



Bureau of Gambling Control and California Gambling Control Commission

Their Licensing Processes Are Inefficient and Foster Unequal Treatment of Applicants

Background

The California Department of Justice's Bureau of Gambling Control (bureau) and the California Gambling Control Commission (commission) are involved in licensing certain gaming businesses—mostly card rooms—in the State. While the bureau performs licensing background investigations, investigates card rooms and casinos, and participates in hearings, the commission makes final licensing decisions—approval and denial. Further, the bureau enforces card rooms' and third-party companies' compliance with state rules. Those who own, operate, and work in card rooms and related businesses pay licensing and regulatory fees, which are deposited in the Gambling Control Fund (Gambling Fund) and cover the cost of the regulatory activities.

Key Recommendations

The Legislature should perform the following:

- Rather than approve permanent funding for the bureau's additional positions, extend funding for those positions to allow the bureau time to clear its backlog and improve its application processing.
- Amend the Gambling Act to allow the commission to take action at its regular licensing meetings rather than requiring it to hold hearings when denying applications.

The bureau should take the following actions:

- Approach its backlog strategically by establishing a formal plan to review the remaining pending applications.
- Ensure it fairly charges applicants for the costs of their background investigations by implementing policies requiring staff to properly report and bill the time they spend on regulatory activities.

Following the Legislature's amendment to the Gambling Act, the commission should revise regulations to specify that it is not required to hold hearings unless applicants request that it do so.

Both the bureau and the commission should conduct cost analyses of its regulatory activities and adjust their fees to reflect the actual costs of the oversight.

Key Findings

- Both the bureau and the commission have repeatedly failed to meet certain required time frames for licensing activities and have compounded backlogs in the licensing process.
 - » The bureau exceeded the 180-day time frame to process gaming license applications for 70 percent of the 5,012 applications it reviewed over five years, and it failed to notify applicants of the status of their applications at required points—some applications took longer than six years to complete.
 - » Even though the bureau has doubled its licensing staffing since July 2015, it still had a backlog of nearly 1,000 applications as of December 2018.
 - » Although the commission met its time frame of 120 days when it approved applications, its practice of holding hearings to deny license applications has contributed to significant delays—we found that some applicants waited an average of 258 days for decisions.
- Both the bureau and the commission charge fees that do not align with the actual costs they incur in performing oversight activities.
 - » The current fee structure undercharges license applicants but overcharges card room owners and third-party owners for other nonlicensing regulatory fees—the Gambling Fund's balance is excessive and expected to increase to more than \$97 million by June 2020.
 - » The bureau's billing and time-management practices are inconsistent and potentially unfair to applicants—many applicants paid only a fraction of actual background investigation costs.
- Current regulations and both departments' practices are inconsistent and result in unequal treatment.
 - » Because of differences in the commission's regulations, unlike card room workers and owners, third-party applicants do not have to submit full applications to work in card rooms and may continue to work in the industry even if the bureau determines they are unsuitable for licenses.
 - » When conducting background investigations, the bureau has applied different levels of scrutiny to applicants without clear justification.