

ANNUAL REPORT 2008

Our Mission

Protect the Public, ensure compliance with the gaming compacts, and regulate the gaming industry.

Our Diversity Statement

The Department of Gaming believes in creating a diverse work environment. The Department is committed tp recruiting, developing, retaining, and advancing qualified employees regardless of race, color, religion, gender, age, disability, or national origin. The Department of Gaming promotes a work environment in which all employees are treated with trust, respect, and dignity.

Our Values

We act with integrity.

We support diversity.

We respect and work with the Tribes as partners.

We are transparent, consistent, and predictable.

We are professional, accountable, and responsible in all of our activities.

We respect and support each other.

Director's Message

On behalf of the Arizona Department of Gaming, I am pleased to submit the Department's Annual Report for State Fiscal Year 2008.

The Arizona Department of Gaming partners with Arizona's Indian Tribes to oversee Indian casinos in the State. The mission of the Department is to protect the public, ensure compliance with the Gaming Compact and regulate the gaming industry.

Gaming in Arizona is governed by the Tribal-State Gaming Compact between the State of Arizona and 21 Tribes. The Compact and its appendices outline the types of permitted games, establish technical standards for gaming machines, require minimum internal control standards for casino operations, authorize the State to inspect casinos, and mandate background investigations and certification of casino employees and vendors. The Tribes agreed to contribute a portion of their gaming revenue to the State, cities, towns, and counties, and to pay for a portion of the State's expenses for regulating casinos.

In addition to State monitoring, every Tribal casino is regulated by a Tribal Gaming Office (TGO), which is independent of the Tribal casino operation. The TGO is responsible for on-site regulation of all gaming activities. In addition, the Department's Office of Problem Gambling provides treatment, prevention, and education programs for problem gambling.

The Arizona Department of Gaming has 123 full-time positions, including 34 AZPOST (Arizona Peace Officer Standards and Training) certified peace officers. Department employees include former and retired police officers and law enforcement agents, accountants, auditors, slot machine technicians, administrative staff, and others.

The Department is funded entirely by the gaming industry. No taxpayer funds (State General Fund revenue) are used by the Department. The Department had a budget of \$15.6 million in State Fiscal Year 2008, including \$2.7 million allocated for problem gambling.

In State Fiscal Year 2008, the aggregate gross gaming revenue of Arizona casinos increased 1.9 percent from the previous year to \$1.98 billion. Gross gaming revenue (also called net win) is the difference between gaming wins and losses, before the deduction of casino operating costs and expenses. In State Fiscal Year 2008, the Tribes made combined Tribal contributions of \$96.0 million to the State's Arizona Benefits Fund, which finances education, health care, wildlife conservation, tourism, problem gambling programs, and the Department's operating budget. In Fiscal Year 2008, Tribes contributed another \$15.2 million directly to cities, towns, and counties of the Tribes' choosing.

Partnerships

During Fiscal Year 2008, the Department continued to forge partnerships and broaden its outreach to strengthen oversight of casinos and promote best industry practices. The Department's main partners in regulation are the TGOs, which are the Tribal on-site regulators and have primary day-to-day authority for regulating casinos. The Department interacts with TGOs on a daily basis, sharing information and providing support. The ongoing interaction between the Department and Tribal regulators helps ensure that issues are remedied quickly and potential issues are averted.

The Department reaches out to constituencies that share its mission to protect the integrity of gaming. The Department attends meetings of the Arizona Tribal Gaming Regulators Alliance to report on the Department's activities and objectives. The Department also meets regularly with representatives of the Arizona Indian Gaming Association, whose membership includes 19 of Arizona's 22 Tribes. The Department is a member of the Indian Gaming Working

Group, created to improve oversight of casinos and encourage information sharing. The Indian Gaming Working Group is comprised of the Arizona Department of Gaming, the U.S. Department of Justice, the Federal Bureau of Investigation, the National Indian Gaming Commission, the U.S. Department of the Interior, the Bureau of Indian Affairs, the Internal Revenue Service, and the Treasury Department. Additionally, the Department meets monthly with representatives of the National Indian Gaming Commission's Southwest Regional Office in Phoenix.

Training for Tribal Regulators

The Department engages in training and outreach to make the its work transparent, so that Tribes, TGOs, gaming employees, casino vendor companies, and the public know what is needed to comply with the Gaming Compact and meet the Department's regulatory requirements. The Tribes' eagerness to attend Department-sponsored training demonstrates that the State and the Tribes have a mutual interest in continually improving regulatory compliance.

In Fiscal Year 2008, the Department of Gaming provided or co-sponsored classroom training for a total of 165 Tribal regulators, casino officials, and others, including 90 Tribal Gaming Office staff who attended Department classes on Report Writing and Arizona Gambling Laws, and 75 people who attended classes the Department co-sponsored with the U.S. Attorney for the District of Arizona. As part of an ongoing partnership with the U.S. Attorney for Arizona, the Department paid for training for Tribal gaming agents, casino security and surveillance staff, and others from around the State on important law enforcement and regulatory issues. These multi-day seminars covered subjects such as Detecting Internal/External Theft and Conducting Investigations. Another seminar, International Gaming Technologies' Gaming Agent Training, taught students the mechanics of slot machines so they can detect possible attempts to tamper with the machines.

Department staff also visit Tribal Gaming Offices upon request to answer questions about the Department's procedures and certification processes.

Public Outreach

In March 2008, the Department's Office of Problem Gambling held its 2008 Symposium, titled "Emerging Issues: Community and Individual Implications of Problem Gambling."

The Symposium was held with support from the Arizona Lottery and Harrah's Ak-Chin Casino & Hotel Resort. The Symposium featured internationally recognized speakers on problem gambling and included a panel of people sharing their experiences in overcoming problem gambling. The symposium was attended by 72 people from throughout Arizona, representing professional mental health and substance abuse counselors, recovering problem gamblers, problem gambling counselors, Arizona Lottery and tribal gaming representatives, the Arizona Council on Compulsive Gambling, and the Arizona Department of Health Services. Of those who responded to a satisfaction survey, 98 percent of participants reported being very satisfied or satisfied with the symposium.

Funding Criminal Prosecutions

The Department's groundbreaking program to fund a federal casino crimes prosecutor at the U.S. Attorney for Arizona is strengthening criminal enforcement of casino crimes. Under the Department's Memorandum of Understanding with the U.S. Attorney for Arizona, the Department pays \$300,000 a year for five years for a federal prosecutor and support staff,

and funds training for tribal gaming regulators. The agreement, signed in September 2005, created the first and only full-time federal casino crimes prosecutor position in the country.

The U.S. Attorney's Office for Arizona secured several felony convictions in State Fiscal Year 2008. Two former casino slot machine technicians pleaded guilty to colluding to falsify jackpot tickets totaling \$9,400 in 2006. In a separate case, a former cashier at another casino pleaded guilty to stealing almost \$10,000 from her employer in 2006. Additionally, the prosecutor won the convictions of all four people who conspired to rob a Phoenix area casino, with the three of the convictions carrying prison sentences of 17 years and 7 months; 6-1/2 years; 2 years; and one conviction carrying a sentence of 3 years of probation. The Department expects that its sponsorship of the nation's only casino crimes prosecutor will deter unscrupulous individuals from seeking to commit gaming crimes in Arizona.

National Model for Tribal-State Cooperation

According to the *Arizona Republic*, industry analysts call Arizona's Tribal gaming regulation "a model plan" for the country. The Arizona Department of Gaming fields queries from other states seeking advice and input on what methods and approaches have succeeded in Arizona. Arizona's Gaming Compact standards are stringent and are stronger than those in most states, according to the U.S. National Indian Gaming Commission. The NIGC is the federal regulator of Indian casinos.

"The Arizona regulatory model works because of the mutual respect and cooperation between State and Tribal regulators," Delia Carlyle, chairman of the Arizona Indian Gaming Association, testified in April 2008 before the U.S. Senate Committee on Indian Affairs. "In Arizona, the Tribes and State have developed a collaborative partnership for effective regulation of Indian gaming," Carlyle stated. The chairman also said that "the relationship between the Tribes and the State has become a successful partnership."

The Arizona Department of Gaming is proud of its partnership with Arizona's Tribes, an alliance that sets the highest standard for gaming regulation.

Paul A. Bullis Director

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History of Gaming in Arizona

In 1988, the U.S. Congress and the President enacted the Indian Gaming Regulatory Act (IGRA) in response to the proliferation of gambling halls on Indian reservations. IGRA recognized gaming as a way to promote Tribal economic development, self-sufficiency, and strong Tribal government. The Act says a State must permit Indians to run gaming on reservations if the State permits such gaming off reservation. Under the Indian Gaming Regulatory Act, a Tribe that wants to engage in Class III casino-style gaming must first sign a Gaming Compact (or agreement) with the State where the casino would be located. IGRA requires a State to negotiate in good faith with the Tribe seeking a Tribal-State Gaming Compact.

In enacting IGRA, Congress was reacting to a regulatory vacuum left by a 1987 U.S. Supreme Court ruling (California v. Cabazon Band of Mission Indians) that states have no regulatory authority over gaming on Indian reservations. That ruling said Tribes have the right to operate gaming on reservations if states allowed such gaming off-reservation.

The Indian Gaming Regulatory Act of 1988 expressly granted states and the Tribes the power to jointly regulate Class III Tribal gaming. Class III gaming includes slot machines, blackjack, keno, and other casino-style games. IGRA also created the National Indian Gaming Commission to oversee reservation bingo games and certain aspects of Class III gaming.

By the early 1990s, several Arizona Tribes had installed slot machines in their casinos, even though none of them had Tribal-State Gaming Compacts with the State. The Arizona governor at the time, Fife Symington, said reservations shouldn't have casinos because Arizona didn't allow such gambling off reservation. Tribes countered that Arizona did permit such gambling by allowing State lotteries, dog and horse racing, and charity bingo games off reservation.

In May 1992, the National Indian Gaming Commission issued rules clarifying that a Tribe must have a Gaming Compact with a State before the Tribe can operate slot machines. Immediately after the rules were announced, the Arizona governor called on the U.S. Attorney for Arizona to shut down casinos with the slot machines. FBI agents raided five Indian casinos and seized their slot machines. At Fort McDowell's casino near Scottsdale, Tribal members formed a blockade to prevent the removal of the machines, and a three-week standoff ensued.

Against a backdrop of legal challenges that continued for more than a decade, Governor Symington signed Arizona's first set of Tribal-State Gaming Compacts with 16 Tribes from 1992 to 1994. The governor's successor, Jane Hull, signed a Compact with a 17th Tribe in 1998. This first set of Compacts was in effect from 1993 to 2003.

The Arizona Tribal-State Gaming Compacts gave Tribes exclusive rights to operate slot machines and casino-style gaming, limited the number of slot machines and casinos, established comprehensive rules governing gaming, and set minimum internal control standards for casino operations. The Compacts authorized the State of Arizona to ensure compliance with the Tribal-State Gaming Compacts and to work with Tribal regulators to protect the integrity of Class III gaming on Tribal lands.

In the November 2002 general election, Arizona voters approved Proposition 202, which authorized the continuation of Indian gaming. From December 2002 to January 2003, Governor Hull signed new Tribal-State Gaming Compacts with 16 Tribes. In 2003, Governor Janet Napolitano signed Compacts with an additional five Tribes. The Compact with each of the 21 Tribes is identical and took effect in 2003. It lasts for 10 years, and can be renewed for another decade. The Compact is part of State law in *Arizona Revised Statutes* Section 5-601.02.

Currently, there are 15 Tribes operating 22 Class III casinos in the State. Another 6 Tribes don't have casinos but have slot machine rights they lease to other Tribes. One of Arizona's 22 Tribes doesn't have a Gaming Compact.

Class III gaming in Arizona includes slot machines (also called gaming devices), jackpot poker, blackjack, keno, and off-track pari-mutuel betting. There were 14,001 Class III slot machines in operation in Arizona at the end of Fiscal Year 2008. There were 211 jackpot poker tables and 275 blackjack tables; both games have betting limits. Some Tribes also offer live keno, or Class II bingo gaming.

Tribal Investigations and Inspections Unit

The Tribal Investigations and Inspections Unit of the Department of Gaming conducts on-site inspections of casino operations and investigates suspected Compact violations and criminal activity. The Unit is comprised of special agents, all of whom have previous experience working as law enforcement officers and have unrestricted AZPOST certification. Special agents have prior backgrounds working in city police departments, the Arizona Department of Public Safety, the U.S. Marshals Service, the U.S. Drug Enforcement Administration and other entities.

Special agents at casinos work to ensure that gaming operations are conducted in compliance with the Tribal-State Gaming Compact. Casino-based monitoring encourages agents to spend as much time as possible in every casino in the State. On-site inspections of gaming facilities ensure that appropriate security and surveillance procedures are in place. Their physical presence in casinos gives the special agents opportunities to spot potential problems and to work with TGOs and casino officials to correct deficiencies. Special agents have full access to all casino premises, including the cashiers' cage, money count rooms, back rooms, and video surveillance monitoring offices.

Under the Arizona Tribal-State Gaming Compact, TGOs have primary on-site responsibility for regulation. The Department's Tribal Investigations and Inspections Unit offers input to TGOs and casino operators on issues ranging from parking lot security to the positioning of surveillance cameras in card rooms. This interaction with the TGOs furthers the Department's goal of protecting the public.

During inspections and investigations, the Department's special agents have access to all of the casinos' surveillance videos, images, and records. If a patron has a complaint involving a slot machine or card game, the special agents can review the casino's surveillance recordings. Special agents have full access to casino security-related documents, such as sign-in/sign-out sheets for employees accessing the casino vault and daily incident reports that record unusual occurrences in the casino. Casinos are required to report unusual occurrences to the Department of Gaming.

Department special agents work closely with their counterparts in the casinos' TGOs to investigate suspected Compact violations and criminal activity. In conjunction with the Department's Intelligence Unit, the Unit cooperates with other law enforcement and gaming agencies. The Tribal Investigations and Inspections Unit provides assistance to Federal, Tribal, State, local and foreign agencies in multi-jurisdictional investigations that touch on casino operations or involve casino patrons. For example, special agents will alert Tribal and casino officials about a criminal suspect from another State who attempts to cash fraudulent checks at an Arizona casino. That suspect may be under investigation by police in the suspect's home state. Special agents will work with Tribal officials to exchange information on the suspect and assist in the police investigation.

Games and Systems Compliance Unit

The Games and Systems Compliance Unit reviews hundreds of casino promotions; slot, blackjack, and poker tournaments; new table games and variations of jackpot poker and blackjack; and other new games to ensure that they comply with the Tribal-State Gaming Compact. Tribes must seek prior approval from the Department of Gaming before they can conduct promotions and cash or prize giveaways. The Unit performs its reviews in seven business days or less. In Fiscal Year 2008, the Unit approved 745 promotions and lotteries, 16 blackjack variation games, 246 jackpot poker tournaments, 43 slot tournaments, 43 blackjack tournaments, 19 jackpot poker variation games, and 13 keno tournaments.

The Games and Systems Compliance Unit keeps up with the latest technology and innovations in the fast-changing gaming industry. Every week, new types of casino games, promotions, and technology are being introduced in the marketplace. In consultation with the Tribes and Tribal Gaming Offices, the Unit analyzes new gaming industry technology to determine if the technology is permitted in Arizona under the Compact. The Unit seeks out training and educational opportunities to stay abreast of emerging trends in gaming and gaming regulation.

Tribal Gaming Status as of June 30, 2008

Tribes in Arizona	22
Tribes with Current Compacts	21
Tribes with Casinos	15
Number of Casino Sites	22
Number of Slot Machines	14,001
Number of Poker Tables	211
Number of Blackjack Tables	275
Number of Casinos with Live Keno	8
Number of Casinos with Off-track Pari-mutuel Betting	0

Note: For the tribal gaming status listing figures for individual tribes, please refer to the Department Web site: www.azgaming.gov

Gaming Device Compliance Unit

There were 14,001 Class III slot machines in operation in Arizona at the end of Fiscal Year 2008. Virtually every casino slot machine is inspected by a Gaming Device Compliance Unit technician each year.

The Unit inspected 13,969 slot machines in Fiscal Year 2008, or an average of 1,164 slot machines each month, during visits to casinos.

The Department's Gaming Device Compliance technicians make sure that slot machines (also called gaming devices) meet technical standards, are functioning properly, and pay out the minimum percentage wins mandated in the Arizona Tribal-State Gaming Compact.

All slot machine hardware and software designs and electronic game management systems are tested by an independent testing lab before the machines can be shipped to Arizona. The independent lab certifies that the slot machines pay out the minimum percentage wins required by the Compact. The Gaming Device Compliance Unit works in conjunction with the independent lab to make sure the gaming devices and electronic slot accounting and monitoring systems in Arizona meet rigorous legal and technical standards before the machines are put into play.

Technicians inspect and certify slot machines every time a casino installs a new machine, upgrades software on a machine, changes the percentage payout on a machine, or converts a machine to a new game theme. Unit technicians visit the casinos to observe and certify any changes in hardware or software in gaming devices.

The Unit also conducts random, unannounced spot checks at casinos. Unit technicians inspect the machines, software, and electronic slot accounting and monitoring systems to make sure that slot machines pay out their required jackpots and are operating as they should. Under the Compact, the minimum theoretical percentage payout for slot machines is 80% of wagers during the expected life of the machine. The minimum theoretical percentage payout is 83% for games of skill such as video poker, and 75% for keno video games. Casinos can pay more than the minimum payouts if they wish.

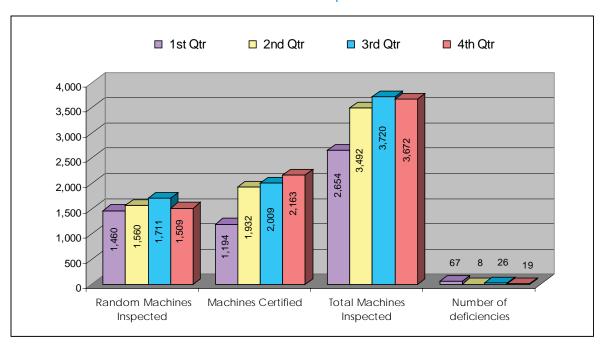
After on-site visits, technicians relay their findings to the casino's Tribal Gaming Office and follow up with written findings and recommendations. The Unit works with the TGOs to make certain that all problems are addressed and machines are brought into compliance. Additionally, the Unit works with TGOs to alert the casinos about malfunctions as the Unit becomes aware of them so that casinos can take steps to correct problems. The Unit also investigates complaints from casino patrons about gaming devices and assists in the Department's investigations.

Gaming Device Compliance staff must keep pace with new types of gaming devices and technology that come on the market. New computer technology and software are replacing decades-old technology in some gaming machines. For example, some gaming devices that used to be powered by EPROM (Erasable Programmable Read-Only Memory) chips are being supplanted by machines powered by a computer hard drive. In addition, many games are being run with flash cards, the same type of removable cards used to capture photos in digital cameras. Technicians attend training programs and work closely

with an independent testing laboratory to keep up with the latest developments. The Unit also alerts the testing laboratory about defects that could be present in similar machines used in other casinos and in other states. The Unit receives briefings from manufacturers of gaming devices before companies seek to introduce new types of machines in Arizona so that any technical problems can be averted before the machines are installed.

Industry peers commend the Gaming Device Compliance technicians' rigorous inspections, as well as their smooth working relationship with Tribal Gaming Offices. The Unit's work has been recognized by *Casino Enterprise Management*, the leading magazine for casino owners and executives. The magazine said the Arizona Department of Gaming's regulatory system demonstrated "the very best in regulation," and, about the Department's Gaming Device Compliance technicians: "The field inspections we observed were models of regulatory efficiency that reflected meticulous planning and careful coordination. The inspectors arrived on time and met briefly with their tribal counterparts. Everyone involved knew their precise task. The inspection itself proceeded as a well-choreographed ballet. The machines to be inspected were quickly identified, media pulled and tested, and the games powered up and back online before any patrons even missed them...The state regulators and the tribal regulators work together for the best interest of gaming and to assure compliant and effective enforcement."

FY 2008 Machine Inspection Statistics



Gaming Vendor Certification Unit

The Gaming Vendor Certification Unit determines the suitability of companies and individuals doing business with casinos in Arizona. Each company, each principal of a gaming company, and key personnel providing gaming products or services must undergo a thorough background investigation.

The Unit is made up of special agents, financial investigators, a compliance auditor, and intake officers. The Unit certifies all vendors (other than regulated lending institutions) providing financing to Tribes for gaming facilities, all management contractors engaged by a Tribe to assist in the management or operation of a gaming facility, all manufacturers and distributors of gaming devices, and all companies providing services to casinos in excess of \$10,000 in any one month. The Unit analyzes the type of activity, product, or service to determine whether a company must be State certified.

The vendor certification process includes reviews of financial statements and financial background, regulatory history, customer service track record, fingerprints, criminal records checks, and other pertinent information. Manufacturers and distributors of gaming devices, playing cards, card tables, and other items used in the play of Class III games undergo a particularly rigorous investigation. This includes on-site visits to company headquarters and manufacturing facilities, reviews of company documents including Board of Directors minutes and financial audits, and face-to-face interviews with key personnel.

With globalization and corporate mergers, a growing number of gaming vendors now are affiliated with multinational companies with offices or headquarters overseas. Unit investigations of gaming companies involve not only the vendor's offices and factories in the United States, but they often include reviews and in-person interviews conducted at the vendor's international offices, parent companies, and corporate affiliates. On-site visits to gaming companies are important to gain an understanding of a company and its operations, who controls its day-to-day operations, and its manufacturing and technical standards. For example, personal observations may reveal the level of security and internal controls a gaming device manufacturer employs to prevent anyone from tampering with slot machine equipment sold to casinos.

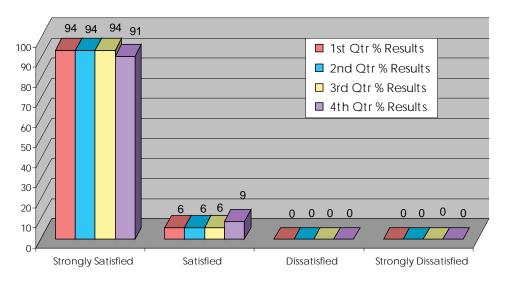
After an initial review, the Unit will grant the vendor temporary State certification, pending a final determination on full State certification. The Compact requires the Unit to issue temporary certification within 20 days unless the background investigation reveals sufficient grounds to disqualify the applicant on the initial review. The temporary vendor certification is valid until the Department completes its investigation and makes a determination on whether to grant full State certification.

In Fiscal Year 2008, the Unit issued vendor certification to 122 new applicants and 206 renewal applicants. Vendor certification is valid for two years and may be renewed. Once a vendor receives State certification with one sponsoring Tribe, the company is certified to do business with all the Arizona Tribes. In addition, Tribal regulators are required to license each of these vendors.

The Unit meets with the TGOs and casino operators to make the Department's vendor certification process and procedures transparent to casino staff and Tribal gaming regulators.

The Unit also conducts investigations and takes enforcement action against vendors found to be unsuitable for the gaming industry. The Unit assists with investigations conducted by other law enforcement agencies and by TGOs.

FY 2008 Customer Satisfaction Survey Results



Gaming Employee Certification Unit

The Gaming Employee Certification Unit is responsible for doing background checks on employees and prospective employees to ensure that only individuals who are suitable to work in the gaming industry are hired. Each gaming employee or prospective employee must undergo a thorough background investigation. The Unit also conducts investigations of individuals whose suspicious conduct may be a threat to the public interest, and the Unit will seek to remove them from the industry.

The Gaming Employee Certification Unit issues State certification to non-Tribal gaming employees. An employee certified by the Unit is certified to work in any Arizona casino. The Unit also issues recommendations to Tribal Gaming Offices on whether the TGO should issue Tribal gaming licenses to Tribal members who apply to become gaming employees.

The rigorous State certification process includes criminal background checks, fingerprints, credit history reports, financial background screenings, work history, review of criminal cases or civil litigation, education, personal and professional references, tax records, and other checks. The Unit's reviews of key casino executives are even more exacting. They include in-person interviews conducted by Unit investigators; full reviews of the executives' financial holdings, brokerage accounts, and tax information; interviews with professional and personal associates; and other items.

In Fiscal Year 2008, the Unit certified 1,584 non-Tribal members and issued Tribal licensing recommendations to 449 Tribal members, for a total of 2,033 new employee investigations. Additionally, the Unit issued 5,851 non-Tribal member certification renewals and 1,757 Tribal member licensing renewal recommendations, for a total of 7,608 renewal investigations.

The Unit works closely with TGOs to certify employees. Typically, a non-Tribal employee or prospective employee applies for State certification through the Tribal Gaming Office of the casino that wants to employ the person. The TGO will contact the Department of Gaming on a non-Tribal employee's behalf, triggering the Employee Certification Unit's investigation. After an initial review, the Unit will issue a temporary certification to the employee, pending the completion of the background investigation or other checks, such as interviews or court documents. The Compact requires the Unit to issue temporary State certification within 20 days of receipt of a complete application unless the background investigation discloses that the applicant has a criminal history or the Department has other sufficient grounds to disqualify the applicant on the initial review of the application. In Fiscal Year 2008, the Unit averaged 12.3 days to issue a temporary certification to an employee.

After the full review is complete, the Unit will issue the person a full State certification, valid for one year, or deny the person certification. In Fiscal Year 2008, the Unit averaged 40.4 days to complete an initial certification for a new employee. Employees must be recertified every year to continue working in Arizona casinos. In Fiscal Year 2008, the Gaming Employee Certification Unit averaged 101.2 days to issue renewals of State certification.

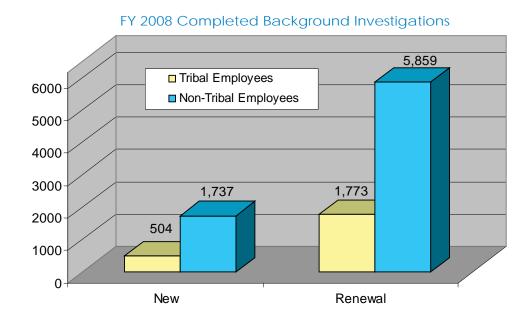
If a certified employee is hired by another casino, the new casino must notify the Department of its new hire and verify the employee's certification status with the Department.

The Employee Certification Unit visits with TGOs to strengthen cooperation, review past practices, and examine ways to improve the regulatory process. It reviews casino incident reports relating to gaming employee actions or violations of the Compact or casino internal controls. In Fiscal Year 2008, the Unit made 55 visits to TGOs to further this collaborative effort.

In Fiscal Year 2008, the Unit processed 1,139 fingerprints for waitresses, cooks, housekeeping personnel, landscapers, and other support employees whose jobs are ancillary to the gaming operations. These individuals are not required to have State certification, but they are required to be licensed by the Tribe. This service helps the Department when it conducts its annual Compact Compliance Reviews relating to TGOs' obligations to conduct background investigations on Tribal employees and properly issue Tribal gaming employee licenses.

In addition, the Unit conducts investigations and takes enforcement action against individuals found to be unsuitable for the gaming industry. The Unit has cooperated with, and assisted in, criminal enforcement investigations concerning casino employees.

In doing its day-to-day work, the Unit uses IDPoint, an electronic gaming regulatory software system that includes a complete chronology and details of an applicant's certification and renewals. Records technicians electronically scan all applications, correspondence, and other paper documents into IDPoint, where they are stored for instant reference. The system can also receive electronic copies of an applicant's credit history information from the credit reporting agencies. Department employees can enter notes of key events, such as applicant interview dates, into the IDPoint system. Automating the process speeds the certification process and reduces human errors.



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Intelligence Unit

The Intelligence Unit gathers and disseminates information involving threats to gaming operations, patrons, and the public.

Dissemination of Data on Suspicious Activities

The Unit gathers data on suspicious or criminal activity from each Tribe and disseminates it to all the casinos in the State. Intelligence bulletins are produced and distributed within 24 hours of receipt of information from a Tribe. By acting as a clearinghouse for Tribal data, the Unit helps all the Tribes better protect gaming operations and the public. Tribes can shift their security and surveillance assets and personnel based on information they receive from the Department of Gaming.

Criminal Data Tracking System

The Tribes supply monthly reports to the Intelligence Unit, identifying patrons who have been barred from their facilities for suspicious or criminal activity. These reports are reviewed, summarized, and compiled into data charts. The charts compare criminal activity in the individual gaming facilities to aggregate data on criminal activity for all the gaming facilities in the State. The Intelligence Unit sends the charts to each Tribe so that the Tribe can take appropriate action and target suspicious activities in its own facilities.

Liaison Between Tribes and Other Agencies

The Intelligence Unit at times acts as a liaison between the Department, the Tribes, and other State, county, and municipal law enforcement agencies. For example, a law enforcement agency might ask the Unit to enlist a Tribe's help gathering information about a possible criminal suspect who frequents casinos. The Unit will secure the Tribe's assistance in gathering information about the suspect's presence in Arizona casinos.

Cheating Crimes Tracking

The Intelligence Unit tracks instances of cheating and disseminates bulletins to the Tribes so they can be on guard against suspicious individuals or fraudulent activity. This analysis helps improve security and surveillance. One example of cheating by patrons is "bet capping" at blackjack games. In this scheme, a player will surreptitiously place extra chips on his pile while the dealer's attention is diverted. Because each chip represents money, the extra chips will give the player a bigger jackpot win than the player is entitled to.

Counterfeit Currency Tracking

The Intelligence Unit works with Tribes and other law enforcement agencies to track and attempt to curb the circulation of counterfeit currency in casinos. Using information provided by the casinos, the Unit maintains a database of suspicious currency, including serial numbers, and a trail of where that money has traveled. The Unit distributes this information to the casinos, which then can compare the counterfeit reports and currency serial numbers against a suspicious bill that a patron presents to the casino.

Forged Instrument Tracking

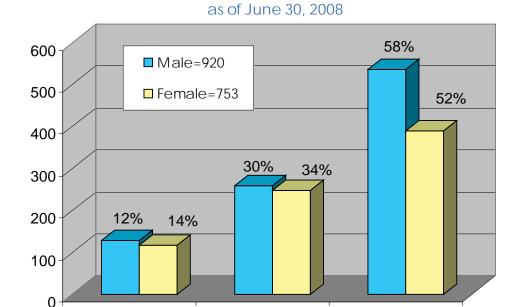
Similar to the way cheating crimes and counterfeit currency are tracked, the Intelligence Unit also tracks forged instruments. The Unit uses a computerized system to help prevent the use of fraudulent checks in casinos. The database includes details on forged, stolen, and altered bank checks, cashier's checks, and money orders. The Unit distributes this information to the casinos so they can be on guard against fraudulent checks.

W-2G Jackpot Tracking

The Intelligence Unit receives annual reports from each Tribe on individual patrons' taxable casino winnings. These "W-2G Patron Payout" statements list the names of patrons who have won \$1,200 or more on slot machines or \$600 or more on card games. Patrons must pay income taxes on the amounts shown on W-2Gs. Tribes send this information in different formats that vary with each Tribe. The Intelligence Unit converts these multiple formats into a common format that can be maintained in a centralized, searchable database. The Department uses the database for tracking and investigative purposes.

Patron Self-Exclusion Process

The Intelligence Unit plays a crucial role in helping problem gamblers help themselves. The Unit administers a problem gambler self-exclusion program. It compiles and sends to the Tribal Gaming Offices a list of people who have voluntarily chosen to exclude themselves from Arizona casinos. The number of people in the self-exclusion program increased 23% percent to 2,069 people in Fiscal Year 2008 from the previous Fiscal Year. Individuals can choose to be self-excluded for one, five, or ten years. The list is updated several times a week so that casino officials have the most current information and photos on self-excluded patrons. A patron who is self-excluded cannot collect any winnings or jackpots from a casino. The Unit works closely with the Department's Office of Problem Gambling to direct patrons to further assistance.



Five Years

Ten Years

Self-Exclude Duration Chosen by Gender

One Year

Audit Unit

The Audit Unit is responsible for auditing Tribal casinos for compliance with the Tribal-State Gaming Compact and its appendices and Tribal contributions requirements.

The Compact and its appendices contain detailed regulatory, technical, and internal control standards for the operation of Indian gaming. Every year, the Department of Gaming conducts on-site audits of each casino. These audits are called Compact Compliance Reviews and are led by the Audit Unit. A Compact Compliance Review team typically includes 10 to 12 Department employees who visit the casino and review the gaming facility's performance and procedures. The Department reviews hundreds of items ranging from cash handling procedures to video surveillance to casino giveaways of free meals.

Compact Compliance Reviews last from one to two weeks. The Compact Compliance Review teams include members from the following Department of Gaming Units: Audit, Gaming Device Compliance, Tribal Investigations and Inspections, Gaming Vendor Certification, and Gaming Employee Certification. Team members fan out across the casino and observe casino operations, interview workers and management, and review casino records and surveillance videos to assess whether the casino is following minimum internal control standards that assure compliance with the Gaming Compact.

In a typical test of a casino's procedures, staff from the Audit Unit review surveillance tapes showing how casino employees replenish chips on a blackjack table. A chip is equivalent to cash. During a game, when a card dealer is running low on the bank of chips at his or her table, the supervisor will order additional chips by filling out a form requesting the chips from the casino's "cage" or cashier's window. The supervisor gives the form to a runner who goes to the cage to pick up the chips. At the cage, the runner and cage cashier must jointly count the chips being requested and sign the request form after verifying the amount. The runner then takes the chips to the table, where the dealer and supervisor again count the chips and sign the form. All of these employees' movements are constantly being recorded on the casino's vide surveillance. The Audit Unit team will look at videotapes and written records to see that procedures are being followed precisely to account for all the cash, chips, and tickets that flow through the casino every day.

After the Department's visit to the casino, the Audit Unit sends Tribal regulators a preliminary report detailing all the issues that may be non-compliant. The Tribe responds to the report in writing, letting the Department know the status of any proposed fixes or explaining why the Tribe feels justified in following certain practices. Most discrepancies are resolved and brought into compliance by the Tribes during this period. Tribes will explain what steps they are taking to address the Department's preliminary findings of non-compliance. After follow-up and review, the Department issues a final report to the Executive Director of the TGO indicating which outstanding issues still have not been resolved. Even after the final report is issued, the Audit Unit continues to work with the Tribe to resolve any remaining issues.

Additionally, the Audit Unit verifies that each Tribe accurately makes its Tribal contributions to the State, cities, counties, and towns. Under the Arizona Tribal-State Gaming Compact, Arizona Tribes with casinos have agreed to contribute 1% to 8% of their Class III net win each year to programs that benefit the people of Arizona. "Class III net win" means

gross gaming revenue, which is the difference between gaming wins and losses, before deducting costs and expenses. Class III games authorized in Arizona include slot machines, jackpot poker, blackjack, keno, and off-track pari-mutuel wagering. Tribal contributions fund education, trauma care, wildlife conservation, tourism promotion, problem gambling services, and the Department's regulatory expenses.

A Tribe's contribution is calculated on a sliding scale based on the amount of the Tribe's Class III net win. A Tribe pays 1% in contributions for its first \$25 million in Class III net win, 3% of the next \$50 million, 6% of the next \$25 million, and 8% of the Class III net win in excess of \$100 million.



Havasupai Indian Tribe – Supai (Grand Canyon) Hualapa Indian Tribe – Peach Springs Kaibab Band of Paiute Indians – Fredonia Navajo Nation – Window Rock San Juan Southern Paiute Tribe Zuni Tribe – Highway 180

Tribal Contributions Breakdown

12 percent to cities, towns, and counties of the Tribe's choosing:

Twelve percent of a Tribe's total annual Tribal contribution is distributed by the Tribe directly to cities, towns, and counties of the Tribe's choosing. The money is to be used for government services that benefit the general public, including public safety, mitigation of the impacts of gaming, and promotion of commerce and economic development. Instead of or in addition to contributing money directly to cities, towns, or counties, a Tribe may make its 12% contribution to the Commerce and Economic Development Commission Local Communities Fund. Each Tribe can make its contribution to cities, towns, and counties whenever it chooses as long as it is done by the end of the Tribe's Fiscal Year. Tribes are required to report their contribution to the Department, which verifies the reports.

88 percent to State Arizona Benefits Fund:

The other 88% of a Tribe's total annual Tribal contribution goes to the State Arizona Benefits Fund on a quarterly basis:

\$8 million or 9% of Tribal contributions to the Arizona Benefits Fund, whichever is greater, goes toward the payment of the Department of Gaming's regulatory and administrative costs.

2% of contributions to the Arizona Benefits Fund is to be used to fund programs for the prevention and treatment of, and education concerning, problem gambling.

The Department disburses the remaining Tribal contributions in the Arizona Benefits Fund according to the following formula:

56% to the Instructional Improvement Fund administered by the State Department of Education. Every school district receives a portion of this Fund. Disbursement is based on a district's percentage of the total per capita number of public school students in the State.

28% to the Trauma and Emergency Services Fund administered by the Arizona Health Care Cost Containment System (AHCCCS).

8% to the Tourism Fund administered by the State Office of Tourism.

8% to the Arizona Wildlife Conservation Fund administered by the State Game and Fish Commission.

The Department makes an annual report on Tribal contributions and gaming revenue to the public, the governor, the speaker of the House of Representatives, the president of the Senate, and the Tribes no later than 90 days after the close of the State's Fiscal Year. This report contains the following information for the State Fiscal Year:

Aggregate gross gaming revenue for all gaming Tribes in Arizona.

Aggregate revenue deposited in the Arizona Benefits Fund, including interest. Distributions made from the Arizona Benefits Fund to each fund recipient.

Aggregate amounts contributed by all Tribes to cities, towns, and counties.

Tribal Contributions Payments Timeline

Tribes must send their quarterly payment to the State by the 25th day after the close of the Tribe's fiscal quarter. The State received the first quarterly payment under the current Tribal-State Gaming Compact on July 25, 2003 (State Fiscal Year 2004).

The Department reports the aggregate quarterly and annual Tribal contribution amounts after the Audit Unit's Tribal Contributions Section verifies their accuracy. The Audit Unit conducts on-site audits of each Tribal gaming operation every year, evaluating internal controls to gain reasonable assurance that the casino is properly accounting for revenue. These audits, called Tribal Contributions Reviews, are in addition to the annual Compact Compliance Reviews. During the Tribal Contributions Reviews, the Audit Unit reviews each casino's operation to ensure accurate financial reporting for each type of gaming activity.

FY 2008 Distribution of Tribal Contributions

Distribution	Fiscal Year Total
Department of Gaming for administrative and regulatory expenses	\$8,642,304.17
Department of Gaming for treatment, education, and prevention of problem gambling	\$1,920,512.03
Instructional Improvement Fund	\$47,859,159.96
Trauma and Emergency Services Fund	\$23,929,579.98
Tourism Fund	\$6,837,022.85
Arizona Wildlife Conservation Fund	\$6,837,022.85
Total Contributions to Arizona Benefits Fund	\$92,224,129.39
Tribal Contributions to cities, towns, counties	\$15,152,219.30
Total FY 2008 Tribal Contributions	\$111,177,821.14

To view a chart showing the cumulative Tribal Contributions from FY 2003 to present, go to www.azgaming.gov

Financial Services Unit

The Financial Services Unit is responsible for:

- Preparing and monitoring the Department's budget
- Processing accounts payable and receivables
- Billing for application fees and reimbursement of investigative costs for State certification
- Receiving and disbursing of Tribal contributions
- Arranging for travel, including use of fleet vehicles, and processing travel expense claims
- Processing payroll and other financial functions
- Ensuring that the Department's financial functions comply with State accounting policies

In Fiscal Year 2008, the Financial Services Unit implemented several initiatives that increased efficiencies in the Department. The Unit, together with the Information Technology Unit, implemented Visual Vault, a system that enables the processing of electronic time cards, leave slips, and overtime authorizations. The system was implemented for 50% of the Department. The remainder of the Department will be implemented in Fiscal Year 2009, and the system will be expanded to handle electronic processing of personnel action requests, purchasing, training requests, and other processes as needed. This paperless system has reduced and will significantly reduce paper, printing, and storage costs. In addition, the system enables employees to complete their time cards via remote access when they are working in the field or teleworking.

The Unit also implemented a new procedure for reconciling payroll reports to enable HRIS (Human Resource Information Solution) paperless paystubs. This also has reduced paper and printing costs for the Department.

The Department, in its commitment to the Governor's Executive Order regarding contracting with small and women and/or minority-owned businesses, participated as an exhibitor in an outreach event held by State agencies specifically for small and women and/or minority-owned businesses. The event provided business owners an opportunity to meet and discuss their businesses with State agency procurement staff. Department of Gaming staff met with hundreds of business owners to inform them of the Department's procurement processes and needs.

Revenue & Expenditures

Department of Gaming FY 2008 Revenue and Expenditures

Fiscal Year 2008 Revenue	Enforcement/ Problem Gambling	Certification
Total Revenue	¹ 10,870,541.82	1,961,186.71
Fiscal Year 2007 Expenditures		
Personal Services	4,801,221.75	1,326,748.61
Employee Related Services	1,718,166.34	421,913.33
Professional & Outside Services	2,037,246.44	31,022.44
In-State Travel	286,858.82	6,270.48
Out-of-State Travel	70,226.89	56,013.60
Other Operating Expenses	1,385,872.85	45,204.77
Equipment	273,220.50	0.00
² Transfers	5,292.94	0.00
Total Expenditures	10,578,106.53	1,887,173.23

¹ Includes \$300,000 from the Lottery Fund

² To the Office of Administrative Hearings

Information Technology Unit

In Fiscal Year 2008, the Information Technology Unit completed the conversion of its server computers from physical to virtual, by hosting multiple servers on a single physical platform using virtualization software. This reduced the total number of physical servers the Department uses, which resulted in a \$35,000 cost savings for server replacements in Fiscal Year 2008 alone. The Department expects to save \$42,000 in server replacements in Fiscal Year 2009.

The Unit also implemented Visual Vault, a workflow and document imaging system that enables electronic forms, signature, and document imaging and management. The Unit, in conjunction with the Financial Services Unit, developed in Visual Vault several work forms, such as timecards, leave slips, and overtime and deviated work schedule forms, and provided training prior to implementing that system for half of the agency's units. In Fiscal Year 2009, the remaining units are expected to be trained and begin utilizing Visual Vault with respect to these work forms. In the future, the agency will be using the system for training and travel requests, personnel action requests, and purchasing, as well as other forms as needed. The partial implementation of Visual Vault in Fiscal Year 2008 resulted in greater efficiency in terms of generating these forms electronically rather than manually and with respect to electronic workflow, approval, and processing rather than performing these manually.

In Fiscal Year 2008, the Unit began implementing an audit software program (PAWS), which is being used by both the field auditors who perform compact compliance reviews and Tribal contribution auditors who perform audits on the Tribal contributions reported and received from the Tribes. Prior to this, the Department was performing these functions using a database that was not designed for audits and was therefore very limited in functionality and performance. The audit software program is far more efficient than the prior database. The savings generated using the audit software program in Fiscal Year 2008 totaled approximately \$76,000. The projected savings for Fiscal Year 2009, when the program will be fully implemented, are expected to be double that figure.

The security of the agency's networks continues to be one of the Unit's main priorities. During Fiscal Year 2008, the Unit took additional steps to enhance network security by configuring and implementing a Cisco Adaptive Security device. In addition, the Unit implemented secure, encrypted, remote access to the Department to enable employees to work more effectively and efficiently from home and in the field. Further, these steps will help the Department better carry out its business continuity plan in the event it is necessary to do so.

Also, in the Department's ongoing effort to save money and to use equipment to its full capabilities, the Information Technology Unit, in conjunction with the Financial Services Unit, worked to consolidate network printing and scanning from individual printers and scanners to copiers with these capabilities. As a result, the Department did not need to replace end-of-life printers, which generated a significant saving to the agency.

Human Resources Unit

The Human Resources Unit is responsible for:

- State benefits training and assistance to Department employees
- Administration of Personnel Action Requests
- HRIS input/updates
- New Employee Orientation
- Agency Wellness Coordination
- Agency Employee Training
- EEOC Reporting
- Diversity Programs/Training
- Agency Recruitments

In an effort to encourage health and fitness for agency employees in Fiscal Year 2008, the Unit arranged for the Department to host several health programs, including mini health screenings; mobile on-site mammography; administration of flu shots; and United Blood Services blood drives. Also, the Unit developed and implemented "Walk on the Wild Side," an employee walking program where combined agency units competed against each other to see which group could walk the most miles within a certain timeframe. The goal of the program was to promote better health and fitness for Department employees. In addition, the Unit participated in the Women's Health Expo, an event designed to promote health awareness for women.



The mission of the Office of Problem Gambling (OPG), a unit within the Department, is to provide and support problem gambling prevention, treatment, and education programs throughout Arizona. The Office reaches out to the public to increase awareness and to promote prevention of problem gambling. It coordinates the training of licensed counselors throughout the State who work under contract to treat people with gambling problems and those affected by another's gambling problem. Clients are encouraged to contribute to treatment costs, and many do.

Help line

The Office of Problem Gambling sponsors a toll-free help line (1-800-NEXT-STEP) for problem gamblers, family members, and others seeking help and information. The help line received 690 calls during State Fiscal Year 2008. The top referral sources to the help line were casinos (32.9%) and phone book listings (23.5%). Most calls came from Maricopa and Pima counties. Among rural counties, Yavapai, Yuma, Pinal, and Navajo counties generated the most calls. Gamblers made up 77.2% of help line callers; the rest were primarily family members, friends, and therapists. Fiscal Year 2008 was the first year in which calls were received from all Arizona counties and the first year that more women called the help line than men.

The Office continues to utilize independent "secret caller" test calls through its contractor, Behavior Research Center. Its calls to the help line assist with quality assurance by making sure help line specialists are providing the following to the callers:

- Gambler's Anonymous meetings in their city or county;
- Nearby gambling treatment providers;
- An offer of a "warm transfer" to a treatment provider while the caller is on the phone;
- The Office of Problem Gambling website address; and
- Additional information to be mailed to the caller's home.

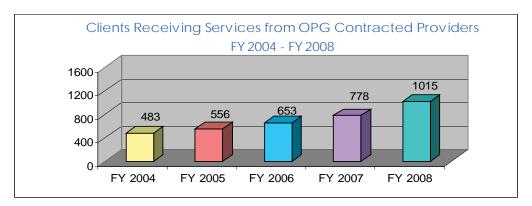
The Behavioral Research Center reports that the help line consistently meets this standard.

Lottery Display 7.4% Billboard Phone Book 2.5% 23.5% Unknown 11.3% Problem Gambling Website 2.5% Other 10% Gambling Program 5.5% Radio Casino 2.5% 32.9% Lottery Website 1.9% Magazine 0.1%

FY 2008 Help Line Caller Referral Source

Treatment

During the 2008 Fiscal Year, 1,015 clients received treatment from counselors under contract with the Department of Gaming. This represents a 30% increase from the previous Fiscal Year and is a continuation of steep growth in the program as shown in the chart below:



In addition, during Fiscal Yearl 2008, 12 new providers entered into contracts to treat problem gamblers— seven in Tucson, two in Prescott, one in Globe, one in Casa Grande and one serving Show Low. At the close of Fiscal Year 2008, the Department of Gaming had contracts with 28 agencies and individual counselors statewide.

Training

The Office provided 132 hours of basic and advanced training to behavioral health counselors and other interested participants during Fiscal Year 2008. Trainings were offered in Phoenix and Tucson—and, for the first time, in Yuma and Show Low. Attendance remained high and, despite original intentions of offering only 12 hours of training in Yuma, the Office increased this amount to provide the entire Phase I series (30 hours) there in response to the demand from clinicians in the area for more problem gambling training. All trainings continue to receive very high praise from participants, with over 92% of attendees reporting being either "Very Satisfied" or "Satisfied" with the sessions.

The Office sent direct mailings to all licensed behavioral health counselors in the State inviting them to attend each of the trainings. The Office of Problem Gambling also sponsored or participated in professional conferences for social workers, substance abuse counselors, and marriage and family therapists.

Partnerships

The Office of Problem Gambling held its second symposium, "Emerging Issues: Community and Individual Implications of Problem Gambling," to kick off National and Arizona Problem Gambling Awareness Week the first week in March 2008. The Arizona Lottery and Harrah's Ak-Chin Casino co-sponsored the event, which featured internationally acclaimed presenters. The symposium was attended by 72 people from throughout Arizona, representing professional mental health and substance abuse counselors, recovering problem gamblers, problem gambling counselors, Arizona Lottery and tribal gaming representatives, the Arizona Council on Compulsive Gambling, and the Arizona Department of Health Services. Of the participants, 98% reported being satisfied (25%) or very satisfied (73%) with the Symposium.

The Office of Problem Gambling provided input into the development of the "Healthy People 2020" federal initiative during a meeting in May 2008 in Bethesda, Maryland. The goal of Healthy People 2020 (HP2020) is to set national objectives and priorities for the U.S. Department of Health and Human Services through the year 2020. The meeting was hosted by the Office of Disease Prevention and Health Promotion and the Office of Public Health and Science. Both offices are units of the U.S. Department of Health and Human Services. Approximately 200 people representing a variety of organizations, communities, State and federal agencies, and universities participated in the meeting, which sought input from U.S. HHS stakeholders. A representative from the Arizona Office of Problem Gaming provided oral comments. Approximately 75 other people and entities, including the National Council on Problem Gambling, also provided oral comments. This activity is crucial to accomplish OPG's goal of having problem and pathological gambling recognized by the government and the general public as a significant public health issue. By raising awareness and by encouraging the federal government to recognize problem gambling as an issue that deserves research and government funding, OPG aims to help problem gamblers in Arizona. Increased federal involvement will lead to the development of effective and efficient systems that will reduce the harm caused by problem gambling.

The Office of Problem Gambling teamed up with the Arizona Department of Racing to educate managers of each of Arizona's racetrack facilities about the work of the Office. Each facility — Phoenix Greyhound, Tucson Greyhound, Turf Paradise and Yavapai Downs—committed to promote the 1-800-NEXT-STEP help line.

At the request of the Office of Problem Gambling, the Arizona Criminal Justice Commission agreed to refine the gambling question set that is part of the Commission's biennial Youth Survey and to add a question for youth gamblers asking when they first began to gamble. Results of this survey are due in the Fall of 2008.

The Office of Problem Gambling continues its collaboration with the Phoenix Indian Center. The Office has joined with them as part of the coalition formed to develop a needs assessment and strategic plan to address issues for the Governor's Underage Drinking Project. The Office is also working closely with the Phoenix Indian Center to develop future initiatives in the area of problem gambling prevention and education.

Web site

The Office of Problem Gambling Web site (www.problemgambling.az.gov) continues to be a valuable resource for treatment providers, problem gamblers, and those affected by problem gambling, Tribal Gaming Offices, news media, and the general public. The Web site makes available information about problem gambling, self-help groups, press releases, contracting processes for treatment providers, and treatment provider information.

In Fiscal Year 2008, the Web site received 16,247 unique visitors. The pages that provide information on Gamblers Anonymous, treatment providers, and patron self-ban information were viewed 9,051 times during Fiscal Year 2008, suggesting that the public views this resource as a means of accessing help.

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