DIVISION OF GAMING
Performance Audit, October 2011
Report Highlights

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PURPOSE

Evaluate whether the Limited Gaming Control Commission's (the Gaming Commission) process for issuing multiple casino licenses meets legislative intent, and the effectiveness and efficiency of the regulatory activities performed by the Division of Gaming's (the Division) Audit, Investigations, and Field Operations Sections.

BACKGROUND

- Colorado voters approved constitutional amendments in 1990 and 2008 authorizing limited and extended casino gaming, respectively.
- The Gaming Commission is responsible for administering and regulating gaming in Colorado, including promulgating gaming rules and regulations; establishing the gaming tax; licensing gaming owners, manufacturers, and employees; and imposing enforcement and corrective actions against licensees.
- The Division is responsible for processing license applications, implementing and enforcing gaming statutes and regulations, and supervising the conduct of casinos.
- The Gaming Commission has established a graduated gaming tax on individual casinos' adjusted gross proceeds. Over the last 5 fiscal years, gaming tax revenue paid to the State averaged about $106 million per year.

OUR RECOMMENDATIONS

The Gaming Commission should:

- Eliminate the tax advantage gained by ownership groups with multiple physically attached casinos.

The Gaming Commission partially agreed with this recommendation.

The Division of Gaming should:

- Determine the purpose and need for each of its data systems and eliminate unnecessary and duplicative systems.
- Implement a process to ensure it meets its goals for completing regulatory reviews and utilizes staff efficiently.

The Division agreed with these recommendations.

AUDIT CONCERN

The Gaming Commission should make regulatory changes to ensure that casino owners pay gaming taxes in an equitable manner, and the Division should improve its operations and regulatory activities to strengthen oversight of Colorado's casinos.

KEY FACTS AND FINDINGS

- The Gaming Commission's current tax and licensing structures allow owners of multiple attached casinos to gain a competitive advantage over owners of other casinos.

- The Division's data systems for tracking casino oversight activities contain inaccurate, incomplete, and overlapping data. Specifically, we found problems with completeness and accuracy in three of the Division's five data systems. As a result, the Division's ability to utilize its data and produce accurate reports of its regulatory activities for the Gaming Commission is limited.

- The Division did not conduct oversight activities at some casinos to gain assurance that all casinos were reporting revenue accurately for gaming tax purposes. Specifically, none of the 41 casinos operating in Fiscal Year 2010 received all applicable regulatory reviews. Additionally, 10 (24 percent) of the 41 casinos did not receive audits or reviews of the highest-risk accounting areas.

- The Division's method for determining casino compliance with the Gambling Payment Intercept Act—which requires casinos to search a database of persons owing child support before paying a certain level of winnings to patrons—does not provide consistent and reliable results or ensure timely compliance. As a result, the Division cannot reliably identify the casinos that do not adequately perform searches, determine the precise reasons why casinos do not perform adequate searches, or take appropriate enforcement action to ensure compliance.

FINANCIAL BENEFITS

The State could have collected about $4.9 million more in gaming taxes in Fiscal Year 2010 if casino owners had operated their attached casinos under one casino retail license or if their attached casinos had been taxed under one license.

For further information about this report, contact the Office of the State Auditor
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