

Performance Audit Report

Casino Surveillance

**As Undertaken by
the Director of Casino Surveillance
and
the Casino Control Authority**

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Executive Summary

Executive Summary

The Audit

At the request of the Department of Gaming and Racing, the audit reviewed the efficiency and effectiveness of the organisation and management of casino surveillance undertaken pursuant to the *Casino Control Act, 1992 (the Act)*.

The term casino surveillance means the supervision, inspection and investigation of gaming, money handling and revenue collection, the investigation and approval of casino employee licences, and the approval, implementation and enforcement of internal control procedures established within a casino.

Legislative and Administrative Framework

The Act provides for two agencies to supervise Sydney's casino: the New South Wales Casino Control Authority (**CCA**); and the Director of Casino Surveillance (**DCS**).

The CCA is a statutory body and is subject to limited control or direction by the Minister for Gaming and Racing.

Broadly, the CCA is responsible for licensing the operator of the casino (**the Operator**), approving internal procedures established by the casino licensee and taking disciplinary action. In addition, CCA is also responsible for conducting reviews of DCS from which it can request assistance as it sees fit.

The DCS and staff constitute a division within the Department of Gaming and Racing (**DGR**).

The DCS is a statutory officer with functions defined under the Act. The principal function of the DCS is to supervise and inspect the operations of the casino and the conduct of gaming within the casino.

The DCS has a performance agreement with the Director General of DGR who has administrative responsibility for the funding of DCS but no statutory functions for casino surveillance.

Historically DGR has had a role in establishing the Act, providing policy advice on casino matters to the Minister and providing technical and administrative support to the DCS.

Audit Opinion Implicitly the Act requires an effective level of cooperation and coordination between the agencies to achieve their statutory roles and responsibilities.

However, The Audit Office is of the opinion that this has not been achieved. As a consequence, the efficiency and effectiveness of the surveillance roles and processes carried out under the Act can be improved.

Revision is required to the surveillance methodology and its implementation, to the skills base within DCS and the underlying working and to organisational arrangements between and within DCS and CCA.

Until such revision has been finalised, it is not possible to determine the level of resources or type of surveillance that needs to be undertaken and funded.

Audit Findings The opinion is based on the following audit findings:

Risk Assessment DCS relies on a high level of supervision and direct involvement of those areas traditionally considered vulnerable to loss such as money handling, table gaming and verification of revenue. The casino surveillance activities are not based on an appropriate level of risk assessment. The DCS has advised that operations within the new casino are currently being reviewed to identify and categorise areas of risk.

Relevant Skills The skills base within DCS, particularly in regard to information technology, is not sufficiently contemporary for the surveillance activities required under the Act. This has adversely affected the capacity of DCS to interrogate efficiently and effectively data held by the Operator.

DCS does acknowledge the need to develop expertise in the use of contemporary computer technology but progress has been slow.

Coordination and Surveillance Arrangements The implementation of the surveillance arrangements is cumbersome and the organisational boundaries have not been managed in a successful way. Implementation of statutory surveillance has resulted in fragmentation of certain core activities such as staff licensing and review of Internal Control Procedures (**ICP**) of the Operator.

DCS serves two masters: firstly it serves the DGR to which the Director is administratively responsible and for which the DCS is required to carry out functions extraneous to casino surveillance; secondly it serves the CCA to which the DCS is required to report in respect of requests made by CCA and which reviews DCS activities.

Reliance on Operator

DCS and CCA do not have a coordinated strategy to enhance their level of reliance on the Operator for surveillance.

Resolution of Issues

Some issues have not been resolved in a timely and conclusive manner, such as changes to ICP and non compliance by the Operator with ICP, for example, the issue of winnings cheques to patrons.

Resource Levels

The identification of the appropriate level of resources for DCS is dependent on an assessment of risks, improved coordination of surveillance activities between CCA and DCS and the development of contemporary skills. In the meantime it is not possible to quantify the optimum level of surveillance resources.

Staffing Arrangements

The number of DCS inspectors throughout a shift remains constant irrespective of the demands made by the level of casino patronage. Improved flexibility of staffing arrangements consistent with the environment is warranted.

Industry Liaison

There is a need to implement a national approach to address common concerns associated with gambling such as exclusion orders.

In practice DCS inspectors believe they are not able to provide information on surveillance matters directly to the Police Service because of a perceived limitation under the Act.

The CCA has expressed a concern in regard to the ability of DCS to maintain information on a confidential basis because the DCS shares a common office building with the DGR to which DCS is administratively responsible.

Social Impact of Gaming

The Act places an obligation on CCA to research public interest issues such as problem gaming within the casino. The CCA has not as yet undertaken specific research into the negative aspects of gaming. A draft research plan, provided to The Audit Office in March 1998, indicates that the CCA proposes to commence some research from 1 July 1998, subject to funding.

There is scope for improved coordination of research into identifying and managing the negative impacts of gaming in New South Wales. Such a strategic approach could include input from the CCA, DCS, DGR, the Police Service and a representative of the Casino Community Benefit Trust Fund.

The Act places an obligation on CCA to contain and control the potential of the casino to cause harm to the public. Consistent with the objectives of the Act it is considered that the DCS, as part of his surveillance function, has an integral role in providing assurance that effective systems are in place to achieve that obligation. It is considered that the DCS should take a more active role in this respect.

Accountability

The CCA is required to review the efficiency and effectiveness with which the DCS carries out his functions prescribed by the Act.

There is no review, however, of the effectiveness of the CCA in terms of its statutory responsibilities for casino surveillance. Because CCA is substantially independent of the Minister, such a review could be undertaken by a Committee of Parliament in a way similar to the review of other organisations with independent statutory functions.

The performance agreement of the Director of Casino Surveillance is with the Director General of DGR. The performance agreement of the Chief Executive of CCA is with the Minister for Gaming and Racing.

In the interests of good governance it is considered that the performance agreement of the DCS and the Board of the CCA should be with the Minister while the performance agreement of the Chief Executive of CCA should be with the Board of the CCA. The DCS's performance agreement with the Minister should reflect all the duties that the DCS is required to carry out.

Performance Reporting

The agreement to, and the measurement of, performance indicators of DCS and the CCA needs to be improved. Current reporting of performance, in contrast to workloads, within Annual Reports is considered not to be adequate and needs enhancement.

Recommendations

The recommendations below are designed to improve the efficiency and effectiveness of how casino surveillance is organised and managed pursuant to the Casino Control Act.

It is recommended that:

- | | |
|--|---|
| DCS | <ul style="list-style-type: none">• DCS move to a risk based, programmed and systematic approach towards inspection, revenue verification and investigation• resources to support casino surveillance not be increased until DCS has implemented efficiency options recommended in this report |
| Coordinated Surveillance Approach | <ul style="list-style-type: none">• CCA and DCS establish a protocol and a strategic plan for a coordinated assessment, planning, and delivery of a risk based surveillance of the casino operation. The strategy should address:-<ul style="list-style-type: none">◇ a joint strategy that will increase reliance on the Internal Control Procedures of the Operator◇ the development of relevant and contemporary skills particularly in the areas of computer technology◇ the effective use of contemporary technologies◇ the development of a common information systems for casino surveillance◇ effective electronic access to the Operator's gaming information systems◇ the protocols between the Police Service, DCS and CCA |
| Accountability | <p>To improve accountability, performance assessment arrangements should be amended to provide for :</p> <ul style="list-style-type: none">• a capacity to review the CCA by a Committee of Parliament,• a performance agreement between the CCA Board and Minister• a performance agreement between the CEO of CCA and the CCA Board• a performance agreement between the DCS and the Minister that takes into account the requirements arising out of the protocols established between DCS and CCA |

- Performance Indicators**
- performance indicators be developed to cover all key result areas and include quantitative and qualitative targets. Performance indicators to be reported in the Annual Reports of the surveillance agencies
- Performance Reporting**
- DCS table an Annual Report in Parliament through the Minister. Alternatively the DCS should prepare a separate distinguishable report within the Annual Report of the DGR
- CCA**
- CCA undertake benchmarking with a view to achieving efficiencies of other jurisdictions, for example Victoria and Queensland, where greater delegation occurs to the equivalents of the DCS
 - CCA, being the agency responsible for setting the control environment, coordinate research directly to support and improve the effectiveness of the surveillance function
- Research into Gaming**
- a more transparent and coordinated approach be developed to assist research into casino specific issues and broader issues of public interest such as problem gambling and money laundering through gambling of the proceeds of crime.

Responses to the Report

Minister

DGR &/or DCS

CCA

1. Background

1.1 The Casino

Casino Operations

The Sydney Harbour Casino (now Star City) opened in Sydney in September 1995 as a temporary casino.

The temporary casino was housed on Crown Land and operated 150 gaming tables and 500 gaming machines.

In 1996-97 the gross gaming revenue earned by the Operator totalled \$363.2m from which \$78.6m was paid to the Consolidated Fund by way of taxes and \$7.2m was paid to the Casino Community Benefit Fund by way of a levy.

On the closure of the temporary casino on 26 November 1997 the site reverted to the control of City West Development Corporation.

A new, permanent casino, Star City, opened on 26 November 1997 and operates 200 gaming tables and 1,500 gaming machines.

Star City is on land leased from the Casino Control Authority for a term of 99 years. The casino license, the only one presently issued in NSW, is held by Star City Pty Ltd (the Operator) for a period of 99 years from 14 December 1994.

Star City Pty Ltd is a subsidiary of Sydney Harbour Casino Holdings which is a publicly listed company on the Sydney Stock Exchange. Under an exclusivity agreement the Government has agreed to pay damages if the Parliament permits another casino to operate within a twelve year period commencing from 14 December 1994.

1.2 Casino Regulation

The Casino Control Act

The Casino Control Act, 1992 provides that NSW casinos are to operate in a highly regulated environment.

Two entities supervise the casino industry, the Casino Control Authority (CCA) and the Director of Casino Surveillance (DCS). The relevant minister is the Minister for Gaming and Racing.

The cost of the two agencies in terms of appropriation from the 1996/97 State Budget¹ was \$6.4 (\$2.6m for CCA and \$3.8m for DCS) which was approximately 8% net of the value of gaming taxes paid to the Consolidated Fund by the Operator over the same period.

1.3 The Casino Control Authority (CCA)

Establishment	The CCA is a body corporate constituted by the Casino Control Act 1992.
Membership	The CCA consists of five members, being the Chief Executive and four other members appointed by the Governor on the recommendation of the Minister for Gaming and Racing.
Statutory Responsibilities	<p>The objects of CCA outlined in the Act are to maintain and administer systems for licensing, supervision and control of the casino for the purpose of:</p> <ul style="list-style-type: none">• ensuring that the management and operation of the casino remains free of criminal influence and exploitation• ensuring gaming in the casino is conducted honestly• promoting tourism, employment and general economic development in NSW• containing and controlling the potential of a casino to cause harm to the public interest and individuals and families.

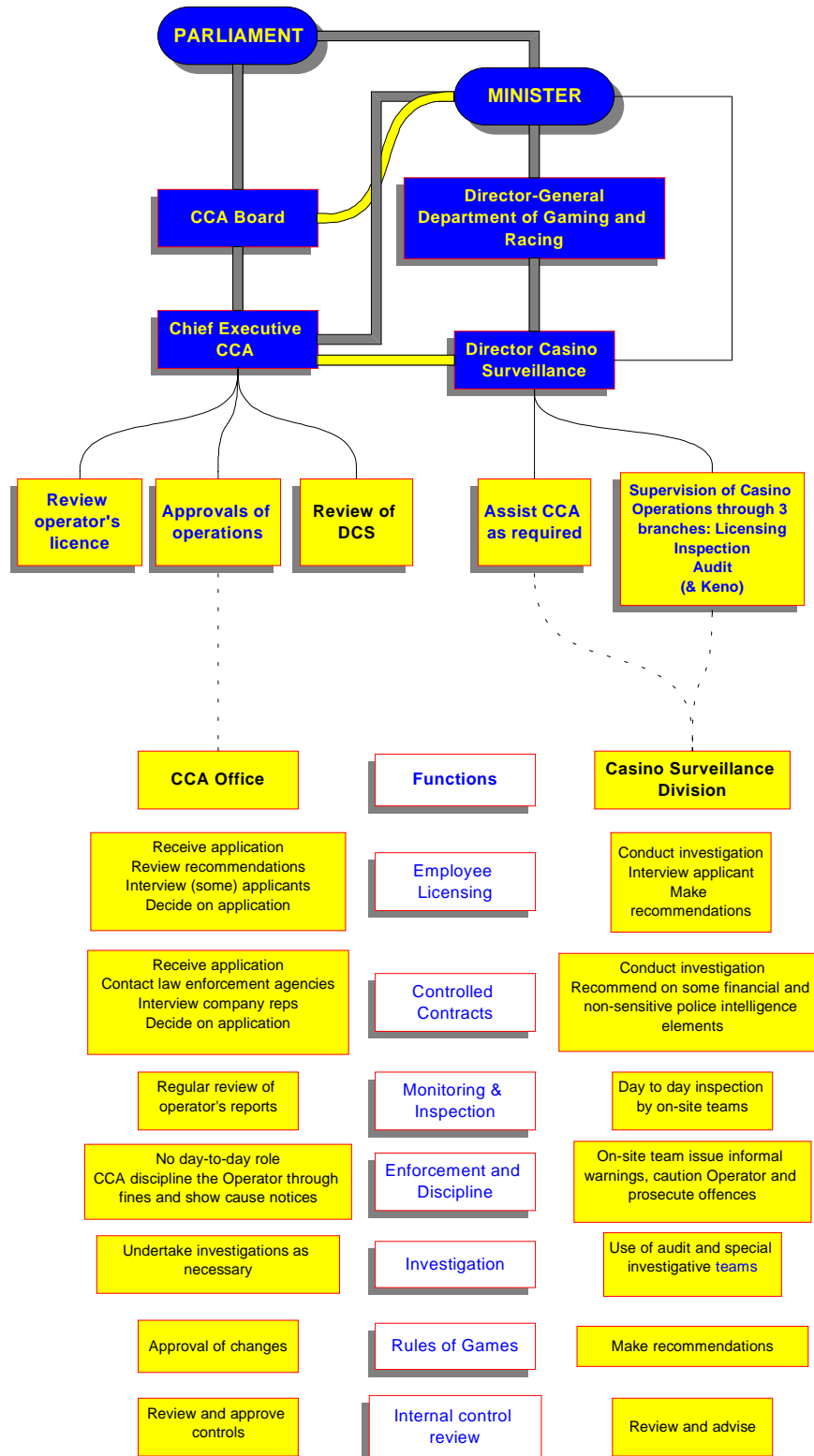
The CCA is responsible for the issuing of the casino license; reviewing that licence triennially; approving the Operator's systems and controls and oversighting their implementation; determining the licensing of casino employees, reviewing contractors; and disciplining the Operator and its employees for breaches of either the Act or the license conditions. The Act allows for the delegation of all but several core functions.

CCA is able to 'request' assistance from DCS as CCA sees fit, and CCA periodically reviews the efficiency and effectiveness of DCS's activities and reports the findings of its reviews to the Minister.

The CCA prepares an annual report which is forwarded to the Minister and tabled subsequently in Parliament.

¹ see *Budget Paper No. 3, Budget Estimates Volume 2*, pages 433 & 447

Figure 1: Current Organisational Arrangements



1.4 The Director of Casino Surveillance (DCS)

Director of Casino Surveillance

The DCS and his staff operate as the Casino Surveillance Division of the Department of Gaming and Racing (DGR). Funding for the Division is included in the DGR's annual appropriations.

The position of DCS is a statutory office and its occupant is appointed by the Governor on the recommendation of the Minister. For purposes of administration the DCS is responsible to the DGR.

As at 30 November 1997 DCS employed a staff of seventy one personnel (including nine temporary staff) to undertake casino surveillance activities.

The functions of the DCS outlined in the Act include:

- supervision of the day-to-day gaming, money handling and revenue operations
- investigation of individuals seeking casino staff licenses
- detection, investigation and prosecution of breaches of the Act
- the making of orders excluding patrons from the casino
- reporting to the CCA and the Minister as they request and, or as DCS thinks fit
- assisting the CCA as the CCA sees fit.

As an officer of the DGR, the DCS also undertakes work for, and reports to, the Director-General of the DGR. The relationship is supported by a performance agreement.

Branch Structure

Currently the Casino Surveillance Division is organised into four branches: Inspection, Audit, Licensing and Keno. Apart from the Inspection Branch which is physically located within the casino, the Division is located in the offices of the Department of Gaming and Racing (DGR).

The roles of the branches are detailed in Appendix 8.5 *Casino Surveillance Division Branch Structure*.

1.5 Selection of the Audit

The audit was undertaken following a proposal by the Director-General of the Department of Gaming and Racing.

The Director-General proposal was prompted partly by a request for additional resources in the 1997-98 Budget bid process and partly by his concern about a perceived lack of coordination between the Casino Control Authority and the Director of Casino Surveillance in certain areas, possible areas of overlap and an overall lack of risk assessment upon which the surveillance activities have been based.

There has been no independent or external review of casino surveillance activities since the commencement of the temporary casino in 1995. The process of the selection of the Operator was, however, the subject of review by The Audit Office.

The Director-General advised that the proposal for the audit was discussed and agreed with the Minister for Gaming and Racing, the Treasury, and also the Budget Committee. The Director-General has committed \$100,000 towards the cost of this audit.

Timing of the Audit

The audit was undertaken at a time of transition from the temporary to the permanent casino.

The recommendations of the report are relevant to casino operations generally but do assume a greater significance in terms of the larger, permanent casino.

1.6 Cost of the Audit

The cost of the audit totalled and comprised the following costs:

	\$
Direct salaries cost	165,470
Overheads charged on staff time	49,640
Value of unpaid overtime	20,740
Printing (estimate)	6,000
Travel and Incidentals	2,150
Total	244,000

1.7 Acknowledgments

The Audit Office wishes to acknowledge the assistance provided during the audit by representatives of the Director of Casino Surveillance Division, the Casino Control Authority, the Department of Gaming and Racing and the Sydney Harbour Star City casinos.

2. The Approach to Surveillance

2.1 The Approach to Surveillance

The primary responsibility for the day-to-day surveillance of the casino's operation rests with the DCS. It is the DCS who needs to determine the type and the level of surveillance. Such surveillance needs to depend on an appropriate risk assessment that takes into account the Internal Control Procedures (ICP) implemented by the Operator.

The type and the extent of ICP are subject to approval by the CCA. As a consequence, the extent of DCS's surveillance is influenced by the ICP approved by the CCA.

The above arrangements imply a contemporary skill base within DCS that corresponds to the operating environment within the casino, a comprehensive risk assessment of the ICP operating within the casino and a reasonably close liaison and understanding between CCA and DCS.

The Audit Office is of the view that there is a need to improve the skill base and working arrangements within DCS to ensure an efficient and effective surveillance. There is also a need to review further the surveillance methodology and the working arrangements between DCS and CCA.

2.2 Approach by DCS

Conservative Approach

DCS has relied on a high level of supervision and direct involvement to ensure that those areas traditionally considered vulnerable to fraudulent activity and other irregularities such as money handling, revenue verification, and table gaming are subject to a high degree of control and monitoring.

While such a conservative approach may have been justifiable having regard to the relative immaturity of the casino industry in NSW and the need to develop confidence in the Operator and its key controls, there is now a need to move to a more risk based methodology that takes into account and relies on modern surveillance systems and technology.

A more risk based approach is supported by both CCA and DCS but its introduction has been slow and is not finalised. This should now be expedited.

The DCS has advised that operations in the new casino are currently being reviewed to identify and categorise areas of risk.

The CCA also expressed the view that it had preferred to delay a number of amendments to ICP until the casino moved into its permanent premises.

**Revision of
Methodology**

The increased scale of the gaming operations in Star City and the attendant demands on surveillance resources was the catalyst for a review in November 1997 of ICP to allow the DCS to step back from mandatory, labour-intensive supervision. Nevertheless, a further comprehensive review of the surveillance methodology should now take place.

There are opportunities for improvement in the coordination and integration of approaches between the branches of DCS, notably in the areas of gaming inspection, special audit and special investigations.

DCS's day-to-day observation of casino operations and CCTV (Closed Circuit Television) surveillance is not sufficiently programmed. In interstate jurisdictions a more formal and structured approach is evident and inspectors are provided with detailed 'audit style' programs covering a range of casino operations.

**Branch
Arrangements**

The DCS's Audit Branch, whose investigations centre around reviews of compliance with ICP, lacks proximity to casino operations. For example the members of the Branch are based off site, work office hours in contrast to the twenty four hour operation of the casino, and have no computer link to the databases of either the Operator or the on-site inspectors. Generally, for incidents to be referred to the Audit Branch they have to be detected by the Inspector and referred sequentially through the Supervising Inspector, the Manager of the Inspectorate and the Director.

The benefit of amalgamating the Inspection and Audit branches needs to be weighed against the additional costs which would be incurred by placing audit staff on-site under the penalty rates of the existing Award.

Nevertheless, there is scope for efficiencies to be gained from a greater coordination and integration of the inspection, audit and investigation functions.

Lack of DCS Strategic Plan

DCS does not have a strategic plan for surveillance.

Currently the planning process within DCS is confined to the preparation of separate plans by the Audit, Licensing, Inspection and Keno branches. The divisional plan is the sum of the parts.

The absence of a process to integrate and coordinate planning limits the opportunity for DCS to improve the surveillance function.

DCS has indicated that the opening of Star City will be followed by a stronger emphasis on planning, a review of current practice and the development of a strategic plan.

2.3 Review of Internal Controls

In early 1997 the CCA, DCS and the Operator agreed that because of the impending opening of the new casino, only those changes should be made to ICP as were absolutely essential. Nevertheless, the process of reviewing and amending the ICP as evidenced during the course of the audit is slow, cumbersome and not efficient.

The ICP Working Party (involving the Operator, CCA and DCS) has not been resolving issues in a timely fashion. This was evidenced by:

- proposals and draft procedures being passed back and forth between members over many months and items continuing to appear in the minutes of the ICP Working Party
- only seven amendments to operational ICP being issued during the first two years of casino operations with a further 15 being processed since September 1997. In addition, over 60 organisational amendments concerning job descriptions and the identity of position holders have been approved by CCA since 1995. With the bedding-down of the permanent casino significantly more changes are anticipated in the near future.
- the differences in opinion on the approach to ICP and the level of detail they should contain.

Protocols between DCS and CCA

Protocols between DCS and CCA for dealing with issues in regard to ICP require improvement. This should result in better coordination between CCA and DCS.

The CCA has the statutory responsibility to review and approve the ICP of the Operator. Consistent with the CCA's authority under the Act, the CCA requests the assistance of the DCS in the review of ICP (the process of approval remains with the CCA). Also the DCS has a responsibility to report generally to the CCA and Minister on the administration of the Act.

Although the review of ICP had not been formally delegated to DCS, the Director is involved extensively in the review process in response to requests from the CCA.

Given this situation consideration may be given to delegate the review function of ICP to the DCS as the function does bear a direct relationship to the surveillance function of the DCS. Another advantage of such an approach is that the DCS might be able to better plan for that function (than is currently the case) rather than being obliged to respond to requests for assistance from the CCA as and when the CCA sees fit to so request.

The Audit Office observed that:

- CCA had written to DCS in May 1997 requesting that CCA be advised of all breaches with disciplinary implications and that all relevant DCS documentation be provided to CCA
- at the time of audit the CCA had not undertaken disciplinary action in relation to any matters referred to it by DCS (CCA as supervisor of casino license has significant disciplinary powers)². The CCA has advised The Audit Office it [the CCA] is assessing currently reports from the DCS to determine whether any matters so identified warrant the issue of *Show Cause Notices*
- CCA seems reluctant to establish formal protocols with DCS relating to their interaction with a number of surveillance procedures. CCA cites their respective statutory independence as the main reason, although since March 1997 CCA has initiated more extensive monthly reporting from DCS which has improved coordination between the two entities.

DCS as the day-to-day supervisor of the Operator has a limited capacity to discipline the Operator compared to CCA. However, DCS through his day-to-day contact with the Operator has significant capacity to influence changes to practices as well as maintain compliance.

² The Operator was fined \$178,000 by the CCA in September 1996 for breach of the Act. This action related to breaches of staff licensing controls following investigation by CCA. The fines related to four *Show Cause Notices*; a further four notices have been issued and dealt with by the CCA.

Therefore, improvements to the monitoring of ICP should include clarifying arrangements for:

- the exchange of information on ICP between CCA and DCS
- how and what information should be exchanged
- how internal control failures should be addressed.

CCA Response

The CCA has advised The Audit Office that practices in regard to the review of ICP have improved in that the Operator and the DCS have designated staff members to deal with changes to, and review of, ICP. Also the CCA has appointed a gaming analyst to be responsible for the coordination of research on ICP.

CCA further advises that it is working with the DCS and the Operator to place all ICP on the information technology system of the CCA which it says will allow amendments to ICP to be made more efficiently and improve access by DCS.

2.4 Reliance on the Operator

It was noted that DCS places varying degrees of reliance upon the Operator's surveillance functions.

DCS places significant reliance on resources of the Operator including:

- CCTV Surveillance to detect patron/staff collusion and overpayments
- security staff in dealing with undesirable and illegal patron behaviour.

On the other hand, DCS places limited reliance on the Internal Audit Department (IAD) of the Operator in gaming operations.

DCS and the Operator have agreed in principle to increase the reliance placed on IAD's Computer Assisted Auditing Techniques, and to provide DCS with access to IAD audit reports.

DCS places minimal reliance upon the money counting, revenue calculation and duty assessment functions of the Operator. DCS continues to supervise directly all daily soft (non-coin) counts and to independently compile and verify source documentation for the calculation of revenue and duty.

In the view of the DCS a mandatory permanent attendance at the soft count is done at the request of CCA. This view is based on correspondence from the Chief Executive of the CCA of 12 November 1997 (in regard to amendments to ICP) which states that

“The Authority [being the CCA] approved the amendment subject to the condition that casino inspectors are to remain attending the counts until otherwise directed.”

**Increasing
Reliance on
Operator**

DCS and CCA, should, through a coordinated effort, increase the level of reliance placed on the monitoring of operations by the Operator.

This view is supported by:

- the limited progress in reviewing and amending ICP to address deficiencies in controls
- the lack of progress in improving the reliance that can be placed upon the work of the Revenue Audit department of the Operator - instead DCS duplicates the department's calculation of revenue and duty³
- concerns expressed by some of the Operator's senior staff to The Audit Office that the level of coordination could be improved.

CCA Response

In regard to amendments to ICP the CCA has advised The Audit Office that, in consultation with the Operator and DCS, the CCA preferred to delay a number of amendments to ICP until the opening of the permanent casino. Also the CCA advised that a number of changes to ICP have been made since the opening of the permanent casino.

**Employee
Licensing**

The licensing of casino employees is a significant control protecting the probity of gaming operations.

³ In support of their practice, the DCS argues that a distinction needs to be made between: (a) the verification of source documentation which is a key surveillance function and not a duplication of the Operator's activities; and (b) the calculation of revenue which could be performed by the Operator and audited electronically by DCS once DCS has established confidence in the Operator's revenue systems.

Currently the processing of the licensing is divided between DCS and CCA as follows:

- CCA process the initial application of the prospective employee, contacts the law enforcement agencies and approves the provisional licence
- DCS receives the application from CCA and follows up the police intelligence; conducts an investigation including interviews, financial and referee checks; and makes a recommendation to CCA on whether a licence should be granted
- when DCS has recommended refusal for an application for employment, CCA invites the applicant to appear before a review panel consisting of two CCA officers appointed by the CCA Chief Executive. The review is an appeal but is not necessarily limited to issues raised by or disclosed to DCS. It is not possible under the Act for applicants to appeal against CCA's decision
- CCA does not advise DCS formally of its reasons for overturning DCS's recommendations because the CCA feels obliged not to interfere with DCS's investigative practices. However the CCA advised The Audit Office subsequently that it does provide feedback of a general nature to the DCS through meetings and discussions.

The time taken in NSW to process an employee licence, of between 2 to 12 weeks, is comparable with that in the Victorian and Queensland jurisdictions.

The DCS and the CCA have advised that the licensing process in NSW is significantly more rigorous than in other jurisdictions.

The work of the DCS in employee licensing supports the surveillance role of the DCS in that employees with a record of demonstrated integrity should contribute to the integrity of the casino.

**Audit
Observations**

There is scope nonetheless, for improving how applications are processed under the provisions of the Act.

This could occur if the process was streamlined to allow DCS to approve as well as investigate applications in cases where there are no complicating factors.

Any approval function of licences by DCS would require delegation from CCA in terms of the Act. DCS's activity in this area could be reviewed by CCA as part of its periodic efficiency and effectiveness review of DCS activities.

It is noted in Queensland, the employee licencing process up to the point of approval, has been delegated to the equivalent of DCS.

In Victoria the equivalent of the DCS in that state is responsible under the legislation for the determination of employee licence applications. The counterpart of the CCA in Victoria retains only a power to hear appeals.

**Inspectors'
Profile**

CCA and DCS provided different views to The Audit Office on the public profile which should be taken by on-site inspectors.

CCA is concerned that DCS inspectors lack a visible public profile within the casino.

The DCS booth on the gaming floor is unattended and inspectors generally intervene in a dispute between a patron and the casino at the request of either party.

CCA supports a heightened profile for the inspectors in order to reassure the public that the integrity of the casino is safeguarded by government.

For its part, DCS maintains that the inspector's fundamental role is to provide discreet surveillance to help ensure compliance. However, DCS advised The Audit Office subsequently that inspectors will make greater use of the booth in future.

Patron Access to Inspectors Under the Act, CCA is responsible for setting the control environment.

In cases of dispute, signage as to how patrons are able to contact inspectors is placed outside the booth allocated to inspectors of the DCS. It is noted also that the *Rules Of Games* contain a specific obligation on the Operator to advise patrons of their right of access to inspectors in cases of a dispute but that fact would not be widely known to patrons.

To improve access to inspectors, CCA could facilitate changes to ICP that require relevant signage to be displayed more prominently than at present thereby oblige the Operator to advise patrons (in dispute) that recourse to an inspector is available on request.

CCA Response The CCA has advised that it is examining, in conjunction with the DCS, the option of providing patrons with pamphlet documentation which advises of access to inspectors in cases of dispute.

3. Information Management, Systems and Skills

3.1 Information Systems (IS)

Effective surveillance of the casino requires the use of contemporary computer technology to interrogate information held by the Operator. While this was true for the temporary casino, it is more significant for the enhanced operations of the larger, permanent casino.

To provide for the effective monitoring of casino operations and for the efficient use of human resources, the information systems (IS) of DCS and the contemporary skills of the Director's personnel, including IT expertise, needs to be upgraded.

These changes should include the development of common information systems between CCA and DCS to enhance communication, and the technological capacity of the DCS to undertake audits and investigations by computer.

3.2 The Use of IS

Access to Information Systems

In substance the inspectorial function relies currently on direct observation, both on the floor and through CCTV monitors.

However, given the scale of the casino's operations, DCS can access and monitor information held by the Operator most effectively using contemporary computer assisted technologies and targeting strategically important management and financial information systems of the Operator.

But only to a limited extent has DCS taken advantage of the Operator's commitment to provide it with access to the casino's information systems. For example, the revenue verification function could be carried out more efficiently by downloading and monitoring the Operator's data through exception audit and computerised analysis.

DCS has advised The Audit Office that requests by DCS of the Operator, since August 1997, to provide computer data tape have not been met owing to system related problems of the Operator.

DCS's limited use of computer technology is further evidenced by its reliance on hard copy of the Operator's shift reports obtained up to three days after the event.

Communication between CCA and DCS is also heavily reliant

upon hard copy correspondence and printouts while minimal use is made of contemporary communication technologies.

In contrast, CCA's commitment of time and money to establish stable communication links with the Operator provides CCA with effective, real-time electronic access to important systems of the Operator.

Barriers to Improvements

As a consequence CCA and DCS do not seem to share strategically important information systems (IS) capable of promoting communication between the two organisations.

Currently the only system shared by CCA and DCS is the CCA staff licensing system. This is the main application used by the Licensing Branch of DCS.

The limitations of DCS's links, server and PCs render the system slow while CCA's decision to limit access of DCS to certain information for security reasons further reduces its utility. For example, DCS does not have the ability to download information, track files, and to, more importantly, compile management reports.

CCA has been reluctant to introduce surveillance information systems which are shared with DCS because of a perceived incompatibility between the IS policies of CCA and the DGR which controls information systems of DCS. At the other end of the spectrum CCA and DCS have not established an e-mail system to improve communication.

Furthermore, CCA advised The Audit Office that it will not allow the downloading of any of its data to another organisation over which CCA has no control.

This applies to DCS which is administratively responsible to DGR.

DCS Systems

The IS systems and resources within DCS do not appear to be capable of storing, aggregating or analysing the data of the Operator - this weakens the ability of DCS and CCA to review vital operating systems.

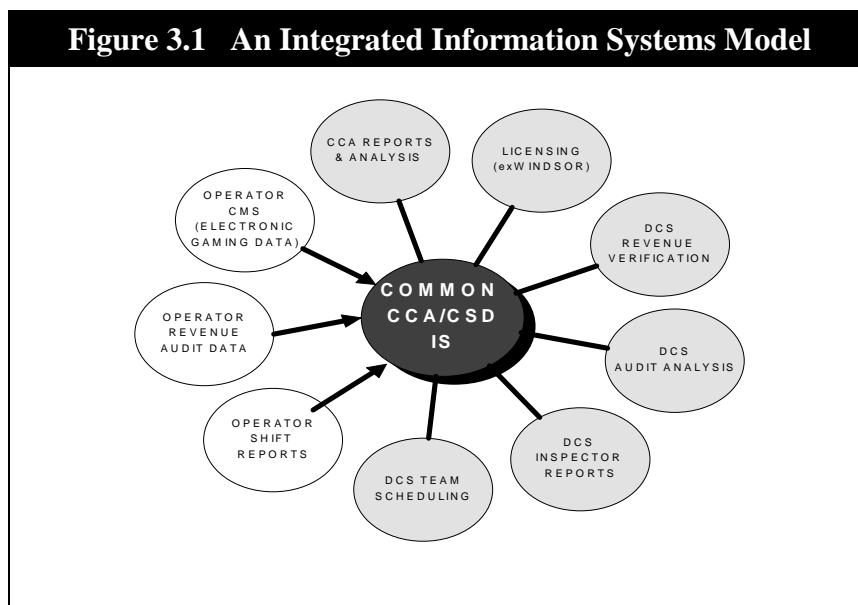
To improve DCS's access to the Operator's information systems there is a need for:

- DCS to develop an IS strategy in support its business operations
- a developmental support capacity
- an adequate database to record, aggregate and analyse observations by inspectors of DCS and reported on to CCA.

An adequate data base should encompass licensing, training, casino staff scheduling, gaming, security, CCTV surveillance and revenue matters and be able to migrate information from the relevant casino operator and CCA systems.

Ideally exceptions and trends should be identifiable on criteria including, but not limited to, the dealer, the type of gaming machine or table, and the training course attended by the casino staff.

A common information system as indicated below would facilitate the sharing of surveillance data and enhance access between CCA and DCS.



**DGR
IS Support**

There is also a need to provide greater IS support to DCS by DGR.

DCS requires significant IS support by virtue of its size (DCS employed 71 personnel in November 1997) and the technologically intensive nature of the industry in which it operates.

To-date DCS has received limited support from DGR which has resulted in reliance by DCS upon CCA for access to the IS systems of the Operator. There is, for example, no agreement with DGR for “around the clock” IS support despite the after-hours focus of inspectors’ duties.

To develop the information systems of DCS, including access to systems of the Operator, will require the support of DGR IS to assist in the reconfiguration of LANS, the installation of emulation software, the development of compatible protocols, the setting up and encryption of links between the casino and the offices of DCS, and the provision of developmental support.

DGR Response

It is acknowledged by DGR that there is an urgent need to review and upgrade the technological capabilities of DCS.

Until these aspects of surveillance are reviewed and the deficiencies identified are rectified, it is not possible to determine the resources required for an effective and efficient surveillance function.

The DGR has advised that an upgrade of the technical capabilities of DCS will occur in the course of implementing the *Information Management and Technology Strategic Plan*.⁴ This will assist in improving the technological environment within the office of the DCS and in meeting the recommendations of this report.

⁴ The Plan was adopted from a consultant’s report of November 1997 commissioned by DGR.

3.3 The Skills within DCS

The surveillance of a modern casino requires the use of contemporary technology and relevant skills.

Recruitment

The recruitment policies and on the job training of DCS emphasise the skills of accountancy (Audit), gaming and dealing expertise (Inspectorate) and investigative experience (Licensing and the Inspectorate). These competencies remain relevant and are indicative of the level of specialisation required within DCS, but more is required.

Increased reliance on risk-based inspection skills is regarded as essential.

A continued effort to improve the level of dispute resolution and interview skills is recommended as the activities of DCS inspectors involve extensive interaction with the Operator's staff and the public.

IS Skills

Current work practices of the DCS are labour intensive and repetitive. At present the DCS does not have the capacity to use contemporary technology to monitor or interrogate the Operator's revenue and gaming systems.

As indicated earlier the DGR has advised that an upgrade to the technical capabilities of DCS is occurring in the course of implementing the *Information Management and Technology Strategic Plan*.

Normally any enhancement in technological capacity would require a corresponding development in the skills of the people using that technology.

The Audit Office is of the view that enhancement of the skills of the Director's staff in the area of computer technology is required. For example, and after 2 years of operations, DCS is yet to recruit a Systems Analyst.

4. Resourcing Surveillance

4.1 Resourcing Surveillance

The principal function of the DCS is to supervise and inspect the operations of the casino and the conduct of gaming within the casino.

In undertaking the audit The Audit Office was asked to consider the adequacy of existing staffing levels of the DCS for that task.

As stated earlier, The Audit Office is not in a position to provide this advice because the identification of adequate staffing levels is dependent upon improvements in planning, methodology, skills base and improved coordination of activities.

Improved flexibility of the staffing of inspectors' shift arrangements is also needed to meet the fluctuations of public patronage.

Needs Review

There is an urgent need to review :

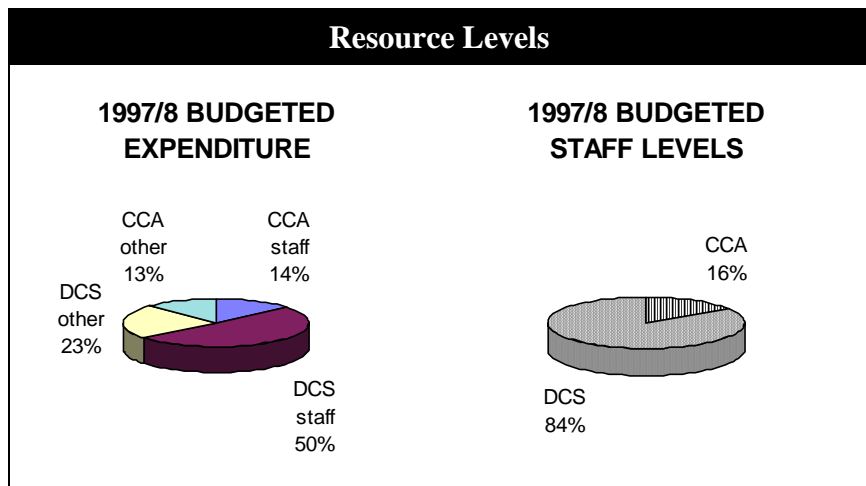
- the absence of an appropriate level of coordination between the surveillance providers
- the approach and methodology applied to surveillance, including limited use of risk analysis and IS
- the absence of relevant operational targets and inadequate measurement of performance
- the limited synergies achieved between interdependent functions; for example, inspection and audit activities
- the opportunities for the rationalisation of work undertaken by DCS and CCA to avoid the risk of duplication in areas of, for example, operational gaming approvals and employee licensing
- the low level of reliance placed the Operator's management of internal controls.

4.2 Staffing Levels

Staff Costs

Staff costs comprise the majority of surveillance costs. Approximately eighty staff of DCS and CCA are directly employed in surveillance activities.

The DGR, on behalf of the DCS, and the CCA separately bid for and manage surveillance budgets within the relevant areas of responsibility of those organisations.



Sources: 1. 1996-97 Budget Paper No. 3
 2. Staff numbers provided during the audit by the agencies.

On-Site Staffing Levels

Present staffing practices for on-site surveillance inspection limit effectiveness. The current seven member teams of inspectors do not provide sufficient flexibility to accommodate leave, other duties, unexpected events and absences.

In practice, the on-site presence is often reduced to inspectorial teams of 3 or 4 as against the 7 or 8 planned for in 1993. The increased level of gaming and liquor outlets at the permanent casino also place significant additional workloads upon the inspectorial function.

DCS has indicated that it is seeking to alleviate the problem by introducing 8 member teams and by introducing changes to work place agreements.

Inflexible Levels

The size of DCS inspection teams in the casino remains constant regardless of the demands made by the level of casino patronage. No adjustment is made to take account of the significant fluctuations in the volume of patronage and gaming transactions during weekends and evenings.

This inflexibility seems to be related to the constraints imposed by the existing Award under which the inspectors are employed and, to a lesser degree, the lack of a sophisticated scheduling capability.

Staffing Levels

The current surveillance staffing levels are based on experience and incremental actions.

During the months in the lead up to the opening of the permanent casino there was limited action to assess the need for additional resourcing based on the impact of an extended gaming operation (in the new casino). Changes were made to the ICP (to reduce the mandatory presence of DCS staff for certain operational activities) prior to the opening of the permanent casino.

In response to the draft report the CCA advised The Audit Office that the Operator intended to introduce significant new systems into the (new) permanent casino. Consequently the CCA and the DCS determined, in early 1997, that there should not be a significant change in the approach to the regulatory control until the impact of the systems in the permanent casino are analysed in operational terms.

During the months in the lead up to the opening of the permanent casino, consideration was given to the need for additional resourcing based on the impact of an extended gaming operations (in the new casino). Certain changes were made, for example, to the ICP (to reduce the mandatory presence of DCS staff for certain operational activities) prior to the opening of the permanent casino.

Employment of New Personnel

There is also a need to review the recruitment process of DCS. DCS appears to be experiencing difficulties in employing new staff with recruitment action taking on average four and a half months. While the difficulties being experienced are due in part to the need for a rigorous probity check of prospective employees under the Act there appears to be scope to improve the lead times taken to employ staff.

The DCS has advised The Audit Office that probity assessment of selected candidates can take six to eight weeks.

4.3 Cost Recovery

There is limited cost recovery of fees charged for staff licensing and controlled contracts.

Controlled Contracts

The Casino Control Regulations provide for a \$2,000 fee to be charged when the Operator seeks to enter controlled contracts for the supply of goods and services.

Although the minimum cost for CCA to investigate these contracts, subject to the type of contractor, currently ranges from between \$900 and \$1,700 the average cost of investigation is significantly higher. In addition, there may be costs for supplementary investigation conducted by DCS.

During 1996/97 when DCS undertook a greater role in investigating controlled contracts its average processing cost per contract was \$3,380. Furthermore, the CCA has indicated that where significant issues are raised in the course of an investigation it may be necessary to incur extensive additional costs of up to \$50,000. For this reason CCA supports the adoption of a full user pay approach in relation to controlled contracts.

The CCA advised The Audit Office that it understood that the fee is to be reviewed in the light of proposed legislative changes to the processing of controlled contracts. The DGR advised The Audit Office that the fee was set in 1996, and is not aware of any review to the fee, planned or in progress.

Special Employee Licences

Section 51 of the Act allows CCA to charge reasonable costs incurred by DCS in investigating an application for employment within the casino.

Currently a flat fee of \$250 is charged compared to the average cost incurred by DCS of approximately \$410.

The CCA has advised The Audit Office that it is reassessing the issue of cost recovery given a legislative change to introduce a three year license for special employees.

5. Coordination and Accountability

5.1 Coordination of Activities

Legislative Framework

The legislative framework for the surveillance of the casino allocates distinct, although interrelated, functions to different agencies.

CCA, among others, is responsible for the licensing, the approval of ICP operating within the casino and the assessment of and reporting on the performance of DCS; DCS for the “day-to-day” surveillance activities and any investigations that CCA considers necessary; and DGR the administrative responsibility for, including the performance agreement of, the Director of Casino Surveillance. Under the Act the DGR has no statutory responsibilities for casino surveillance.

The Act enables the CCA to employ staff as required by the CCA and the DCS to meet their statutory responsibilities.

The legislative framework envisages a close liaison and cooperation between the various agencies. Based on several discussions and interviews with the various parties, it was not apparent that this was the case. Whilst there has been improvements lately, The Audit Office is of the opinion that there is a general lack of trust among the parties.

‘Arm’s Length’

CCA maintains an arm’s length separation from DCS. CCA have stated that their stance is a direct result of the philosophy of the Act.

An implication of this is that CCA maintains and develops an investigative capability for such functions as disciplinary action against the Operator, licence reviews, approval of staff licences, controlled contract reviews, internal control examinations, review of the activities of DCS and rules of gaming.

The CCA acknowledges the existence of an investigative group to assist it with various aspects of surveillance including disciplinary action against the Operator, the efficiency and effectiveness review of the DCS required by the Act and where the DCS “*does not have the expertise*”.

While a need of the CCA to have a capability and capacity in regard to routine surveillance matters is appreciated, the investigative group does increase the overall costs of the surveillance function. Costs comprise further duplication of effort in surveillance, the statutory domain of the DCS, and potentially, some confusion of roles and responsibilities.

The requirement for the CCA to review the efficiency and effectiveness of the DCS seems to require the CCA to have, or acquire, expert knowledge in surveillance matters. The effect of this seems to duplicate the expertise of DCS while adding to the costs of surveillance.

In addition, the CCA has attributed significant shortcomings with surveillance to management problems with the Operator and DCS. Further, CCA considers the clarification of roles and responsibilities between CCA and DCS to be unnecessary and the development of protocols to be of doubtful utility.

CCA Response

The CCA has advised The Audit Office that:

“the relevant parties now understand their roles and responsibilities and I (the Chief Executive Officer of the CCA) think that while there may have been operational problems on the part of the casino operator the appointment of certain of its staff to be totally responsible for coordinating the operator’s relationship with the regulators appears to have overcome the previous difficulties”.

Observation

Notwithstanding the statutory independence of the agencies, it is not considered that the current planning and working arrangements are conducive to efficient and effective surveillance activities. There is a need for a more coordinated approach both to planning and to the execution of surveillance activities by and between these two bodies.

Opportunities for Improvement

There is significant opportunity for improvement in coordination as evidenced by:

- lack of consultation on surveillance strategies
- limited delegation of compatible activities resulting in the possible overlap, duplication or double-handling of certain processes including staff licensing approvals, especially in cases where there are no mitigating circumstances, and the review and recommendation of changes to internal controls. This limits DCS and CCA from achieving the efficiencies gained in other jurisdictions where processes are clearly defined and more streamlined

- absence of a range of protocols to assist in managing the working relationship between DCS and CCA and the Operator
- incompatible and inadequate information systems
- ill-defined liaison arrangements with the Police Service (discussed within *section 7 Liaison and Research*).

5.2 Planning

Coordination in planning can be improved by CCA and DCS following a joint strategy in respect of the:

- assessment of risks
- assessment of the existence and adequacy of internal controls established by the Operator
- development of increased reliance on the Operator in regard to the implementation of internal controls
- development of a range of protocols to clarify the implementation of surveillance roles and responsibilities and to manage organisational boundaries in a more successful way.

DCS and CCA plan separately for the surveillance function.

The separate planning processes of DCS and CCA do not give sufficient recognition to the level of interdependency anticipated by the legislation and necessary for effective surveillance.

Although CCA can, and does, request details of DCS's operational planning, the exchange of like information is not reciprocated.

CCA has indicated to The Audit Office that its position is consistent with the independence of the two discrete agencies established by the Act. CCA does not wish to be seen to be interfering in the statutory functions of the DCS, an independent office holder under the Act. Nor does CCA believe it is required to reveal its operational planning to the DCS.

These comments seem to differ from subsequent comments made by CCA, in response to the draft audit report of The Audit Office which discussed the cooperation in planning between CCA and DCS in regard to the successful opening of the new permanent casino. It was stated that this could not have occurred without a great deal of planning and cooperation between the two organisations. The response also referred to other documents which evidence coordinated planning between the two organisations.

The CCA comments do indicate that cooperative planning has been successful for specific purposes as and when the need arises.

The recommendations of The Audit Office are directed, however, to cooperative planning for the broader surveillance function. Planning in a more coordinated way would:

- increase the transparency between CCA and DCS
- support the accountability of the regulatory process by enabling improved mutual scrutiny
- provide a better understanding of the other agency's activities
- improve the flow of information needed by both agencies to perform their statutory responsibilities.

Overall this approach would improve operational efficiency and effectiveness.

CCA Response

The CCA has advised that while the CCA and the DCS do have different planning in some respects because of the independence of their particular statutory functions, the CCA, DCS and the Operator are moving down the path of addressing the issues of planning identified within the audit report.

Flexible Framework

The Act is sufficiently flexible to allow for improved levels of coordination between DCS and CCA and delegation of functions between DCS and CCA.

Under the Act, CCA can delegate any of its functions except for those expressly reserved in Section 144, namely, determining casino applications, defining the physical layout of the premises, setting conditions of casino licences, taking disciplinary action against the casino operator and its licensed staff and appointing a manager if the licence is suspended or terminated.

In practice the Board has delegated a significant number of functions. The Chief Executive of CCA holds most of these delegations. The Chief Executive is also a member of the CCA Board.

The Act also allows for flexibility in the determination of working conditions. Under Section 145 CCA can employ the DCS inspectors who would continue to be appointed and directed by the DCS. This would be an alternative to the current arrangements where they are employed under public service conditions within DGR.

5.3 Accountability Arrangements

Accountability and performance appraisal arrangements for DCS and CCA should be improved to support a more appropriate and transparent regime for the surveillance function.

Performance Agreement of DCS

The performance agreement of the DCS is with the Director-General, DGR, and that agreement makes only limited reference to the CCA with which DCS shares both a statutory and working relationship. Yet, under section 104 of the Act the DCS is required:

- to prepare reports to the CCA concerning the operations of the casino as the CCA may request
- to report generally to the CCA on the administration of the Act
- to assist the CCA generally as the CCA sees fit.

On the other hand, CCA reviews and reports to the Minister “*on the efficiency and effectiveness with which the Director exercises the functions of Director*”⁵.

The obligations on DCS to work to, and be reviewed by CCA, have a significant impact on the work of DCS and the allocation of the Director’s resources.

It is also noted that DCS, an independent statutory officer able to report to the Minister on the administration of the Act, does not provide an Annual Report to the Minister for tabling in Parliament. Reference to the DCS activities is included within the Annual Report of DGR.

⁵ Section 141 (2) (d) *Functions of the Authority*

The separate reporting to Parliament by DCS, through the Minister, would better support the statutory independence of DCS. Alternatively, DCS's report could be included as a separate and independent component of the Annual Report of DGR.

Performance Agreement of CCA

The Chief Executive of the CCA, who is a member of the CCA Board and who is subject to their direction, has a performance agreement with the Minister. However, the CCA Board, which is required to report periodically to the Minister on the administration of the Act, does not have a performance contract with the Minister.

Under the Act the CCA is subject to limited direction or control by the Minister⁶ and is accountable to Parliament via its Annual Report⁷. However, unlike similarly independent statutory bodies, such as the Independent Commission Against Corruption and the Police Integrity Commission, the CCA is not subject to the standing review of a parliamentary committee.

While probity and commercial concerns may impose some limitations, all administrative actions (including the review of DCS by CCA) could usefully be subject to parliamentary scrutiny. This approach would be consistent with a recommendation of the *Parliamentary Committee on the Office of the Ombudsman and the Police Integrity Commission* to bring CCA administrative conduct with the Ombudsman jurisdiction⁸.

The above arrangements provide for improvement in how the surveillance function would be resourced and some rationalisation of overall gaming regulation.

⁶ Under Section 5 the Minister may, after consultation with the Authority, provide directions to protect the integrity of casino gaming or the public interest; to-date there has been one such direction tabled in Parliament; under Sections 7, 8, 9 and 10 the Minister provides directions concerning the licensing of casinos

⁷ see Section 154 Matters to be included in Authority's annual report

⁸ Recommendation 29, Report of the NSW Parliamentary *Committee on the Office of the Ombudsman and the Police Integrity Commission*, November 1997

5.4 Performance Measurement

There is also a need to set clearer and more transparent performance indicators.

Performance Indicators

Improved coordination between CCA and DCS in the setting of performance indicators by CCA and DCS would enhance the ability of those entities to assess the overall effectiveness and adequacy of the surveillance function and the internal controls of the Operator. Reporting of the achievement of those targets is discussed within the following section.

CCA is working with DCS to establish targets for selected DCS activities as part of CCA's periodic efficiency and effectiveness review of DCS activities.

Performance indicators as set out within the Annual Reports of CCA and DCS do not include targets for all key result areas of the surveillance functions of DCS and CCA but tend to concentrate on readily quantifiable data, for example the time taken to process licences and patron complaints.

Other critical areas need attention. For example, much of the information gained from on-site inspection results and ends in informal direction and advice by DCS inspectors to the Operator. The data is not systematically aggregated, analysed or reported upon, thereby depriving DCS and CCA of information on the level of day-to-day compliance by the Operator.

Budgets

The performance measures adopted in the Victorian Casino and Gaming Authority include financial targets for functional areas such as licensing.

Such an approach would provide greater accountability and more effective management of resources appropriate to the relative importance of the functions.

5.5 Reporting

There is a need to enhance the reporting on performance by the agencies. The current annual reports make limited reference to performance indicators.

CCA The CCA tables an Annual Report in Parliament through the Minister for Gaming and Racing.

The report contains a significant amount of information in regard to casino operations. Certain information is directly relevant to the statutory objectives of the CCA. The information provided is largely activity related.

DCS The work of the Director of Casino Surveillance is reported within the Annual Report of the DGR which is tabled in Parliament by the Minister. Like the CCA, the report of the DCS contains considerable information on, for example, gaming, probity screening, casino inspection exclusion orders.

Performance Indicators It is considered that the development and reporting of specific but key performance indicators would assist both CCA and DCS to be more accountable for the efficient use of resources and for the level of effective achievement of objectives set by Parliament.

Indicators should be both quantitative and qualitative while at the same time providing managers the opportunity to focus more sharply on objectives, results achieved and outcomes.

6. Organisational Arrangements

6.1 Organisational Arrangements

On the one hand the Act seems to impose a much higher standard of regulation upon the casino than that imposed by the DGR upon large clubs which have comparable numbers of gaming machines and which together have significantly greater numbers of these machines.

The estimated average revenue from a machine in the casino is approximately 300% higher than that generated by machines in the top ten licensed clubs in NSW.⁹

The CCA suggests that this is attributable in part to the higher level of regulation of the casino and the greater patron incentives currently being offered. DGR advised that the casino is a purpose built facility, open to the public with an overt profit incentive where clubs provide a range of facilities to members in accordance with community ownership.

On the other hand the current administrative arrangements cause DCS to serve two masters; DGR - which is administratively responsible for DCS and with which the Director has a performance agreement; and CCA - which can request assistance from DCS as CCA sees fit, and which also has the responsibility to carry out periodical reviews of the efficiency and effectiveness of DCS's performance.

As a consequence, the cooperation and coordination of activities between the parties are all the more important because of the interdependence of the parties in the surveillance of the casino activities. As stated earlier, it is not apparent that these existed at a level desirable for an efficient and effective operation. During the course of the audit contradictory views were received that affected the efficiency with which this audit has been carried out.

Whilst at the latter stages of the audit more conciliatory positions have been adopted, there is still room for further improvements.

⁹ The estimated average annual return to the State from a casino slot was \$39,300 (the proportion of duty generated by the casino attributable to gaming machines, 25%, divided by the 500 slots in operation); the average return for a poker machine in the State's top 10 registered clubs was \$14, 253. (source: Gaming Machine Statistics provided by DGR for the year ended 30 June 1997).

The audit did not extend to an examination as to why revenue from gaming machines in the casino is significantly higher than clubs as referred to.

**Similar
Functions:
Different
Agencies**

DGR and its related agencies undertake gaming and betting surveillance functions in licensed clubs and hotels including the inspection of gaming machines, the monitoring of revenue and the issuing of licenses.

These functions have similarities to those undertaken by DCS in the casino.

Nevertheless some economies of scale could be achieved in regard to gaming and betting surveillance functions (as currently undertaken by DGR and DCS) consistent with practices in Victoria where there is significantly more integration of surveillance functions within that state's Casino and Gaming Authority.

Examples of integration in that state worthy of consideration for NSW are the integration of inspection and revenue audit functions, a single staff licensing and probity assessment function and the sharing of IS and gaming technology resources.

CCA Response

The CCA considers that it is more effective to have a specialist agency with prime responsibility for oversight of the casino and that this has led to innovative world class casino regulation.

Certainly the existence of an authority with the strong independent powers of the CCA arguably enabled the licensing of the Operator to proceed more smoothly in NSW on this occasion than in past occasions or in other jurisdictions.

This view was supported in the recent review by P D McClellan QC.¹⁰ of the casino license commissioned by the CCA The report recommended that administrative responsibility for supporting the DCS be transferred from DGR to the CCA. The Minister for Gaming and Racing has subsequently indicated that 'he would consider the recommendation when he received the Auditor-General's report on supervision of casino operation.'¹¹

**Options for
Change**

As part of the audit, the efficiency and effectiveness of casino surveillance were considered under four different options. While the options offer advantages, there may be other advantages and possibly some disadvantages which have not been identified.

¹⁰ *Report of Inquiry by Mr PD McClellan QC Pursuant to Section 143 of the Casino Control Act 1992*, CCA, Sydney, December 1997 (released 3 March 1998), page 135

¹¹ Press Release of 3 March 1998

1. Improve Current Arrangements

The Audit Office sees no solid reason why the current administrative arrangements should not work efficiently provided that sufficient goodwill, coordination and trust are present. This Report has already highlighted several areas where improvements would significantly enhance the efficiency and effectiveness of the surveillance activities. Among others, it is considered that there is need for:

- a review of the surveillance methodology and working arrangements within DCS
- greater cooperation and coordination for the planning and execution of surveillance of the casino's operation
- establishment of a protocol between the parties for their respective but interdependent operations
- considering further delegation and rationalisation of functions between CCA and DGR
- greater and more transparent accountability mechanism, performance measurement and performance reporting.

2. Greater Administrative Responsibility to DGR

The activities of the officers of CCA could be integrated into DGR. Under this course of action:

- CCA would continue to exist but would operate as a board which have responsibility for major casino policy direction and determination
- DGR would service CCA's requirements in much the same way that DGR presently services the requirements of the Liquor Administration Board
- to the extent feasible, CCA would delegate decision making to officers of DGR.

This would be consistent with current arrangements in which DGR carries out responsibilities for the control/regulation of liquor and gaming activities in all other respects other than casino operations.

3. Greater Administrative Responsibility to CCA

The responsibility for providing surveillance resources to DCS could be assumed by CCA. This could incorporate:

- the employment of DCS staff by the CCA
- a performance agreement between DCS and the CCA Board.

This need not affect DCS's status as a statutory officer under the Act, with the right to report to the Minister and the ability to appoint and direct inspectors. Alternatively, the position of DCS could become a non-statutory role within CCA.

The resourcing of the surveillance function in the areas of staff, finance and IS resources would provide an opportunity for greater synergies with, and reliance upon, systems and controls of the Operator. In addition, the arrangement would make CCA more accountable when requesting DCS to undertake work.

However, this alternative may not address adequately the social impacts of gaming and the potential to achieve savings through industry rationalisation.

4. Independence of the DCS

The independent functions of the DCS provided for under the Act could receive further support by:

- DCS to be administratively separate from DGR
- DCS to report on surveillance to Parliament through the Minister for Gaming and Racing rather than the Director's report forming part of the Annual Report of the DGR
- DCS to be subject to review of a Committee of Parliament in conjunction with any review of the efficiency and effectiveness of the CCA by a Committee of Parliament.

This approach would appear to be consistent with the Second Reading speech of the Casino Control Bill which referred to a structure that *will ensure a separation of powers and responsibilities that is fundamental to the integrity and success of the process.*

The approach should improve effectiveness and provide *appropriate checks and balances* (Second Reading speech) but provide less opportunity for the rationalisation of the surveillance function.

7. Liaison and Research

7.1 Liaison

The objectives of the CCA are to maintain and administer systems for the licensing, supervision and control of a casino, for the purpose of :

- ensuring that the management and operation of the casino remains free from criminal influence or exploitation
- ensuring that gaming is conducted honestly
- promoting tourism, employment and economic development generally in the State and
- containing and controlling the potential of the casino to cause harm to the public interest and to individuals and families.

The achievement of the above objectives would seem to depend, in part, on an appropriate level of liaison and cooperation between the CCA, DCS and the Police Service. The Audit Office's view is that liaison between the DCS and the Police Service had been somewhat cumbersome and in need of review.

Steps are in train to improve liaison with the Police Service by reestablishing regular meetings and the updating of protocols following restructuring of the Police Service.

Any steps that the DCS is able to take to gain the confidence of the CCA as to the security of systems of DCS and in DCS having access to all relevant information held by the CCA, would only improve the surveillance effectiveness of DCS.

There is a need to improve liaison with interstate regulators so as to expedite the development of a national approach to gaming issues.

7.2 A National Approach to Casino Gaming

The development of a national approach to issues affecting gaming in the context of the casino industry has been limited.

Regular meetings are held with interstate regulators to discuss issues such as a national approach to staff licensing, gaming machines standards, interactive home gambling, money laundering and problem gambling.

However, limited progress has been made in implementing a national approach to address common concerns and generic

problems associated with gaming.

Exclusion Order Exclusion orders made in NSW, for example, are not effective interstate.

The Audit Office was advised during the course of the audit that some patrons excluded from the Sydney Harbour Casino by the Police Commissioner in September 1997 have continued to gamble at interstate casinos. In one instance it is understood that a former patron of Sydney Harbour Casino had waged moneys of many millions of dollars at interstate casinos within a month of being excluded from the New South Wales casino.

The issue of a national approach to exclusion orders has been the subject of comment in the media by the Police Commissioner.

Reference to exclusion orders was included also in the *Report of Inquiry Pursuant to Section 143 of the Casino Control Act 1992* by P D McClellan QC.

The CCA has advised that the issue of exclusion orders was taken up with other jurisdictions following the release of the aforementioned report.

7.3 Liaison with the Police Service

The Police Service

The Act provides for police officers to be made available to perform services for the CCA (by way of secondment or otherwise) (section 145(1)(c)).

At present a police officer is seconded to CCA to assist with the review of the Operator's licence.

No police officer is seconded to the DCS or is there a police presence within the casino as is the case in Victoria.

In New South Wales the emphasis is placed on establishing an effective working relationship between the Operator, CCA and DCS and the Police Service without a police presence within the casino.

The CCA has advised that Commissioners of Police generally have taken the view not to install police officers within the casino because it was considered not efficient nor effective to do so.

The Audit Office noted claims that the secondment of police officers to surveillance entities in other jurisdictions, for example Queensland, enables probity checks to be processed in a shorter time.

Exclusion Powers

Under the Act, the DCS, the Operator and the Police Commissioner,¹² but not the CCA, may prohibit a person from entering or remaining in the casino. The use of exclusion orders is considered to be in the public interest and to protect the integrity of the casino.

It is noted that the Act is silent as to whether the authority contemplating the making an exclusion order should inform the other authorities which have the same power under the Act (either before or after the making of an order).

To protect the integrity of the casino the effective exercise of the power to exclude requires an appropriate level of liaison beyond regular monthly meetings between the Police Service, CCA, DCS. The suggestion has been adopted by DCS.

Restructuring within the Police Service has disrupted liaison over the past twelve months. However, the Police Service is meeting currently with the Operator, CCA and DCS to establish new protocols to address joint concerns.

It is suggested protocols include the exchange of information as early as is practicable concerning persons of interest to all surveillance authorities.

Criminal Presence

The mere presence within the casino of suspected criminals as opposed to an illegal activity or undesirable behaviour by a patron(s) within the casino remains a problematic issue from a public perspective. It is considered this issue be addressed within protocols being established between surveillance authorities.

¹² Section. 81 of the Act enables the Commissioner of Police to direct the Operator to exclude a person from the casino. Under Section 79 DCS and the Operator can issue exclusions directly to the patron.

Factors limiting the liaison and exchange of information include:

Information to the Police Service

Section 148 (secrecy provisions) permits a person exercising functions under the Act (this includes the DCS and inspectors) to divulge information so acquired to prescribed persons and authorities. At present the Police Service is not a prescribed authority under the Casino Control Act Regulations.

Section 149 of the Act provides that information concerning casino activities be made available to law enforcement agencies by the CCA.

A protocol dated 16 May 1996 entered into between the Police Service and the DCS provides for the DCS to make available surveillance material to the Gaming and Vice Unit of the Police Service.

However, the absence of delegation to DCS by CCA, the restructuring of the Police Service and the silence of the Regulations in prescribing the Police Service as an authority under Section 148 have resulted in the CCA remaining the focal point of contact with the Police Service.

As a result, liaison between the Police Service and the DCS can be cumbersome and indirect. In practice, DCS inspectors believe that they are not able to provide information directly to the Police Service and usually refer inquiries (from the police) to the CCA.

DCS inspectors provide the CCA with information on suspected illegal or undesirable activity by patrons in the casino. CCA and certain police officers interviewed during the course of the audit expressed a desire to receive a wider range of information than is being provided currently.

Observations

Liaison between the DCS and the Police Service warrants improvement by:

- amending the Casino Control Act Regulations to include the Police Service as one of the prescribed authorities under Section 148 of the Act
- updating and enhancing the protocols between the DCS and the Police Service in light of recent restructuring which resulted in the abandonment of the Gaming and Vice Unit.

Information from The Police Service

Section 157 of the Act refers to the provision of information from the Police Service to CCA and DCS. This is to be arranged between the CCA and the Commissioner of Police.

On the basis of the interpretation of Section 158 by the CCA, which relates only to disclosure of spent convictions, CCA takes a significant role in ensuring appropriate liaison with law enforcement agencies in regard to casino surveillance matters.

CCA have expressed concern in regard to :

- the ability of DCS to maintain information on a confidential basis. This has on occasion restricted the availability of law enforcement intelligence to DCS
- the potential for information provided to DCS to be accessed by others within the DGR (given that the DCS is administratively responsible to DGR).

This latter concern is similar to a concern expressed by the CCA in regard to *Information Systems*. In that regard the CCA has stated that providing the DCS with full access to systems of the CCA is affected by the inability of the DCS to be able to maintain the system so that the information provided is protected as contemplated by the secrecy provisions of the Casino Control Act.

CCA Response

The CCA has advised The Audit Office that a law enforcement agency has the option to request that information provided to the CCA not be provided to another person or authority.

Given the circumstances described above the potential exists for information to be withheld from DCS, which if made available would assist the DCS in the efficient and effective performance of the Director's statutory responsibilities under the Act.

While there may be a sound basis for not providing all relevant information to the DCS the effect of the current arrangements is that the quality of the surveillance function suffers.

7.4 Research into Surveillance and Public Interest Issues

Surveillance

The Act requires CCA to conduct or fund research into matters concerning the casino¹³.

During the course of the audit no evidence was available to support the existence of tangible research undertaken by CCA in support of surveillance.

The CCA's draft research plan of March 1998 provided to The Audit Office towards the end of the audit does include proposed research into risk management of regulatory controls.

It is noted that the plan makes no reference to seeking input from the DCS as to the proposed research. Such an approach is desirable given the Director's surveillance function.

The research undertaken into surveillance by DCS staff is limited to attending regulator conferences and monitoring overseas publications.

Harm Minimisation

The fourth object for CCA under the Act is that there be systems in place for "*containing and controlling the potential of a casino to cause harm to the public interest and to individuals and families.*"¹⁴

Sir Lawrence Street indicated that the introduction of casinos will increase the number of problem gamblers and cause the problems to arise earlier than they might with other forms of gambling.¹⁵ Parliament has sought to address the issue of harm minimisation within the casino by establishing controls which:

- place ATMs a minimum distance from gaming machines and tables
- prohibit credit betting
- restrict cheque cashing facilities. However, the continuous dishonouring of some patron's cheques, in one case up to eight times, creates concern that the spirit of the prohibition on credit betting is being breached. The recent McClellan Report into the casino licensee notes that this is an issue being addressed by CCA¹⁶

¹³ Section 141(2)(i)

¹⁴ Section 140 (d)

¹⁵ Inquiry into the Establishment of Legal Casinos in NSW, 1991. p64, paragraph 4.5.1

¹⁶ see page 98

- provide patrons with material on problem gambling and the counselling services available
- allow patrons to have themselves excluded from the casino. Re-entry by persons subject to such an order constitutes an offence under the Act (Section 84). During 1996/97, 125 self-exclusion orders were made
- exclude patrons who have engaged in illegal or undesirable behaviour including cheating, begging or leaving minors unattended in the vicinity of the casino. Such behaviour is often symptomatic of problem gambling. During 1996/97, 325 patrons were involuntarily excluded.

Sir Lawrence Street in his report¹⁷ envisaged a more proactive approach towards problem gambling and expected that casino management and staff would be trained to identify problem gamblers.

**Audit
Observations**

The Act places an obligation on CCA to research public interest issues including harm minimisation and establish periodically the adequacy and implementation of relevant policies and practices of the Operator.

The Audit Office saw no evidence that the CCA has taken steps to undertake specific research into the negative aspects of gambling. However the draft research plan of March 1998 indicates that CCA will commence some such research from 1 July 1998 subject to funding.

While a responsibility exists for the Operator to assist in identifying problem gambling and while patron exclusion powers are provided under the Act to the Operator, DCS and the Police Commissioner, the audit found little in the way of a proactive strategy between CCA, DCS and the Operator to deal with public interest issues such as problem gambling.

The Act places an obligation on CCA to contain and control the potential of the casino to cause harm to the public. Consistent with the objectives of the Act it is considered that the DCS, as part of his surveillance function, has an integral role in providing assurance that effective systems are in place to achieve that obligation. It is considered that the DCS should take a more active role in this respect.

¹⁷ibid, p68, paragraph 4.6.6

**Money
Laundering and
the Proceeds of
Crime**

DCS, CCA, the Operator and the Police Service indicated to The Audit Office that money laundering is not a major risk specific to the casino.

It was also claimed that the high level of surveillance and the Commonwealth Government's cash transaction reporting requirement for amounts over \$10,000, and lesser suspect amounts, discourage criminals from money laundering in the casino.

The Audit Office was advised that any the of chips as black currency is exaggerated. Chips to the value of one to two million dollars are not redeemed at any given time and approximately two-thirds of these are estimated to be outside the casino. However, figures for September 1997 indicate that the highest value chip not redeemed is \$5,000 and 99.7% of not redeemed chips are for \$100 or less. Internal Control Procedures (ICPs) require the Operator and DCS to monitor chip movement closely because it has a direct impact on revenue.

Sir Lawrence Street recommended that casino cheques should be clearly marked as 'winnings' or 'non-winnings'¹⁸. Because of resource implications in the verification of a patrons' winnings the Operator has issued two only 'winnings' cheques in 1996. Six winnings cheques have been issued as at 30 November 1997. Other cheques issued by the Operator are not marked "non-winnings".

Following concern expressed by DCS, CCA has advised that in the near future the ICP are to be implemented and that the cheques issued by the Operator will be printed as winning or non-winning in the near future.

¹⁸ Inquiry into the Establishment of Legal Casinos in NSW, 1991. p102 para 6.3.9

Research Fund Research into the negative impacts of gambling, including the social impact of the casino is funded through the Casino Community Benefit Trust Fund.

To-date, in NSW, there has been only limited research into casino specific public interest issues such as problem gambling. Research supported through the Casino Community Trust Fund has to-date had a broader social focus.

The Casino Community Benefit Fund's (the Fund) eleven trustees include five representatives from Government agencies including the Chairperson of CCA and a representative of the Director General of DGR. The Trustees' policy is not to augment financial assistance to government agencies for specific research activities currently being undertaken by those agencies, or to duplicate any of the responsibilities of those agencies where those agencies receive funding in respect to those activities and responsibilities.

This arrangement has protected the Government from allegations that the Fund has allowed Government to reduce its own expenditures in this area. It has also limited the Fund's potential as an instrument for coordination of research.

As at 30 June 1997, there was approximately \$11 million in the Fund's bank account with a further \$8 million estimated to be received in 1997/98. As at 28 February 1998, the Fund had uncommitted funds of \$2.5 million.

8. Appendices

8.1 Audit Objectives

The audit's objectives were to:

- review the organisation and management of casino surveillance activities carried out pursuant to the Casino Control Act, 1992
- form an opinion on the efficiency and effectiveness of the surveillance management
- identify opportunities for improvement.

8.2 Audit Criteria

The following criteria were applied in pursuit of the audit objectives, and were used in the collection of audit evidence and in the forming of conclusions. The chapters of the report are structured around the criteria.

Roles, Responsibilities and Organisational Arrangements

- whether surveillance roles are clearly understood and agreed to by DCS and CCA?
- whether implementation of surveillance roles supports the statutory responsibilities in an adequate and appropriate way?

Planning and Performance Review

- whether DCS and CCA strategies and planning supports a coordinated surveillance function?
- whether DCS and CCA surveillance activities are measured and reported against relevant operational plans and targets and appropriate actions taken?

Surveillance Approach

- whether DCS has an appropriate approach for monitoring the implementation of key controls approved by the CCA?
- whether control failures identified by DCS and CCA result in appropriate and remedial action?
- whether there is an appropriate level of coordination between the Operator, its auditors and DCS and CCA?

Information Technology and Skills

- whether appropriate use is made of information technology to streamline surveillance?
- whether surveillance staff have appropriate skills?

Resources

- whether management information systems are adequate for the allocation and monitoring of resources?

External Liaison & Research

- whether liaison is maintained with relevant agencies, such as the NSW Police, to ensure appropriate consideration of external factors?
- whether research and development is undertaken into improving surveillance?

8.3 Audit Approach

At the commencement of the audit, the audit's objectives and criteria were discussed and agreed with the Director General Department of Gaming and Racing, Director Casino Surveillance and Chief Executive Casino Control Authority.

The audit conformed with the requirements set out in Australian Audit Standards AUS 806 *Performance Auditing* and AUS 808 *Planning Performance Audits* and the audit's approach included:

- discussions with key staff in the three entities and, by arrangement, with relevant staff of the casino operator
- liaison with Victorian and Queensland casino regulators
- the use of a Discussion Paper at the conclusion of field work to clarify the audit's preliminary findings
- lengthy discussions of the Paper with DGR, DCS and CCA
- preparation of the audit's report following detailed responses from the agencies on the Discussion Paper.

8.4 Audit Scope

The audit did not extend to considering:

- the effectiveness of the surveillance function in terms of whether the objects of the Act have been complied with in all respects
- the approval and review of the Operator's licence (although a copy of PD McClellan QC's report was received during the audit)
- the adequacy of the internal control procedures established by the Operator and approved by the CCA.

It was noted that PD McClellan QC in his report in terms of section 143 of the Act formed the opinion that the Operator is a suitable person to continue to give effect to the casino licence and that it is in the public interest that the licence should continue in force.

8.5 Casino Surveillance Division Branch Structure

Inspection Branch The Inspection Branch provides an on-site presence of the surveillance agencies.

Thirty-eight inspectors undertake twenty four hour supervision, surveillance and inspection of casino operations and the conduct of all gaming. They also inspect gaming devices and equipment and resolve all patron complaints relating to gaming.

Audit Branch The Audit Branch of nine inspectors verifies gaming revenues and conducts routine and special audits of the Operator's accounting and internal controls, and gaming and data capture systems to ensure that all statutory and licence requirements are met.

The day-to-day on-site presence of the Audit Branch is limited to the weekday supervision of money counting.

Licensing Branch The Licensing Branch consists of nineteen inspectors.

Nine inspectors have been employed on a temporary basis to handle the extra work-load associated with the opening of the new, larger permanent casino.

The Branch investigates applicants for casino employee licences and parties to controlled and notifiable contracts. The Branch makes recommendations on the basis of its findings to CCA. The Branch also undertakes non-casino probity investigations for the Department of Gaming and Racing

Keno Branch The Keno Branch with eight staff undertakes the surveillance of Keno activities in registered clubs for the Department of Gaming and Racing. Keno is not played at the Casino.

8.6 Acronyms and Glossary

Casino Surveillance	<p>1. Under the Casino Control Act this relates to activities undertaken by DCS and CCA, and includes the supervision, inspection and investigation of gaming, money handling and revenue operations, the investigation and approval of casino employee licenses, and the approval, implementation and enforcement of control procedures.</p> <p>2. The term has a wider usage in the casino industry and relates to casino operators' security and closed circuit TV operations.</p>
CCA	Casino Control Authority
CCTV	Closed Circuit Television
CSD	Casino Surveillance Division of the Department of Gaming and Racing
DCS	The Director of Casino Surveillance, an Officer of the DGR and the head of the Casino Surveillance Division.
DGR	Department of Gaming and Racing.
Gaming Machines	Electronic gaming machines also known as 'slots' in the casino industry and 'poker machine' in the club and hotel industries.
IAD	The Operator's Internal Audit Director.
ICP	The Operator's Internal Control Procedures required by ss.124 and 125 of the Act and approved by CCA. Collectively they are also known as the Internal Controls Manual (ICM).
IS	Information System
IT	Information Technology
License	Unless specified otherwise, licence and licensee refers to the licensing of casino employees under Part 4 of the Act.
The Operator	Holder of the casino license issued pursuant to the Act. Currently, Star City Pty Ltd previously called Sydney Harbour Casino.
RAD	The Operator's Revenue Audit Department
Slots	see Gaming machines
The Act	Casino Control Act 1992
The Fund	The Casino Community Benefit Trust established by the Casino Control Act and funded by a levy on the Operator.
Windsor	The computerised licensing system used by CCA and DCS to record staff and controlled contract licensing details.