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Roll of the Dice
As Indian Casinos Grow, Regulation Raises Concerns

Major Expansion in California Would Aid State Revenue, Boost
Oversight Only

a Bit

'Money Stored in a Trash Can'

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Candace Cates saw many things that troubled her as an
investigator of Indian
casinos for the California attorney general's office. What troubled
her most
was what she couldn't see.

Ms. Cates ran across what she and other agents suspected was
evidence of

embezzlement, kickbacks and suspicious money movements, including \$90,000 being stuffed into a shoebox and driven away from one casino in the trunk of a car. Yet, she contends, her bosses at the state consistently stopped her from investigating these matters and ordered her to delete references to them from reports. One senior state official allegedly told her that because Indian tribes are semi-sovereign entities under federal law, investigators needed to "kiss a- on the reservations."

Gambling in Indian casinos is an increasingly large part of the gaming industry in the U.S. Indian casino revenues have nearly doubled since 1998, as new casinos have opened, putting the tribal sector on track to overtake the non-Indian sector within four years. But casino regulation hasn't kept pace with the growth, tribal-gambling critics say.

They maintain that Indian casinos are regulated much more loosely than their counterparts in places like Las Vegas and Atlantic City, N.J. Under federal law, the tribes that own casinos have the main responsibility for regulating them, a deal akin to letting the Yankees umpire their own games. States and the federal government play a limited role.

Evidence hasn't surfaced at Indian casinos of the kind of widespread corruption or organized-crime influence that long plagued Las Vegas. But state and federal investigators have at different times raised questions about suspected improprieties at tribal casinos in Connecticut, New Mexico and elsewhere, some of which have produced enforcement actions. Nationwide, the potential for problems is likely to grow as the industry continues to boom. More than 350 Indian casinos operate in 30 states, and dozens more are in the works.

Concerns about limited regulation are particularly acute in California. It's home to the nation's biggest Indian casino presence, and that is now on the brink of another major expansion. In an effort to reduce the state's multibillion-dollar budget deficit, Gov. Arnold Schwarzenegger is trying to get more money from California's more than 50 tribal casinos. Since June, he has signed agreements with 10 tribes that allow a dramatic expansion in casino operations and reinforce the Indians' monopoly on full-scale gambling.

in California. The latest deals were announced last week, including allowing the first casino to be opened in an urban area, near Oakland.

In return for the expanded casino rights, the tribes pledged \$1 billion upfront to the state coffers and perhaps hundreds of millions more annually down the road. The tribes also agreed to some additional regulatory controls, including expanded rights for organized labor, audits of certain slot-machine payouts and arbitration of patron disputes.

The question is whether a few additional regulatory checks will be enough to ensure the integrity of gambling at Indian casinos where neither the state nor the federal government has much clout. The expansion will add thousands of slot machines around the state -- adding to existing concerns about the accuracy of promised payouts, the adequacy of background checks for executives and a regulatory setup rife with conflicts of interest.

The current scheme of state regulation was attacked in an employment-discrimination suit filed late last year in San Diego state court by Ms. Cates and three colleagues from the attorney general's gambling-control division against their employer. In the suit, the plaintiffs laid out their suspicions of misdeeds at the casinos and claims of muzzling by state officials. The four contend their bosses punished them when they "attempted to investigate corruption in the Indian Gaming Casinos." They say they were denied promotions and otherwise punished because of their aggressive efforts at investigations. The suit is pending.

A spokesman for Attorney General Bill Lockyer denies the allegations. He notes that under federal law, which has given Indian tribes nationally a semi-sovereign status, states have only limited powers to regulate tribal gaming. This situation "requires different tactics to be used," the spokesman says, ones that have caused "a lot of frustration" to investigators such as Ms. Cates. However, he adds, the attorney general's office pursues any violation of state law that it comes across involving Indian casinos.

Bigger Cut

Most tribes are secretive about their casinos' finances, but in a few cases where returns are public, such as Foxwoods in Connecticut and Thunder Valley in California, the figures show that some casinos bring in more money than many giant Las Vegas gambling palaces. Gross profit margins at Indian

and vague. For instance, while they contain revenue-sharing agreements, they don't clearly define how to calculate revenue. Tribes have come up with various methods for doing so. State investigators are limited in how deeply they can scrutinize certain aspects of casino operations.

A key example involves perhaps a pressing question to any gambler: What are the chances of winning? Tribes say their slot machines pay out as much as those in Vegas. In Nevada and in other states, regulators make casinos prove their machines pay as much as promised and send inspectors to check them. In California, checking is left to the tribes.

A document uncovered by the Ukiah, Calif., Daily Journal last year showed that the February 2003 slot payout at the nearby Sho Ka Wah casino hovered near 70% of what gamblers bet -- far below the 95% average at Las Vegas casinos. Sho Ka Wah officials didn't return calls for comment. Managers at three other California tribal casinos say their payouts are higher but won't share their data.

The state's regulatory structure is an "honor system ... which is nuts," says I. Nelson Rose, a member of California's Gaming Policy Advisory Committee, which advises California regulators.

"Why isn't the state aggressively enforcing the compacts?" asks David Ronquillo, lawyer for plaintiffs in the Cates suit. His answer: "Politics and money." Indian tribes have given Attorney General Lockyer, ultimate boss of the Cates-case plaintiffs, several hundred thousand dollars in campaign donations in recent years. The attorney general's spokesman says tribal contributions don't affect how Mr. Lockyer carries out his duties.

Peter Melnicoe believes his attempt to create a set of statewide standards for tribal casinos got him fired as general counsel for the California Gambling Commission, a state board that oversees gambling but relies on the attorney general's office to do investigations. Mr. Melnicoe says he was fired earlier this year without explanation after three years in the job. A spokeswoman for the commission says the dismissal wasn't due to any tribal pressure. She declines to elaborate, saying the commission doesn't discuss personnel matters.

Gov. Schwarzenegger's renegotiation of compacts certainly raised money for

casino's owner, Twenty Nine Palms Band of Mission Indians.

Gary Kovall, an attorney for the tribe, defends Mr. Mike's dual role, noting that like many tribes, the Twenty Nine Palms band is small, with fewer than 20 members. But the tribe "realized there was a perception of possible lack of objectivity" by Mr. Mike, so it appointed a four-member commission that includes no tribal member, Mr. Kovall says.

He disputes the lawsuit claims, saying the tribe does background checks. As for the assault charges against the former commissioner, they were dismissed last year by a state court, he adds. Mr. Trump says he isn't aware of any regulatory problems at the casino. He calls Mr. Mike "a fine guy."

What helped crystallize Candace Cates' concerns about regulation was what she saw at the Valley View casino in San Diego County, owned by the San Pasqual Indian band. It's a low-slung, smoky cave of a place filled with the high-decibel racket of 1,200 slot machines.

During a 2001 inspection, Ms. Cates saw "large amounts of money stored in a trash can" at a small booth near the front entrance, her lawsuit says. She later viewed a casino surveillance tape that allegedly showed a woman from the booth putting \$90,000 into a shoebox, placing the box into her car's trunk and driving off. Ms. Cates wanted to take the information to the local district attorney, the suit says, but her supervisor told her to discontinue her probe and "not to discuss the investigation with anyone; no reports were to be prepared."

The suit says that a year later, someone at the casino asked Ms. Cates to investigate "alleged accounting improprieties by casino employees and the theft of casino funds." Again, she was allegedly blocked by her superiors, who maintained this position even after an informant contacted her about having received "threats of physical harm for having disclosed the alleged embezzlement to a state gaming agent."

The booth where she says she saw money in a trash can is operated by a vendor, Money Centers of America Inc., which provides check-cashing and other services to gamblers. Christopher Wolfington, chairman of Money Centers parent company iGames Entertainment Inc., says money