AGED bills its licensees and Gambling Control Board licensees directly for the costs of background investigations. Businesses licensed by the Racing Commission reimburse the commission, which then transfers the funds to AGED.

include both law enforcement officers and staff with different professional backgrounds, particularly in the area of casino oversight.

RECOMMENDATIONS

Strengthen Casino Oversight

RECOMMENDATIONS

To provide well-justified, documented judgments regarding gambling compact compliance, the Alcohol and Gambling Enforcement Division should develop and implement a comprehensive oversight strategy that more fully utilizes the state's authority.

To address concerns that compact requirements for slot machine hardware and software are not up to date with current technology, the Commissioner of Public Safety should develop technical amendment proposals and discuss them with tribes.

To better track and target inspection activity, the Alcohol and Gambling Enforcement Division should develop and maintain a database or other systematic record of its casino inspection activity and results.

Within the bounds of the tribal-state gambling compacts, AGED managers agreed that the scope of the division's casino oversight activities should be expanded to more effectively assess compact compliance. To provide the most value, the division should consider how it could assess each casino's strengths and weaknesses, in terms of compact compliance, and target its activities accordingly. The division should capitalize on data from casinos' slot machine management information systems and other available information, such as internal and external audits. Developing a comprehensive oversight strategy is an important precursor to other recommended actions, including expanding AGED casino oversight staffing and initiating technical amendment discussions with the state's tribes.

The state and tribes share an interest in having clear regulatory standards. While negotiation must be a mutual process between the state and tribes, it is within our purview to make recommendations to the Commissioner of Public Safety—the sole designated authority for negotiating compact technical amendments on behalf of the state. In implementing this recommendation, AGED should focus its technical amendment proposals on the issues for which clearer standards are most needed. Tribal officials we interviewed emphasized that technical amendments need not be identical for all tribes.

One challenge we encountered during our review was lack of consistent, accurate data on the state's casino inspection activity. To track casino inspection activity, we had to compile information from letters, spreadsheets kept separately by various special agents, and other documents. The data were not standard, and some records had been lost. To document judgments regarding casino operations

and to facilitate systematic data analysis, the division should ensure that it has an accurate set of data on the dates, scope, and results of casino inspections.

Better Target Investigation Resources

RECOMMENDATIONS

To ensure that the division's resource investment is commensurate with the level of risk associated with the entity being investigated, the Alcohol and Gambling Enforcement Division should encourage background investigators to exercise professional judgment in planning the depth and scope of background investigations.

To better target criminal investigation resources and improve coordination, the Alcohol and Gambling Enforcement Division, Gambling Control Board, Racing Commission, and Lottery should:

- *Agree on law enforcement strategies that define the types of cases that should receive the highest priority and*
- *Develop written procedures for hand-off of cases for criminal investigation, including the timing of case referral and the circumstances in which criminal allegations will be referred to local law enforcement agencies.*

In addition, to improve communication among the agencies, the Alcohol and Gambling Enforcement Division, Gambling Control Board, and the Racing Commission should ensure that gambling enforcement agents assigned to each type of gambling have office space and a regular presence at the board and commission's offices.

While every background investigation must adequately support a licensing or contracting decision, not every background investigation needs to follow the same path. Regulators and other oversight authorities frequently make judgments regarding what areas to review and how deeply. We think that, to the extent possible, the division should do the same when conducting background investigations. Investigators should exercise professional judgment, reserving the most exhaustive investigations for those individuals or businesses that are new or have little other regulatory history, for which the investigator has an indication of problems, or for those that could have a significant impact on the integrity of gambling in the state.

AGED managers agreed that the division and the other regulatory agencies need to work collaboratively on compliance strategies that will help the division make the best use of its law enforcement resources. Although the Lottery currently does not refer criminal cases to AGED, it should be included in any discussions of statewide compliance priorities. The division needs to reach agreements with the Gambling Control Board, in particular, because charitable gambling accounts for most of the criminal referrals related to legal gambling. We think written protocols that articulate enforcement priorities and procedures for identifying and

handing off cases would bring more coherence to the criminal investigation process, both for targeting AGED resources and helping regulatory staff detect (and deter) crime in priority areas. To further make the best use of AGED resources, we believe that AGED should work with the Gambling Control Board to take advantage of local law enforcement resources in those communities that are charging licensed charitable gambling organizations a tax to support local government regulatory activities.

Relationships between AGED and regulatory agency investigators will continue to be important. To facilitate communication, case development, and case hand-off, we think it would be useful for AGED agents to have a regular presence at the Gambling Control Board and Racing Commission. As illustrated by misunderstandings regarding the division's oversight at the Canterbury Park card club, it is important that the division of responsibilities between AGED agents and the other agencies' compliance staff be well-defined and expectations for AGED special agents be clear.

Enhance Staff and Budget Resources

RECOMMENDATIONS

To increase its staffing capabilities, the Alcohol and Gambling Enforcement Division should:

- *Separate staffing for casino regulation from generalist special agents doing criminal or background investigation work,*
- *Hire staff with experience or expertise specific to casino regulation as opportunities become available, and*
- *Consider hiring other non-law enforcement staff to work on background investigations or as analysts supporting criminal investigation work.*

The Legislature should consider changing the law to allow AGED to directly bill all licensees or vendors for the cost of background investigations.

As part of technical amendment discussions with Minnesota Indian tribes, the Commissioner of Public Safety should pursue a technical amendment to the blackjack compacts that increases the fee tribes pay to the state to assist with state oversight.

AGED managers agreed that the division would benefit from adding other types of staff to its cadre of special agents. Expanding the division's casino-related staff expertise is, in our view, essential to more fully utilizing the division's oversight authority. We also believe that casino oversight staff should be dedicated to that work rather than functioning as gambling enforcement generalists, and division managers agreed. The division might also want to consider augmenting its staff with background investigation specialists and non-law enforcement analysts that would bring other specialized interests and skill sets to the division. AGED

officials have said that some of the division's special agents have little interest in regulatory work, including background investigations. We think it makes sense for the division to use its staff resources in the areas of work to which they are best suited, and in the case of special agents, that is often law enforcement.

To support its staffing plan, the division should pursue available funding options. These include having the subjects of background investigations pay the associated costs. As noted earlier, AGED has not been reimbursed for the full cost of background investigations of lottery vendors, and we think state law (*Minnesota Statutes*, section 349A.07, subd. 2) should clearly state that the relevant vendors do so. In addition, Minnesota Indian tribes agreed to provide funding for state oversight activity when the blackjack compacts were first negotiated, and the compact section establishing these payments is subject to amendment if mutually agreed upon by the Commissioner of Public Safety and a tribe. Before initiating discussions with tribes regarding higher payments, however, it is essential that the Commissioner have a plan that delineates how additional resources would be used.