

PENNSYLVANIA GAMING CONTROL BOARD

HEARING ROOM 1
NORTH OFFICE BUILDING
HARRISBURG, PENNSYLVANIA

THURSDAY, DECEMBER 1, 2005, 10:24 A.M.

BEFORE:

THOMAS DECKER, CHAIRMAN
MARY DiGIACOMO COLINS
WILLIAM P. CONABOY
JEFFREY W. COY
KENNETH T. McCABE
JOSEPH W. MARSHALL, III
SANFORD RIVERS
DENNIS WOLFF, SECRETARY OF AGRICULTURE
ROBERT P. CASEY, JR., PA STATE TREASURER (via telephone)

HILLARY M. HAZLETT, REPORTER
NOTARY PUBLIC

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1 CHAIRMAN DECKER: Let me call the meeting
2 to order and start by apologizing for being 25
3 minutes late. We had some last things come up at the
4 last minute we needed to deal with in the Executive
5 Session.

6 I would like to welcome all and the Board
7 Members to this public meeting today. Do I hear an
8 echo today or is it just me? Okay.

9 A quorum of the voting members of the Board
10 are present and, therefore, this meeting is
11 officially called to order. Please note that
12 Treasurer Casey is participating by phone today.

13 Treasurer Casey?

14 He will be on. In addition, Craig Fajt is
15 unable to attend today, but Mark Morabito from the
16 Department of Revenue is here representing Greg.

17 As always, let me ask the members of the
18 Board and the audience to turn off their cell phones,
19 blackberries and other electrical devices because
20 they interfere with the sound system.

21 Please join me in the Pledge of Allegiance.

22 TREASURER CASEY: Hello?

23 CHAIRMAN DECKER: Is that Bob? Great.

24 Welcome, Treasurer Casey.

25 (Pledge of Allegiance.)

4

1 CHAIRMAN DECKER: Thank you. A couple of
2 announcements. The first is to confirm a press
3 release that I believe we put out on Monday and that
4 is that we are -- we're not extending the deadline
5 for the permanent license applications, which as you
6 probably know is December 28th, 2005.

7 Can everybody hear me now? Can you hear me
8 now? December 28th, 2005 is the deadline for filing
9 applications for permanent licensing, Category 1, 2
10 and 3s. Okay. We're not extending that date. That
11 is a Thursday. It's the Thursday before New Years.
12 All right. That's the date people have to file their
13 applications.

14 The second announcement is I want to
15 congratulate Secretary Fajt, who is not here, for his
16 birthday yesterday. He's 61. He looks amazingly
17 good for 61.

18 Let's see. By way of sort of an
19 announcement, the Board, as is our case, our usual
20 case, held an Executive Session to discuss personnel
21 matters, specifically potential candidates for

22 positions with the agency. No business or decisions
23 were made -- no business was conducted or decisions
24 made during this session.
25 Our first action item this morning is

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1 approve, again, as we usually do, the transcript of
2 our last meeting.

3 May I have a motion from the Board to --

4 COMMISSIONER MARSHALL: So moved.

5 CHAIRMAN DECKER: Second?

6 COMMISSIONER McCABE: Second.

7 CHAIRMAN DECKER: Any comments?

8 All those in favor, please indicate by

9 saying aye.

10 COMMISSIONERS: Aye.

11 CHAIRMAN DECKER: Motion passes.

12 Please, again, note that the minutes will
13 be available on our website and that this meeting is
14 being recorded by a stenographer.

15 Let's start -- we would like to start new
16 business with our executive director's report.
17 Again, we're going to try to do this at every
18 meeting, to have a discussion about the activities
19 that are going on that the public doesn't see. So,
20 Anne, can you come up, please?

21 MS. LaCOUR NEEB: Good morning, Chairman
22 Decker and members of the Board. I just want to give
23 an update on some of the things that have been going
24 on.
25 Basically, we have done a few things lately

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1 in trying to finish out the compliments of the
2 different directors divisions. We've interviewed
3 some additional people. We're making some progress
4 with -- this is not working. Well, it doesn't sound
5 okay.

6 Anyway, we've made some progress with some
7 of the candidates. Mike will give you the
8 recommendation for employment today.

9 We have also worked with the human resource
10 division. We have made some progress in doing our
11 employee handbook. We're real happy with that.

12 Right now -- and we're going to get reports
13 from the different sections concerning some of the
14 different activities that took place this week which
15 we're very excited about, in particular, the delivery
16 of slot machines. No one is playing them, but we do
17 have them.

18 I'm going to let -- is Richard -- Maureen

19 going to give the report on the slots that came?
20 What we're going to be doing is the
21 manufacturers have to, of course, have these games
22 tested and checked, and those machines have been
23 brought in for that purpose.
24 This is just the beginning of that process.
25 This is a very lengthy, complicated process. The

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1 purpose of this, and it's really important, is to
2 make sure the integrity of the game is there.
3 This is what our lab is working on. We've
4 also -- you'll get a report later from Susan
5 concerning the issues with licensing that have come
6 up, and Commissioner Colins is going to give an
7 update on what progress has been made with additional
8 regulations.

9 So if you have any questions about anything
10 in particular, you know, I'm here to answer them; but
11 that's pretty much an overview.

12 CHAIRMAN DECKER: Anne, I understand you're
13 going to be a Chair of a panel on gaming in Atlantic
14 City and Greg Fajt will be there.

15 MS. LaCOUR NEEB: Yes. We're going to
16 participate in that and try to, you know, assimilate
17 whatever information we can and learn something from

18 Atlantic City.

19 Anybody have any questions?

20 CHAIRMAN DECKER: Questions of Anne for any
21 of the activities?

22 Thanks, Anne.

23 MS. LaCOUR NEEB: Thank you.

24 CHAIRMAN DECKER: I think next up is our
25 Director of Administration, Mike Walsh.

8

1 MR. WALSH: Thank you, Mr. Chairman. There
2 are three business items related to the Bureau of
3 Administration.

4 We have a number of proposed hires for
5 recommendation -- a number of proposed candidates
6 recommended to be hired, I should say.

7 There are two other items, which I'll get
8 to first. The first is the Bureau requests approval
9 by the Board to submit to the Executive Board three
10 clarifications to the management directive on travel,
11 which are unique to this agency since we're starting
12 out. We've worked with the Comptroller's Office in
13 the Department of Treasury. They've asked us to make
14 these clarifications. So we're doing it. We just
15 need the Board approval to go to the Executive Board

16 with these provisions.

17 The second item is a contract. That's for
18 Lynn Stelle, who has been our consultant; but his
19 contract is ending with the Department of Revenue.
20 We are proposing that we renew that contract for six
21 months for the Board.

22 He has been a consultant for the -- I'm
23 getting a lot of feedback. He's been a consultant
24 with the Department of Revenue since February of
25 2003. So we propose that he become a consultant with

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1 the Board effective this month.

2 The proposed hires for today, the first one
3 is Kevin --

4 COMMISSIONER MARSHALL: I'm sorry, Mike.
5 Do you need some action?

6 CHAIRMAN DECKER: Mike, would you mind if
7 we deal with them one at a time?

8 COMMISSIONER MARSHALL: I'll move the
9 clarification. You just needed approval from us to
10 accept their --

11 CHAIRMAN DECKER: Can I have a second?

12 COMMISSIONER CONABOY: Second.

13 CHAIRMAN DECKER: Are there any questions

14 about this? Okay. I think they're fine. What was

15 requested of us is fine.

16 MR. WALSH: Sure. Thank you.

17 CHAIRMAN DECKER: All of those in favor,

18 please indicate by saying aye.

19 COMMISSIONERS: Aye.

20 CHAIRMAN DECKER: Any opposed?

21 Motion carries.

22 Thank you, Michael.

23 COMMISSIONER MARSHALL: I move the Lynn

24 Stelle contract and start the discussion.

25 CHAIRMAN DECKER: Is there a second?

10

1 COMMISSIONER McCABE: Second.

2 CHAIRMAN DECKER: Any questions of Mike

3 about the contract?

4 All of those in favor, please indicate by

5 saying aye.

6 COMMISSIONERS: Aye.

7 CHAIRMAN DECKER: Any opposed?

8 Motion carries.

9 Thank you, Mike.

10 MR. WALSH: Thank you. We'll go to the

11 proposed hires for today. There are 11 candidates

12 that we recommend to the Board for consideration.

13 The first is Kevin Eckenrode to work with
14 Nick Hays in the Office of Communications in the New
15 Information Center that will be opened.

16 The remaining ten are in the Bureau of
17 Investigation and Enforcement. The first one is for
18 the eastern regional area, and that's William Dobbins
19 as an investigator.

20 The next are in the central region, this
21 region of the state. They are Ta'nica Thomas as an
22 investigator, Michelle Ceo as an investigator, Pam
23 Frebel as an investigator, and Sal Mecca as an
24 investigator.

25 The next are for the western regional

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1 office, and they are Dwight Clay as an investigator,
2 Robert Wallace as an investigator, Charles Kelley as
3 an investigator.

4 The final two are forensic accountants who
5 will be working in the Bureau of Investigation and
6 Enforcement. The first is Richard O'Neill, who is a
7 CPA and a lawyer, and James Barncale, who is
8 currently with the FBI doing forensic accounting.

9 So they are 11 proposed candidates and, as
10 we always say, they have to undergo a background
11 check, and final employment is contingent upon the

12 successful completion of that.

13 To answer maybe Commissioner Rivers's
14 question, we were at 90 so this adds 11. We are at
15 101.

16 COMMISSIONER RIVERS: Now you're getting
17 smart.

18 MR. WALSH: I spent a lot of time on that
19 before the meeting.

20 CHAIRMAN DECKER: Are there any questions
21 of Mike, about the proposed applicants for jobs that
22 is?

23 COMMISSIONER RIVERS: Mr. Chairman --

24 CHAIRMAN DECKER: Yes.

25 COMMISSIONER RIVERS: -- based on the

12

1 recommendation of the director of administration, I
2 submit to the body that we submit a motion and offer
3 to hire these individuals.

4 CHAIRMAN DECKER: May I have a second?

5 COMMISSIONER CONABOY: Second.

6 CHAIRMAN DECKER: Any questions for Mike in
7 addition?

8 All of those in favor, please indicate by
9 saying aye.

10 COMMISSIONERS: Aye.
11 CHAIRMAN DECKER: Any opposed?
12 Motion carries.
13 Thank you, Mike. Before you go, where do
14 we stand -- we're hiring people now. Is there a --
15 where do we stand on the offices both in the east and
16 the central and the west? I know you're processing
17 that -- I know there's a bidding process. Can you
18 describe that for us a little bit?
19 MR. WALSH: Sure. I can do that. I'll
20 start with the east, we have a space in Conshohocken
21 that we did advertise for it and bids were received.
22 We awarded a bid. We awarded the contract to Lee
23 Park Investors. That's where the Conshohocken office
24 will be.
25 The Bureau of Investigation and Enforcement

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1 will be housed out of that space beginning on January
2 27th. That will be space for all of the supervisors
3 and regional investigators that are going to work out
4 of that area.
5 For the central location, we put out
6 advertisements to accept bids that were due this past
7 Monday. We are waiting on the Department of General
8 Services to give us the bids.

9 The same is true for western Pennsylvania
10 space. We advertised for space in any one of three
11 municipalities in western Pennsylvania that
12 geographically were centered where we needed to be,
13 given where possible gaming venues could be.

14 Those bids were due November 21st, which
15 was two Mondays ago. We're also waiting on the
16 Bureau of Real Estate and the Department of General
17 Services to give us an outline of what the responses
18 were so we can make a determination; and myself along
19 with Anne Neeb and David Kwait, who will have the
20 primary staffing in each of these offices, are going
21 to review these bids and make some recommendations to
22 the Board.

23 CHAIRMAN DECKER: Thank you. Any other
24 questions for Mike, any administrative matters?

25 Thank you, Mike.

14

1 MR. WALSH: Okay. Thank you.

2 CHAIRMAN DECKER: The next item is
3 licensing. Susan, would you come up and give us an
4 update, please?

5 MS. HENSEL: Thank you, Chairman Decker;
6 and good morning, Commissioners. Thank you for this

7 opportunity to update you on the activities within
8 the Bureau of Licensing during the past few weeks.

9 During this time period, we have had two
10 primary areas of focus. The first of those areas
11 have been on gathering outstanding information from
12 our manufacturer applicants.

13 A key action item in that regard is a
14 request from the manufacturer applicants to provide
15 us with applications for individuals who are
16 performing some job functions that were not captured
17 in our initial round of applications.

18 These individuals include the chief
19 engineer of the manufacturer and the vice president
20 for product compliance.

21 We made the decision to license additional
22 manufacturer employees based on the consultation with
23 Richard Williamson who is, of course, the director of
24 our gaming laboratory. His feeling was that it was
25 very important that we license these individuals,

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1 because they would be signing off on the integrity of
2 the machines that will be operated in Pennsylvania.

3 Our secondary focus is on preparing to
4 accept the license operator applications, which as
5 you mentioned are due on December 28th.

6 In anticipation of receiving those
7 applications, we have been preparing procedural
8 manuals for Conditional Category 1, Category 2 and
9 Category 3 applications.

10 These manuals contain, as they did with our
11 manufacturer applications, very detailed checklists,
12 which will guide our analysts through the processing
13 of the applications.

14 We also are putting in place a team of
15 individuals to evaluate corporate structures for the
16 operators.

17 We anticipate that some of the operator
18 applications will come from rather complex corporate
19 structures. We want to be able to evaluate right up
20 front those structures, so we can assure that we have
21 received applications from all of the entities and
22 natural persons that are required to be licensed in
23 Pennsylvania.

24 Another step that we're taking is preparing
25 to evaluate the substance of the information that

1 will be coming in with the applications. For
2 instance, with the Conditional Category 1
3 application, we anticipate receiving 43 mandatory

4 appendices that will be attached to the applications.

5 These appendices include prepared or
6 proposed minimal internal control standards, job
7 compendiums, information demonstrating financial
8 suitability, plans for dealing with compulsive
9 gambling problems, security and surveillance plans
10 and on and on.

11 We are now putting in place work flows to
12 deal with evaluating, conducting really detailed
13 reviews of that information.

14 Another appendices that we will receive
15 will deal with vendors. We are putting in place a
16 process to deal with the initial information we
17 receive regarding vendors and then ultimately the
18 receipt of the registration and certification
19 applications for vendors.

20 CHAIRMAN DECKER: Susan, let me interrupt
21 you. What do you do about someone who doesn't know
22 which vendor they're dealing with other than a
23 general contractor at this point?

24 MS. HENSEL: If they don't know, they
25 certainly can't tell us what they don't know. We

1 would expect that when they do form a relationship
2 that we be notified.

3 It is not necessary that they have all of
4 their vendors in line in order for us to license an
5 operator. There is a continuing duty to update us on
6 any changes, including the addition of any vendors.

7 Part of our work to prepare for the vendors
8 is to add to our database new screens and reporting
9 capability, so that will be prepared to capture
10 monthly disbursements that will go to vendors and
11 other information that we will need.

12 Overall, we're also finding our existing
13 database, we're developing new and necessary forms.
14 We are developing training materials on operator
15 applications and we are interviewing potential
16 licensing analysts, candidates.

17 To accomplish all of this work, licensing
18 has been working very closely with the other
19 divisions in the agency, including the gaming lab
20 operations division, the BIE and corporate compliance
21 and, of course, our legal staff.

22 In addition to these two primary activities
23 that we've been focused on, we've been spending
24 considerable time talking with potential applicants
25 in assisting them in completing the applications.

1 The questions they have for us run the
2 gamut of who needs to file what form to very specific
3 questions about a particular question or a particular
4 schedule.

5 That concludes my update. I'm happy to
6 take any questions.

7 CHAIRMAN DECKER: Any questions for Susan
8 from anyone about the licensing process?

9 We'll have some licenses that will be
10 coming in shortly in the next month or so, correct?

11 MS. HENSEL: Some licenses? I'm sorry.

12 CHAIRMAN DECKER: Applications, license
13 applications.

14 COMMISSIONER MARSHALL: Applications go in.
15 Licenses come out.

16 CHAIRMAN DECKER: The question is when.

17 MS. HENSEL: Thank you, Commissioner
18 Marshall.

19 CHAIRMAN DECKER: It's part of the staffing
20 process?

21 MS. HENSEL: Yes.

22 CHAIRMAN DECKER: Are you coming along
23 fairly well?

24 MS. HENSEL: Yes. I expect we will have a
25 list of candidates for you at the next meeting.

1 CHAIRMAN DECKER: Okay. Thank you.

2 Speaking of hand offs, our next presenter

3 is David Kwait, who is our Director of Investigations

4 and Enforcement, and who I think has had a hand off

5 speaking of in and out.

6 MR. KWAIT: Good morning, Commissioners,

7 Mr. Chairman. We continue, as you know, to hire

8 staff and do all of the administrative things

9 necessary to create this BIE agency.

10 I want to discuss briefly a rough idea of

11 what we propose to do with the new staff. The mother

12 load will report for duty on January 23rd, and we

13 will begin a two-week training period here in

14 Harrisburg.

15 A rough idea of the kind of curriculum

16 we've planned so far include orientation from our own

17 staff, our human resource, office of communications,

18 licensing, the gaming lab compliance unit. We'll go

19 over the BIE authority in depth, of course.

20 We'll also have a presentation concerning

21 the Gaming Act itself by one of our attorneys. Then

22 we'll have outside instructors dealing with issues

23 such as interview techniques, organized crime in the

24 gaming industry, a review of license slot operations

25 around the country.

1 Then we're going to ask Pennsylvania State
2 Police to give us a presentation and we'll discuss
3 the CREA Act.

4 Then the final week will be what we do for
5 a living, the background investigations of gaming
6 applicants and the regulation of casinos.

7 We'll have outside instructors coming from
8 Nevada and from New Jersey hopefully. We're working
9 that out right now.

10 We intend to invite anyone from the Gaming
11 Control Board to attend who might find these courses
12 interesting, from licensing or whatever other entity,
13 as well as from the Pennsylvania State Police. That
14 concludes my presentation.

15 CHAIRMAN DECKER: Please, Ken.

16 COMMISSIONER McCABE: Dave, I would like
17 you to consider as part of the training maybe a
18 period on ethics, standards of conduct, code of
19 conduct for BIE people, too.

20 MR. KWAIT: Absolutely. As part of our
21 human resource curriculum, we'll include just that.

22 CHAIRMAN DECKER: The State Police will be
23 there also in terms of the teaching?

24 MR. KWAIT: Yes, sir.

25 CHAIRMAN DECKER: Okay. At some point --

1 well, we can talk later about the attendees; but
2 there's some people from the State Police that would
3 want to attend this, we would have no problem having
4 them come to it.

5 MR. KWAIT: I would hope they would attend.

6 CHAIRMAN DECKER: Why don't you talk to
7 them. I think that would be a smart idea.

8 Is there anything else for David?

9 David, thank you very much. I appreciate
10 it.

11 MR. KWAIT: Thank you.

12 CHAIRMAN DECKER: Maureen, are you going to
13 make a presentation now or are you going to make it
14 in the context of the regs?

15 MS. WILLIAMSON: I was going to do it in
16 the context of regs.

17 CHAIRMAN DECKER: Okay. Fine. I didn't
18 know if you were going to talk about the equipment
19 that is there.

20 We're now going to turn to your regulations
21 update.

22 Commissioner Colins, you have several items
23 you want to present today.

24 COMMISSIONER DiGIACOMO COLINS: Why don't
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25 we -- since Maureen is ready to go, why don't we

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1 start with Maureen's presentation. It's going to be
2 a presentation on her draft of the internal controls
3 regulations. She'll explain and summarize this for
4 you. Then I'll ask the Board to vote on a motion to
5 publish these for public comment. So I'll ask
6 Maureen to update you now.

7 MS. WILLIAMSON: All right. That's fine.
8 Good morning. Before you for consideration this
9 morning is the opening of a month-long public comment
10 period that will be applicable to a set of draft
11 regulations, which I hope will ultimately be Chapter
12 465 of our regulations. They will deal with
13 accounting and internal controls and minimum
14 technical standards for slot machines.

15 As you're aware, the Statute requires that
16 a licensee have a comprehensive system of accounting
17 and internal controls. These regulations are the
18 regulations and the protocols upon which they will
19 base their system of control.

20 These are the regulations against which the
21 Board will evaluate that system of control and make a
22 determination as to the potential integrity of the

23 slot operation.

24 The regulations that are in the package

25 before you this morning deal with a number of

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1 essentially preliminary items dealing with the
2 efficiency of accounting record, dealing with the
3 methodology that we will use to approve and review
4 the initial set of internal controls that are
5 submitted by a licensee and how we will address any
6 changes or amendments to that system going forward.

7 They will address requirements with regard
8 to financial and statistical reporting to the Board,
9 the provision of audit financial statements on an
10 annual basis, provisions with regard to record
11 retention and complimentary reporting.

12 They also address some requirements as to
13 the layout and design of the gaming floor and the
14 licensed facility itself, including the provision of
15 office space that will be allocated to the Board's
16 audit and investigative staff and to Pennsylvania
17 State Police. They deal with ancillary issues
18 regarding security and alarm coverage.

19 Finally, the packet addresses surveillance
20 system requirements. I was very careful in the draft
21 to address both analogue and digital video recording

22 formats, and certainly the regulatory scheme is open
23 to either format, provided that format delivers to us
24 the really first class surveillance coverage inside
25 and outside the facility that is mandated by the

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1 statute.

2 In my experience, it's absolutely standard
3 practice for a regulatory scheme to address the
4 topics that are included in this morning's packet and
5 the treatment that it forwarded them is rather
6 typical.

7 What I want to emphasize to the Board at
8 this time, and we're very preliminarily into our
9 accounting and internal control regulations, but as
10 we go forward into the more technical sections that
11 will be presented to you over the next ensuing
12 months, I want to assure you that we're attempting to
13 present a very logical and comprehensive system of
14 gaming floor operating protocols.

15 In designing this regulatory scheme, we are
16 really attempting to provide a very thorough and
17 technically proficient treatment of the subject
18 matter that affords Pennsylvania licensees the access
19 to new technology that is really essential to their

20 ability to compete with surrounding jurisdictions.

21 We're trying to develop controls and
22 procedures that can be effectively, efficiently, and
23 cost effectively implemented, even by national gaming
24 companies that seek a great deal of standardization
25 in their operating procedures.

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1 Perhaps, most importantly, we're really
2 trying to tailor these procedures to the regulatory
3 goals and aspirations of the Commonwealth.

4 They're not intended to be a regurgitation
5 or revised version of some other jurisdiction's
6 procedures.

7 So it's a good deal of information to
8 digest; but at this point, they will be open for
9 public comment.

10 The comment period will begin today. It
11 will end in deference to the holidays on January 6th.
12 As is always the case with any of our regulatory
13 proposals, the proposal will be on our website by
14 this afternoon. It will be published in the
15 Pennsylvania Bulletin on December 17th. It is
16 available by mail. The website articulates the
17 protocols associated with the payment of a \$10 fee in
18 order to obtain them by mail.

19 So if you have any questions regarding the
20 protocols at this point.

21 COMMISSIONER DiGIACOMO COLINS: Maureen,
22 would you summarize for us the overall relative
23 importance of this body of regulations in this scheme
24 of regulating gaming in general, how big a role are
25 the internal control regulations in respect to what

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1 we do as a Board.

2 MS. WILLIAMSON: They're really, in my view
3 and in my experience, a very core piece. I always
4 say that licensing establishes the suitability of the
5 operator, but it is the accounting and internal
6 controls and how they are applied in the systems and
7 procedures that they use that really establish the
8 suitability and the integrity of the operation
9 itself.

10 So these are really a very core piece of
11 our regulatory environment and in many respects will
12 define us as a regulatory jurisdiction. So they
13 really are quite essential.

14 COMMISSIONER DiGIACOMO COLINS: Maureen,
15 also, please give us a brief summary of the expertise
16 that you bring to this Gaming Board that -- no, that

17 enables you to create this body of regulations.

18 MS. WILLIAMSON: Well, actually, thank you,

19 Mary, I guess. I started in Atlantic City --

20 COMMISSIONER DiGIACOMO COLINS: Well, I

21 think that's very important that the public at large

22 understand that we have someone on board with

23 significant expertise in this very technical and

24 important area.

25 MS. WILLIAMSON: I appreciate that. I

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1 started in Atlantic City shortly after the resorts

2 opened with the Casino Control Commission.

3 At that time, the primary regulatory format

4 had been developed, but we were really in a period

5 where the new technology -- and to date myself, that

6 means the computerized technology -- moving from a

7 whiz machine to a computer was just coming.

8 So at that point, I was not at that point

9 an attorney. I was an accountant. I actually

10 managed the unit that handled the approval of the

11 accounting and internal controls and also did at that

12 time the gross revenue audits for New Jersey.

13 In that context, I was very heavily

14 involved in the initial drafting of the accounting

15 and internal control regulations in New Jersey and,

16 of course, that involved a study of what was
17 available to us in other jurisdictions.

18 I was then in private practice as an
19 attorney. I worked in a variety of jurisdictions
20 outside the United States, generally in the
21 Caribbean, and so I certainly have some experience as
22 to what the absolute minimum accounting and internal
23 control standards are and what, you know, absolutely
24 need to get by to preserve any type of integrity in
25 an operation.

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1 Prior to joining the Board, I was seven
2 years with the Division of Gaming Enforcement in New
3 Jersey as a Deputy Attorney General, but I handled
4 all of the rule making for that particular body; and
5 that really encompassed working over the last several
6 years with the manufacturers to develop the
7 regulations that go with all of the new technology,
8 the gaming voucher system, the redemption kiosk and
9 the information that we'll be dealing with here in
10 the Commonwealth.

11 COMMISSIONER DIGIACOMO COLINS: Thank you.

12 MS. WILLIAMSON: While I have the podium --

13 CHAIRMAN DECKER: Can I ask you one more

14 question?

15 MS. WILLIAMSON: Sure.

16 CHAIRMAN DECKER: How different are our
17 regs versus the other industry regs? I'm asking that
18 in the sense that we're not doing -- are we doing
19 some things that are far different than others?

20 MS. WILLIAMSON: I think right now in
21 gaming you have -- with the type of regulations that
22 are before you this morning on accounting records and
23 that type of thing, you have a fair deal of
24 standardization.

25 I think on the more technical issues, you

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1 have far less standardization and you have one or two
2 jurisdictions, predominantly New Jersey and Nevada,
3 that are really out front on comprehensive
4 regulations that deal with the new technologies. So
5 we're really working to preserve our flexibility to
6 adjust to those changing services.

7 CHAIRMAN DECKER: Please.

8 COMMISSIONER McCABE: I have a question.
9 Do the manufacturers and the casino owners have their
10 own internal control officers to monitor this and
11 work with you?

12 MS. WILLIAMSON: Well, what will happen is
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13 the operators, their finance departments, their
14 controller departments will be working with the basic
15 set of accounting and internal controls.
16 They will look at our regulations and adapt
17 those controls to our requirements. Then those
18 controls will come into us, and our Bureau of
19 Corporate Compliance and Internal Controls will work
20 with them very collaborative to come down to a
21 document that we're comfortable with, and that is
22 usable and efficient for them procedurally but allows
23 us the audit and investigative time lines that we
24 need to see.
25 So it's a very living and breathing

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1 process, and we'll be continually adapting and
2 working with them.
3 CHAIRMAN DECKER: In terms of looking at
4 this as one would a public company, the internal
5 controls, the efficiency, effectiveness of the
6 internal controls are the kinds of things we're going
7 to ask them to do.
8 Are they close to Sorbian Oxley or is this
9 something separate from that? If they are, have
10 significant deficiencies under Sorbian Oxley or

11 material deficiencies, are we going to get notice of
12 that if it affects the quality of their financial
13 boards?

14 MS. WILLIAMSON: Right. One of the things
15 that we'll be receiving on an annual basis are audit
16 financial statements.

17 Those statements will have to be augmented
18 for our purposes by specific reports which we'll be
19 requesting their auditors to prepare. One of them
20 will be a study in any material deficiencies in the
21 system of internal control.

22 Also, when they submit their initial set of
23 internal controls, they will have to submit that with
24 an opinion letter from a certified public accountant
25 licensed within the Commonwealth certifying that the

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1 procedures meet generally accepted accounting
2 practices and that they're in conformance with our
3 regulations.

4 I was just going to update you a little bit
5 in Richard's absence regarding the slot machines that
6 came in on Tuesday.

7 The manufacturers were given an opportunity
8 to submit a game to the Board. These games reflect a
9 variety of game types, video and real games. They

10 are outfitted with what is referred to as Show
11 Software, so that they can be used for demonstration
12 purposes.

13 Of course, the purpose of the games will be
14 to familiarize our staff members on a very general
15 level with the mechanics, if you will, of the game,
16 the interior of the game, and also allow our
17 accounting and audit people to begin to familiarize
18 themselves with the type of audit and accounting data
19 that is available from the slot machine itself.

20 COMMISSIONER DIGIACOMO COLINS: I have a
21 motion to offer at this time.

22 CHAIRMAN DECKER: Please, Mary. Go ahead.

23 COMMISSIONER DIGIACOMO COLINS: All right.
24 I move that the Board make available for public
25 review and comment the draft temporary regulations

1 pertaining to the accounting and internal controls
2 through the publishing of the regulations in the
3 Pennsylvania Bulletin and through the posting of the
4 regulations on the Board's website, and that the
5 Board establish a public comment period for 30 days
6 beginning December 1st, 2005 and ending January 6th,
7 2005.

8 CHAIRMAN DECKER: Is there a second?
9 COMMISSIONER MARSHALL: 2006.
10 COMMISSIONER DiGIACOMO COLINS: January
11 6th.
12 COMMISSIONER MARSHALL: 2006.
13 COMMISSIONER DiGIACOMO COLINS: 2006.
14 Very good. Thank you.
15 COMMISSIONER MARSHALL: Second.
16 CHAIRMAN DECKER: Any questions for Maureen
17 or Mary about this?
18 Hearing none, all of those in favor, please
19 indicate by saying aye.
20 COMMISSIONERS: Aye.
21 CHAIRMAN DECKER: Any opposed?
22 Motion carries.
23 I also wanted to announce we're going to
24 have -- since we have all of these machines, we're
25 going to be running some junkets headed up by George

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1 Bedwick at some point in time but not in the near
2 future.
3 Next, Mary.
4 COMMISSIONER DiGIACOMO COLINS: If I could
5 continue with a number of additional issues. Let me
6 give you a brief preview of what is to come.

7 We continue to work on hearing and appeals
8 regulations, which I'm hoping will be finalized and
9 submitted at the next meeting, I'm hoping, for public
10 comment.

11 We are presently working on some
12 regulations to encompass management companies and
13 we're in the process of finalizing those regulations.
14 They will be ready at the next meeting for review,
15 and Nanette Horner has asked me to please put slot
16 machine license applicants on notice regarding
17 potential management companies.

18 If a management company has been identified
19 by a slot machine license applicant and the
20 management company is intending to apply for a
21 management company license, it should complete the
22 appropriate Conditional Category 1, Category 1,
23 Category 2, or Category 3 application and disclosure
24 form with the applicable appendices as if it were an
25 affiliated entity.

1 The instructions for completing the
2 application in this manner are available on the
3 website. The form should be submitted with the
4 application package of the slot machine license

5 applicant with the \$5,000 application fee.

6 The other announcement I want to make
7 regarding the applications is that recently, this
8 Board adopted Section 441.18 of the regulations
9 regarding change in ownership or control of slot
10 machine license and multiple slot machine license
11 prohibition.

12 Based on the passage of this regulation,
13 the Conditional Category 1 applicant's affirmation,
14 the Category 2 applicant's affirmation, and the
15 Category 3 applicant's affirmation contained in the
16 application and disclosure forms have been revised.
17 And the revised affirmations I am told will be posted
18 on the Board's website.

19 The next order of business I want to
20 discuss is amendments to the applications. I had
21 prepared for presentation today a number of
22 amendments, which I had provided to the Board, I
23 guess, two days ago. We're going to go through
24 these.

25 I received very quickly a notice of some

1 potential changes or recommended changes and
2 questions regarding those amendments.

3 I want to discuss the way that we amend

4 these regulations and propose these to the Board.

5 The amendments come through the experience
6 of our staff in dealing with the applications, and
7 the amendments are made after much discussion,
8 conversation, and many hours of meetings regarding
9 what the regulations say and whether or not they
10 should be adjusted.

11 So I don't want to go forward today with
12 the amendments that we have prepared in view of the
13 recent questions and recommendations I received this
14 morning, because I'm not comfortable functioning and
15 amending regulations so quickly without us being able
16 to think through this.

17 So I'll ask Michelle and Nan to hold off on
18 their presentation for two weeks. We will review
19 these again and see what, if any, adjustments we have
20 to make.

21 I think -- I just want everybody to know
22 that these amendments are not quickly made or
23 superficially done by us, that they're very -- it's a
24 very thoughtful process.

25 The next thing I wanted to talk about is

1 the thorny, yet crucial, issue of suppliers.

2 CHAIRMAN DECKER: Mary, I'm going to

3 address that, if you don't mind.

4 COMMISSIONER DiGIACOMO COLINS: Very good,

5 if you would.

6 CHAIRMAN DECKER: Any questions for Mary

7 about the regs or amendments, or anything we just

8 talked about?

9 Okay. The next issue we have before us are

10 suppliers. I want to state that I have polled all of

11 the -- all our Board Members -- and just to rehash

12 this. We have two proposals that have been on the

13 table, the so-called two region supplier plan and the

14 so-called no region supplier plan.

15 As a result of my conversations and

16 questions of each of the Board Members separately, I

17 do not believe the vote would change. In other

18 words, the vote for the two region plan would be six

19 to one. The vote for the no region plan would be six

20 to one. Therefore, we would not have a qualified

21 majority for either. Under those circumstances,

22 there's no point in voting because it is what it is.

23 Mary, did you want to talk about something

24 else?

25 COMMISSIONER DiGIACOMO COLINS: I did.

1 CHAIRMAN DECKER: About suppliers?

2 COMMISSIONER DiGIACOMO COLINS: I do. I
3 want to discuss the supplier issue. I want to recap
4 it. I want to summarize it again for the Board, what
5 the regulations say.

6 Then I want to, as a result of
7 conversations I've had with individual Board Members,
8 suggest a potential recommendation to this Board to
9 be considered over the next two weeks so that we can
10 vote on this recommendation, which will move us
11 forward in a fashion and get us in very productive
12 conversation about suppliers.

13 Now, in April of this year, the Board
14 released the supplier regulations for public comment,
15 and three different versions of these regulations
16 were offered; including a five region plan, a two
17 region plan and the original version of the
18 regulations, which contain no regions. It was what
19 has been affectionately referred to as a free market
20 approach.

21 Following the close of the public comment
22 period, the Board modified the regulations and has
23 continued to review the regulations for consistency.

24 I'm going to summarize some of the changes
25 that were made to the suppliers' regulations. They

1 are, first of all, in summary, these regulations are
2 in accordance with the licensing scheme already
3 adopted by the Board generally and also the format
4 and scheme adopted for the manufacturers, which has
5 already been through its process; and those
6 applications, as you know, are being processed right
7 now.

8 Some of the language of the sections
9 regarding suppliers, specifically 431.1 and 431.2,
10 have been refined since the time that the draft was
11 issued for the public comment in April.

12 This has been done to ensure consistency
13 with the existing regulations and to provide guidance
14 and greater specificity as to the types of equipment
15 that are required to be distributed by suppliers and
16 the types of equipment that are exempted from the
17 supplier requirement.

18 In Section 431.3 entitled supplier
19 requirements and prohibitions, we have added language
20 to define routine maintenance. This type of
21 maintenance may be performed by an operator and by
22 operator's employees as opposed to the supplier.

23 These functions were carved out of the
24 duties of the supplier, because this maintenance is
25 directly related to the availability of slot machines

1 for play for customer service or a clean -- and I
2 like this phrase. I think Maureen Williamson gave me
3 this phrase -- clean and gracious playing
4 environment.

5 Since the time that the Board initially
6 released these regulations, the Board has continued
7 to move forward in the regulatory process while at
8 the same time attempting to resolve the dispute that
9 exists on whether or not there should be regions.

10 Today, I want to offer to the Board for its
11 consideration a potential compromise, which can move
12 us forward yet allow us to continue having discussion
13 about whether or not there should be two regions in
14 Pennsylvania or none.

15 You will remember that initially, the first
16 proposal was five regions. Then Commissioner Coy
17 withdrew that suggestion and has come down to a two
18 region recommendation that the Chairman had made. We
19 are now at two regions versus none.

20 Basically, this proposal emanated from a
21 lot of discussion that the staff and I have had and
22 the Board Members have had individually with staff
23 members.

24 Mike Schwoyer was a moving factor in this
25 recommendation, which is that we adopt and publish

1 the supplier regulations without dividing the state
2 into regions, that we reserve the right to amend
3 those regulations if, in fact, we do create regions
4 to include provisions that provide for that; that we
5 open the application process for supplier licensing,
6 I guess we would do that as soon as we vote on this
7 and approve it hopefully after the next meeting, and
8 that that application period be open for perhaps 45
9 days.

10 That way, we will get the applications in.
11 Our staff can process them, work on them. We can
12 move forward operationally. Then as soon as the
13 Board reaches its agreement on this region issue,
14 then we can do whatever amendment is required to the
15 regulation if there is one required, add an appendix,
16 one appendix to the application, put it out there to
17 be completed and issue the licenses.

18 I'm hoping that within the next two weeks,
19 we can further discuss this. I'm going to ask Susan
20 Hensel and her staff to look into how to
21 operationally nail this process down so that in two
22 weeks, you can outline for us just how we will accept
23 these applications, what we will do with them, how we

24 will handle application fees, things of that nature.

25 I'm going to offer this in two weeks, and

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1 this gives an opportunity to continue our discourse,

2 I believe, in a very productive fashion.

3 CHAIRMAN DECKER: Thank you, Mary.

4 Any questions preliminarily of Mary on this

5 topic?

6 We have to go back. I forgot to vote on a

7 resolution.

8 COMMISSIONER McCABE: I thank Mary for her

9 hard work and trying to broker a solution to this. I

10 think it's important for everybody to realize that we

11 are trying to continue to move forward and that we're

12 trying to progress. Mary, I think it's not that bad

13 of an idea and I will consider it.

14 CHAIRMAN DECKER: Anyone else with any

15 question or comments?

16 Okay. Let's move on then. This will be a

17 topic that we address at the next meeting on the --

18 is it the 15th? On the 15th.

19 We forgot -- we did -- I did not ask for a

20 motion concerning the initial control regulations.

21 COMMISSIONER MARSHALL: I'll move it.

22 COMMISSIONER CONABOY: Second.

23 CHAIRMAN DECKER: Any more questions of
24 Maureen?
25 Hearing none, all of those in favor, please

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1 indicate by saying aye.

2 COMMISSIONERS: Aye.

3 CHAIRMAN DECKER: Any opposed?

4 Motion carries.

5 Thank you again, Maureen and Mary.

6 Anything else, Mary, along the regulations

7 line?

8 COMMISSIONER DiGIACOMO COLINS: No.

9 CHAIRMAN DECKER: Okay. Let's see. Okay.

10 I think we're at the end of the road.

11 Any other new business that the Board would

12 like to discuss?

13 Hearing none, may I have a motion to

14 adjourn?

15 COMMISSIONER CONABOY: So moved.

16 CHAIRMAN DECKER: Second?

17 COMMISSIONER McCABE: Second.

18 CHAIRMAN DECKER: All in favor?

19 COMMISSIONERS: Aye.

20 CHAIRMAN DECKER: We're adjourned.

21 (The meeting concluded at 11:13 a.m.)

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1 I hereby certify that the proceedings and
2 evidence are contained fully and accurately in the
3 notes taken by me on the within proceedings and that
4 this is a correct transcript of the same.

5

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Hillary M. Hazlett, Reporter
Notary Public

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