CHAIRPERSON JAMES: Well, thank you. Mr. DuCharme, thank you so much for being here today.

MR. DuCHARME: Is that taking part of my time?

CHAIRPERSON JAMES: No, we'll start the clock now.

MR. DuCHARME: Thank you for having me.

CHAIRPERSON JAMES: Thank you.

MR. DuCHARME: Nevada has been involved in gaming regulation in some manner or form since gaming was legalized here in 1931. Early regulation amounted to little more than collecting an annual tax or licensing fee. The modern era of gaming regulation began in 1959 with the adoption of the Gaming Control Act. The cornerstone of Nevada regulation is set forth in the statutory statement of public policy concerning gaming.

That public policy states in part (a) the gaming industry is vitally important to the economy of the state and the general welfare of the inhabitants; (b) the continued growth and success of gaming is dependent upon public confidence and trust that licensed gaming is conducted honestly and competitively and gaming is free from criminal and corruptive elements; (c) public confidence and trust can only be maintained by strict regulation of all persons, locations, practices, associations, and activities related to the operation of licensed gaming establishments.

All of the gaming statutes and regulations are directed towards these goals with two of the primary objectives being (1) to ensure that the patron or player gets a fair and
honest game, and (2) that gross gaming revenues are properly accounted for and all taxes are paid.

To achieve these goals and objectives while regulating over 2,600 licensees including over 400 casinos of widely varying sizes, we rely heavily on a front loaded licensing process and a continuing audit review for compliance with internal control standards.

By this front loaded licensing process I mean we require the applicant to prove to the Board and the Commission that he or she is suitable prior to any involvement in the operation of a licensed gaming establishment.

A portion of the statute governing suitability states the burden of proving this qualification to receive any license or to be found suitable is on the applicant. The applicant must prove he is a person of good character, honesty, and integrity whose prior activities, criminal record, reputation, habits and associations do not pose a threat to the public interest or to the affected regulation and control of gaming; and he must prove that he has adequate business probity, confidence, and experience; and that the financing is adequate and from a suitable source.

This suitability burden can sometimes be a daunting task for an applicant especially when faced with trying to disprove a negative. While there is nothing magical or mystical about our investigative process it is above all thorough and former Chairman O'Reilly had gone through the litany of requests that we submit to the applicant to provide to us to have reviewed, so I won't repeat that.
I will note that many first time applicants are not prepared for the time, money, and attention to detail that these investigations require. Some investigations have cost more than million dollars and taken more than a year to complete. The cost of the investigation must be paid by the applicant. And after all that licensing decisions are at the sole discretion of the Nevada Gaming Commission and are not subject to judicial review.

Once licensed, gaming operators are subjected to a continuing review by the audit division which conducts surprise observation of critical procedures as well as a regular scheduled, complete audits on all books, records, and compliance with internal control standards are examined.

Other divisions within the Gaming Control Board also monitor gaming compliance around the state on a 24-hour basis. Through the course of this continual compliance review, violations are discovered. Some are purposeful, some are unintentional. A progressive discipline system is generally used for the more common and less serious transgressions which are most often violations of internal controls.

A violation deemed more serious and one which carries a minimum mandatory fine of $25,000.00 is any violation of regulation 6(a). This so called anti-money laundering regulation. This Nevada regulation is enforced in lieu of Title 31 of the Federal Bank Secrecy Act and has reporting and record keeping requirements that are more demanding than the federal regulation.

There have been a number of violations and regulation 6(a) discovered through the normal audit procedures and through
participatory or sting type transactions by Board agents, and
while there have been a number of complaints served and fines
imposed ranging from the minimum mandatory to $1 million; in no
instance did we find the licensee who had intentionally aided in
money laundering.

I also wanted to mention the number of complaints
that have been issued relative to minors being permitted in
casinos. Since 1984 there have been nine such complaints issued,
seven of which resulted in the imposition of a fine. The fines
levied in these cases varied from $5,000.00 to $350,000.00.

The structure of the Gaming Control Board and Nevada
Gaming Commission is the cause of some confusion and my mother
has lived here for over 40 years and she doesn't know whether I'm
on the board or the Commission.

We have a full time three member Gaming Control Board
which is responsible for discharging and administrating the day
to day responsibilities of gaming regulation through the efforts
of more than 400 gaming agents and staff.

The Nevada Gaming Commission is comprised of five
members who devote such time as necessary to be the final
authority on licensing and disciplinary matters and to promulgate
regulations that govern the conduct of gaming in the state.

The five Commission members and the three board
members are all appointed by the governor on a staggered basis
for fixed four year terms. No more than three members of the
Commission may be of the political party and no member of the
board or the Commission may engage in any political party
activities.
This structure is intended to provide a stable regulatory apparatus that can make independent decisions based on statutory guidelines.

The Gaming Control Act and the Gaming Regulations have been amended and refined many times since 1959 and they will be further amended and revised as industry and regulatory needs demand.

In 1991 and 1992 when legalized gaming began to expand to other states, many fact finding committees from these emerging jurisdictions came to Nevada and New Jersey to determine what style of gaming regulations suited their needs. Because of an increasing demand on our agencies resources and the repeated request for training assistance, the Gaming Control Board in conjunction with the International Gaming Institute at the University of Nevada, Las Vegas began to develop a series of training seminars for those emerging gaming jurisdictions.

The first three programs provided instruction for audit agent, enforcement agent, and the background investigator. Since the first seminars in 1994 we have assisted in training more 1,000 gaming agents and investigators in the United States and around the world. At the same time other jurisdictions were exploring our regulatory structure, our gaming licensees were exploring their opportunities in these new gaming jurisdictions.

And, while we believe that many new jurisdictions were developing an adequate regulatory structure, some were not. And in the case of cruise ship gambling and apparently in South Carolina, there was no regulatory oversight at all. In response to this the Nevada legislature enacted statutes to control the
conduct of foreign gaming and by that I mean any gaming operation that's conducted outside the state Nevada by a Nevada licensee.

These foreign gaming statutes provided that any violation of a foreign, federal, tribal, state, country, city, or township law, regulation, ordinance, or rule governing the conduct of gaming shall also be a violation of the Nevada Gaming Control Act. Further, these Nevada licensees involved in foreign gaming shall at a minimum conduct their operation in accordance with the standards of honesty and integrity required for gaming in this state.

Governor Miller has negotiated six tribal gaming compacts in the state of Nevada and each of these compacts limits tribal gaming to that which is permissible under this state's Gaming Control Act and Nevada Gaming Regulation.

The problem in many other jurisdiction is that tribal gaming operations have exceeded the scope of gaming permitted elsewhere within those state and in doing so they have exceeded the state's capacity to adequately regulate those non-conforming operations.

In Nevada tribes subject themselves to the same high standards of gaming regulation that are mandated of non-tribal entities. The tribes rely on the state of Nevada to conduct inspections and other regulatory functions. This enables them to assure their patrons that Nevada Tribal Gaming opportunities are not subject to sporadic or a lesser degree oversight. It would put Tribal Gaming within Nevada at a competitive disadvantage if the gaming public thought these tribal gaming operations were
governed by a weaker regulatory environment than other gaming in Nevada.

In conclusion, I mentioned in my opening statement that it is recognized that the gaming industry is vitally important to the economy of the state and the general welfare of the inhabitants. Because of that the legislature has given the Board and Commission broad powers to regulate what is considered a privileged industry. The scope of the Gaming Control Act and the Nevada Gaming Commission's regulations are equally broad.

I've tried to address some of the areas Dr. Kelly indicated might be of interest to you. I thank you for this opportunity and I'll be happy to answer any questions you might have.

CHAIRPERSON JAMES: Thank you very much, Mr. DuCharme.