

GAMING IN CALIFORNIA

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GAMING IN CALIFORNIA

I. Introduction

Gambling in California is growing rapidly and incrementally. The growth of legalized gaming such as high-stakes bingo on Indian reservations, state lottery games, cardrooms, and off-track betting has created an atmosphere conducive to the rapid proliferation of gambling in California. Because of this expansion in legalized gaming, California law enforcement authorities are concerned about the infiltration of organized crime. Two areas of the industry that are virtually unregulated are gaming on Indian reservations and cardrooms. The danger of unregulated gaming is criminal activity by both organized crime and other criminals. The historical relationship between organized crime and legal gambling casinos is well-documented in this country. Unfortunately, for California, organized crime has infiltrated both sectors.

The purpose of this report is to document that cardroom gaming and gaming on Indian reservations in California are an attractive target for infiltration by traditional and non-traditional organized crime figures. This report recommends a comprehensive gaming control statute to control crime, regulate gaming, and provide for thorough investigatory, enforcement, and related powers.

A. Historical Perspective

California has experienced the infiltration of organized crime and illegal gaming operations since the 1930s when gambling casinos operated on ships anchored off the coast of California. The late Anthony Cornero, who was involved in the production of bootleg liquor during prohibition, operated many of these ships that were the constant targets of police raids.

In Chicago during the 1940s, the Chicago Crime Syndicate began an attempted takeover of Nationwide News, a wire service, which provided information for gambling. Continental Wire Service, the California-based subsidiary of Nationwide News, was the target of many violent acts by organized crime members from Chicago. Controlling the wire services during this era was important because all bookmaking operations were dependent on these wire services for their betting lines. After several years of extortion attempts which involved a number of murders and beatings, the Continental Wire Service finally fell under the domination of East Coast organized crime.

During the late 1940s, Bugsy Siegel, who moved from New York to Los Angeles, became an important figure in West Coast organized crime. One reason he came west was to investigate the possibility of opening casinos in Las Vegas, Nevada. Siegel also was the head of Transamerica, a wire service set up to compete

with Continental Wire Service as part of the organized crime extortion scheme. Siegel's mismanagement of the Flamingo Hotel-Casino in Las Vegas and other factors eventually led to his murder on June 20, 1947.

On November 1, 1947, Governor Earl Warren appointed a Special Crime Study Commission on Organized Crime, which became known as the Standley Commission. The Commission was active for 32 months and produced several reports that indicated all of California's bookmakers were controlled, to some extent, by the nationwide racing wire services operated by organized crime. The Commission also found illegal slot machines to be a major, illegitimate industry in California. It recommended legislation, later enacted, to reinforce the existing criminal prohibition of slot machines, including their manufacture, transportation, use, and possession.

During this period, another event contributed to the expansion of gaming in California. In 1941, the Second District Court of Appeals upheld the legality of card games not expressly prohibited by Penal Code Section 330. As a result of this ruling, Draw Poker played in cardrooms was ruled not to be a public nuisance. This court decision upheld the right of local government to control card games not specifically prohibited by the penal code.

As legalized forms of gaming became more popular during the early 1980s, the cardroom industry began to undergo a transformation. A growing number of large cardrooms were established, particularly in Los Angeles County. Some small cities found that licensing large-scale cardrooms/casinos was an extremely profitable enterprise which led to increased city revenues, that funded necessary services.

B. Recent Developments

As legalized gaming became more popular, California law enforcement agencies have become more concerned about illicit activities associated with some forms of legalized gambling.

Examples include:

- In 1984, an Orange County businessman, an individual who had ties to the Milwaukee organized crime boss, and three former City of Commerce officials were indicted by a federal grand jury and subsequently convicted. Charges in the indictment included fraud, racketeering, interstate travel to aid racketeering, and operating an illegal cardroom.
- Seven individuals linked to the Chicago Crime Syndicate were indicted in July 1984 by a federal grand jury for racketeering, extortion, and conspiracy. Four of these subjects were convicted of racketeering, the others were

acquitted. This group was accused of attempting to take over loan sharking and bookmaking operations in Southern California between 1979 and 1981. The group's operations centered in the California Bell Card Club, Bell, California.

- During 1984, a gambling operation was conducted at sea by Crown Cruise Lines, which advertised "Cruises to Nowhere." A 700-passenger liner departed San Diego daily; once beyond the three-mile territorial limit, the passengers were offered full casino gambling. After a legal review of this operation by the California Attorney General, Crown Cruise Lines ceased its "Cruise to Nowhere" operation. Crown Cruise Lines then made Ensenada, Mexico, its port-of-call, thereby, bringing it under international commerce regulations.

During the early 1980s, gaming on Indian reservations began expanding. In 1979, the Seminole tribe in Florida enacted an ordinance to conduct bingo games on its reservation. The tribal operation grew into a business that generated profits of \$2.7 million in 1984. In that same year, high-stakes bingo on Indian reservations in California became popular.

High-stakes bingo on Indian reservations was the forerunner for other forms of gaming that have now become popular on Indian

reservations in this state. Traditional organized crime was found to have an interest in several private management companies that ran high-stakes bingo games.

By 1991, law enforcement authorities in this state were aware of a dramatic increase in the number of illegal slot machines on Indian reservations in California.

On another gaming front, the cardroom industry experienced a major change after Asian games became popular and generated huge revenues as described later in this report. In the late 1980s, the California card clubs introduced Asian games such as Pai Gow, Pai Gow Poker, Super Domino, and Asian Stud. Asians were hired to manage these games. By 1988, California law enforcement agencies became aware of Asian organized crime infiltration of the cardroom industry in California.

II. Gaming on Indian Reservations

Gaming on Indian reservations throughout the country has become a multi-billion dollar industry and is a growing problem in this state. Legal and illegal gaming on Indian reservations has significantly expanded in the past several years. It now includes slot or video machines, cardrooms, off-track betting, high-stakes bingo, and variations of Blackjack. During 1992, wagers on Indian reservations throughout the U.S. exceeded an estimated \$15 billion, which is a 179 percent increase over 1991. Although no information exists to provide an accurate estimate of California wagering on Indian reservations, it is believed that a significant portion of the \$15 billion was wagered in California. Because gaming on these reservations is so lucrative and unregulated, it has also attracted organized crime and unscrupulous operators.

In the early 1980s, Indian tribes in California, enticed by the profits made by the Florida Seminole tribe, became involved in high-stakes bingo games.

In 1982, the San Diego County Sheriff's Department moved to stop high-stakes bingo on the Barona Indian reservation but was restricted by the 9th Circuit Court of Appeals. The court ruled the San Diego County Sheriff's Department lacked authority to enforce California law, with respect to bingo games on Indian

reservations. The court stated that California law regarding bingo was regulatory in nature and that the U.S. Supreme Court had found that Congress never granted regulatory authority over Indian land to the states. Consequently, the 9th Circuit Court of Appeals concluded that California bingo laws did not apply to reservations. In *California v. Cabazon Band of Mission Indians*, the U.S. Supreme Court revisited the same question and ruled that California's high-stakes bingo prohibition was a civil/regulatory and not a criminal/prohibitory law, since California did permit bingo for charitable purposes in the form of low-stakes bingo. Thus, under established federal Indian law, California was unable to enforce its criminal prohibition on high-stakes bingo in Indian country under its usual authority to enforce its criminal code as set forth in Public Law 280.

Congress passed the Indian Gaming Regulatory Act (IGRA) in 1988. This Act allows gaming on reservation land that is consistent with permitted gaming in the state where the Indian lands are located. It categorizes gambling into three classes: Class I gaming is social games played solely for prizes of minimal value or "traditional" forms of Indian gaming connected with tribal ceremonies or celebrations; class II gaming includes bingo, pull tabs at bingo locations, and non-banked card games, which incidentally, are not explicitly prohibited by the California Penal Code; class III includes all other forms of gaming. In order for a tribal casino to offer class III gaming, it must

enter into a tribal-state compact with the state, signed by the Governor and approved by the Secretary of Interior. To date, only five compacts have been negotiated in California, allowing off-track betting.

In addition to bingo, casino-style gambling on Indian reservations has escalated in recent years and is a rapidly growing sector of the gambling industry in this state. There are currently 104 Indian tribes and bands in California.

- Nineteen of these tribes are now operating various forms of gaming.
- Seven tribes have only high-stakes bingo games.
- Twelve tribes have class II and III gaming.
- Five of 12 tribes that have class II and III gaming have off-track betting.
- Ten of the 12 tribes that have class II and III gaming have cardrooms. (See attached map.)

During the past two years, law enforcement authorities in this state have become aware of a dramatic increase in the number of automated pull-tab machines. These pull-tab machines are

classified as illegal slot machines under California law and are in operation on Indian reservations in California. In 1991, law enforcement agencies in San Diego, Fresno, and Lake counties seized slot machines. Federal judges in San Diego and Fresno subsequently granted injunctions to prevent state and local authorities from enforcing gambling laws on Indian reservations. The state has appealed these orders in the Federal Ninth Circuit Court of Appeals.

Some Indian gaming facilities in this state have Pai Gow, Poker, and variations of Blackjack games, generating huge profits. For example, the Sycuan Band of Indians in San Diego County grossed approximately \$80 million in 1992 from the gaming operations.

Because gaming on Indian reservations has become so profitable, several of the tribes in this state plan to expand or build gaming facilities on tribal land.

- The Morongo Indians in Riverside County plan to renovate their existing 60,000 square-foot casino to house a 2,400 seat bingo hall, video pull-tab machines, off-track betting services, and card tables. They plan to open a \$7 million, 33,000 square-foot addition, plus construct a five-story, 150-room hotel on top of the new casino.

- The Aqua-Caliente Indians in Palm Springs, California, recently signed a \$25 million contract with Caesars World, Inc., of Las Vegas to construct an 80,000 square-foot gambling casino in downtown Palm Springs.
- The Cabazon Indians in Indio, California, have plans to expand their existing casino and build a hotel.
- The 29 Palms Band of Mission Indians have contracted with the Elsinore Corporation, which operates the Four Queens Casino in Las Vegas, to build a casino.

Law enforcement authorities are concerned about the growing problem of gaming on Indian reservations. Until recently, there was no on-site inspection of Indian gaming facilities in California by federal authorities. The National Indian Gaming Commission assigned one field representative to monitor Indian gaming in California (and part of Arizona). Local and state agencies are unable to enforce California gambling statutes on these reservations, thus making them tempting targets for organized crime and unscrupulous operators victimizing the tribes and casino patrons. This increases the likelihood for skimming, rigged games, and money laundering.

The following are examples of organized crime figures or other criminals who have infiltrated California Indian reservations:

- In 1980, the Cabazon Indian tribe hired Rocco Zangari as its cardroom manager. Zangari was identified as an organized crime figure during U.S. Senate testimony. He was subsequently fired. Later, after the tribal vice-chairman complained to the local newspapers about the poker-room skimming, he and two others were murdered. The case has never been solved.
- In April 1986, the general manager of the bingo operations at the Barona Indian Reservation in San Diego pled guilty to four counts of grand theft. The charges stemmed from a 1985 case in which the management hired "shills" to win large cash prizes (totaling about \$96,000). The cash prizes were later deposited into the company account, which was controlled by the general manager. In addition to the theft scheme, the general manager claimed that part of the start-up money for the Barona Operation came from an associate of the Southern California Crime Family.
- Another management firm that operated on a California Indian reservation, which is no longer in business, was suspected of skimming from bingo receipts and laundering funds through its accounts. One of the management company's operators was directly linked to a high-ranking member in the New York-based Lucchese Crime Family. In February 1987, one of the firm's principals, James Williams, was convicted in Florida for

federal tax violations. This conviction was directly related to Williams' Florida bingo operations.

- In November 1992, Table Mountain gaming operators in Fresno County severed connections with their cardroom manager after it was discovered he had a criminal record for cheating. Steven Forte, the former manager, was one of four Las Vegas men indicted in 1988 on a highly organized "Sky Shuffle" scheme to cheat the Blackjack tables at Trumps Castle Hotel in Atlantic City, New Jersey. In 1992, Forte was convicted of conspiracy to cheat at Blackjack in Atlantic City, New Jersey.
- During March 1993, the acting boss of the Chicago Crime Syndicate, John DeFronzo, his gambling advisor, Donald Angelini, and the overseer for the Chicago Crime Syndicate on the West Coast, Chris Petti, were convicted after a failed attempt to infiltrate the Rincon Indian tribe's gambling operation in San Diego County. They were attempting to generate revenue for the Chicago Crime Syndicate by laundering money and skimming profits.
- According to media reports, the Federal Bureau of Investigation is investigating Angelo Medure, a Pennsylvania asphalt company owner who manages a major casino in Minnesota and is expanding into tribal gambling in California, Oklahoma, and Ontario, Canada.

During the 1980s, Medure leased a warehouse to a pasta firm in Pennsylvania operated by an individual with ties to the Michael Genovese Organized Crime Family. Medure continued this relationship until the end of 1992. Medure had plans to manage casinos for the Hopland Band of Pomo Indians and the Cloverdale Pomo Indians in Northern California. The Pomo Indians have canceled their contract with Medure.

III. Gaming in California Cardrooms

A. Background

During the past several years, gaming in California has undergone an unprecedented transformation. A significant aspect of this change is occurring in the cardroom industry. According to an industry source, an estimated \$8.43 billion was wagered in card clubs (excluding Nevada) during 1992. Of this amount seven to eight billion in wagers is attributed to California card clubs. This represents the purchase of poker chips or similar tokens for use in wagering, or cash, which is placed into bets at cardroom tables, or paid to cardrooms as fees for the playing of card games by each participant. Chips are redeemed for cash from casino cashiers, necessitating the transfer of millions, if not billions, of dollars being handled in cardroom cash transactions.

There are approximately 265 cardrooms located in 50 counties in California. A large percentage of the "mom and pop" type cardrooms are now being absorbed through the formation of larger ventures comprised of corporations and partnerships. State and local law enforcement authorities do not have the resources to provide the oversight and regulation these types of new ventures require. In addition, these large clubs are positioning themselves for what they believe is California's movement toward expanded legalized gambling. The large card clubs generate

enormous revenue due in part to an increase in the Asian games being played in California. The following are examples of club revenues:

Bicycle Club - Located in Bell Gardens, the casino portion of the club reported gross revenues of \$84.1 million in 1990, \$82.2 million in 1991, and \$85.9 million in 1992.

Commerce Club - Located in the City of Commerce, earned estimated gross revenues of \$77 million in 1991.

Garden City Card Club - Located in San Jose, this cardroom had estimated gross revenues of \$20 million in 1991.

California is beginning to see the formation of large cardrooms that are taking the shape of "entertainment centers." These centers are being billed as "conducive to family-oriented entertainment," similar to some of the casinos in Nevada which include full restaurant facilities, children's video games, and nightclub acts.

Currently, eight large clubs exist in California that have approximately 35 to 100 tables. However, that number is expected to more than double in the next few years.

Several of the large proposed card clubs currently being considered in the state will significantly affect the card clubs currently in existence. It is expected that these new clubs will draw a large customer base, much like the large "casino" type clubs currently operating in the Bay Area and Southern California.

The expansion in the size of cardrooms has significantly increased related problems for law enforcement for crimes such as skimming, cheating, loan sharking, money laundering, extortion, follow-home robberies, and tax/credit card fraud. These activities have reached a scale that cannot be effectively controlled without additional law enforcement authority and resources.

The latest development in illegal credit card schemes involves automated credit authorizations. Under these schemes, players borrow money from loan sharks who forge checks and send them to the victims' credit card company as payment on account, creating a larger base from which to borrow. During the period the check requires to clear, the victim withdraws amounts at the loan shark's directions through the automated credit authorization system at the card club. The chips received through the transaction are given to the loan shark as payment. The victim reports the credit card stolen and the credit card company

suffers the loss. The estimated loss through this type of scheme is currently three to five million dollars.

The following cases are additional examples of illicit activity related to the cardroom industry.

- Regency Card Club and Casino - (Formerly the California Bell Card Club.) During 1992, the California Department of Justice conducted an investigation of the ownership and management of the Regency Card Club and Casino. This club was being purchased out of bankruptcy after it was closed as a result of bad management, increasing competition, and the taint of an investigation involving skimming by club operators.

A complicated scheme was used by the new ownership to purchase the club by utilizing proceeds derived from a real estate investment firm specializing in offshore Asian investments. Most investors were unaware that the firm was engaged in the purchase of this club. The owner of the card club has since fled the country with substantial sums of money stolen from the club. The CEO of the investment firm is now in federal prison.

- Garden City Card Club - On May 4, 1987, a Santa Clara County Grand Jury indicted 14 individuals associated with the Garden

City Card Club, a 40-table card club located in San Jose. The indictments involved the skimming of approximately \$4 million in club revenues over an eight-year period beginning in 1977. The subjects were also charged with filing false income tax returns, making illegal campaign contributions, theft of club assets by the club president, and perjury committed by applicants in their applications to register under the Gaming Registration Act.

In January 1993, all defendants pleaded guilty or nolo contendere to the indictments. In addition, the club was fined \$5 million by the city; and current stockholders have been forced to sell their interests.

- During a recent investigation concerning potential applicants for a cardroom license in Oxnard, California, it was learned two applicants had criminal records. One investor had been convicted of conspiring with a Bell Garden city official to gain approval for a cardroom casino. The second investor had been convicted of child molestation in Los Angeles County and was on probation at the time he submitted his application for a license. With the assistance of a political consultant, the two applicants also made campaign contributions to several Oxnard city council candidates totaling approximately \$7,000.

Another competing group of applicants who submitted proposals for a cardroom license in Oxnard also made significant political campaign contributions to several Oxnard city council candidates. This group also had negotiated with the same political consultant. The Ventura County District Attorney's Office began a criminal investigation since several campaign contributions to the City Council and other candidates were laundered in violation of California's Political Reform Act.

B. Infiltration of Cardrooms by Organized Crime

The cardroom industry is a lucrative source of revenue and attracts both traditional and non-traditional organized crime in this state. In spite of law enforcement's efforts, there continues to be criminal activity within the cardroom industry in California which involves skimming, players banks, money laundering, bookmaking, and loan sharking. The following are examples of this activity:

- The prior owners of the Commerce Club were heavily involved in public corruption and organized crime. In the early 1980s, the City of Commerce began exploring the possibility of licensing cardroom casino operations as a means of raising revenues. Applications were received from a number of investment groups. In April 1982, the City Council of

Commerce unanimously voted to award the license to a group of Las Vegas investors, which was headed by Morris Jaeger, who was at that time, Vice President of the MGM Grand Hotel.

Although Nevada gaming laws prohibited Jaeger from serving as an officer of the MGM Grand and holding a casino license in California, he nevertheless organized what became known as the Las Vegas Group of investors. One of the individuals named on the club's license included Frank J. Sansone, who was floor manager of the MGM Grand Hotel. The principal financial backer of the Commerce Club venture, later to become the club's vice president and chief financial officer, was W. Patrick Moriarty. Moriarty was highly active in California politics and was the owner of Red Devil Fireworks, the largest manufacturer of fireworks in California.

Immediately upon the announcement of the awarding of the license, there was an uproar of protest from competing investment groups. They claimed the awarding of the license had been fixed with the City Council and the proceedings had been "wired" to ensure the Las Vegas Group would receive favorable consideration from the council.

Frank Sansone had ties to the late Frank Balistrieri, boss of the Milwaukee Organized Crime Family. In 1983, Balistrieri and 14 other organized crime figures were indicted for

skimming profits from two casinos in Las Vegas. Two years after the opening of the Commerce Club, Moriarty, Sansone, along with Commerce City Councilman Robert Eula, Arthur Loya, and city Economic Director Phil Jacks, were indicted by a federal grand jury. The indictment charged that Sansone and Moriarty agreed to give 10 percent hidden ownership in the Commerce Club to the City of Commerce officials in exchange for their influence in securing an operating license.

W. Patrick Moriarty pled guilty to seven counts of wire fraud and Frank Sansone was convicted of three counts of mail fraud and one count of operating an illegal gambling business. The three officials of the City of Commerce pled guilty to bribery-related charges.

Another growing organized crime problem is the infiltration of Asian organized crime into the card clubs. In a report on Asian organized crime, the U.S. Senate Permanent Subcommittee on Investigation in 1992 stated, "While Nevada and New Jersey gaming authorities have been diligent in efforts to prevent Asian organized crime members from gaining a foothold in legal gambling operations, California has over 300 (sic) legal card clubs which are subject to little regulation, and as a result, appear to have become centers of Asian organized crime activity. Card clubs in both Northern and Southern California have been exploited by Asian crime groups."

When Asian games, mostly Pai Gow, were introduced into California cardrooms in 1985, profits soared. Clubs that were in financial difficulty, suddenly flourished. Because the Asian games can be very complicated, Asians were hired to manage the games.

It should be emphasized that the only legitimate source of revenues or profits for the cardrooms playing Asian games is from flat fees charged each participant for each game played, or from rental of a seat at the table. Because Asian games are high-stakes games played rapidly, players must wager large numbers of chips or cash, which are constantly in motion over the gaming table. Concurrent with the placement of the high-stakes wagers on the table, chips or cash for cardroom fees are collected in rapid-fire succession by dealers, who deposit fees in one box, but also operate a cash drawer or apron for chips at the table. Tips to dealers are collected at the same table.

The following cases are examples of Asian organized crime involvement in the cardroom industry:

- In the mid-1980s, Alfred Chu, known as an enforcer in the Hong Kong-based Wo Hop To Triad, began recruiting members for this criminal organization in San Francisco while he was manager of the Key Club, a card club, in Emeryville, California. He is now serving a five-year term in prison for false immigration statements.

- On March 21, 1990, Kam Kwong (Johny Fung) delivered an application to the Department of Justice Gaming Registration Program to become part owner of the King Midas Club located in Emeryville, California. During the next several months, additional information was requested to verify the source of funds Mr. Fung was to invest in the business. According to Mr. Fung, he and his father had business holdings in Hong Kong from which he would derive his money for the card club. Mr. Fung's father is a multimillionaire resident of Hong Kong and has been identified as a high-ranking member of a major Chinese Triad. He was also a suspect in a 1986 murder of a Hong Kong police officer; however, he was never convicted of the offense.

During June 1990, California Department of Justice, Bureau of Investigation special agents attempted to clarify the financial background of Mr. Fung. During September 1990, Mr. Fung and his wife, Iphigenia Liu, met with a Department of Justice special agent on three consecutive days and solicited his influence to expedite the issuance of their gaming registration. During these meetings, they told the agent they were willing to pay him \$30,000 for the state license. They subsequently delivered \$20,000 in cash to the agent and told the agent he would receive the remaining \$10,000 after they obtained their license.

On December 12, 1990, Fung's wife was arrested in Sacramento for attempting to bribe a state Department of Justice special agent. She pled guilty to charges of bribery and forfeited the \$20,000 she paid the undercover agent. Johnny Fung fled to Hong Kong and remains a fugitive.

- On February 17, 1993, Hollman Cheung, Paul Tang, and several others were indicted by a Federal Grand Jury in New York for wire fraud, traveling in interstate commerce to promote unlawful activity, and engaging in illegal transactions with property derived from criminal activities. Prosecution is pending with this case. Hollman Cheung is an independent contractor who operates Pai Gow tile tables at the Bicycle Club in Bell Gardens, California. Paul Tang once worked for Cheung as a floor manager.

According to the report on Asian organized crime by the U.S. Senate Permanent Subcommittee on Investigations, Hollman Cheung is allegedly associated with members of the Wah Ching gang and the Wo Hop To Triad; and he hired various gang members as employees at the Bicycle Club.

- In 1989, Frank Cheung, an alleged member of the Wah Ching, (no relation to Hollman Cheung) pled guilty to extortion in connection with a loan sharking operation that he was

operating out of the Bicycle Club and other casinos.

Although the management of the Bicycle Club denies that Frank Cheung was an employee of the club, he was, nevertheless, engaged in a criminal enterprise by victimizing patrons of this card club.

C. Money Laundering

The assistant director of the U.S. Treasury Department's Financial Crimes Enforcement Network (FinCEN) testified in December 1992, before the U.S. Senate Subcommittee on Permanent Investigations, that "...the card clubs offer opportunities for extortion, money laundering, and tax evasion. Law enforcement sources believe that an extensive amount of money laundering and profit skimming takes place in card clubs." A significant amount of the revenue generated by the California card clubs is from Asian games; many of which are played for very high stakes. It is not uncommon for \$250,000 to ride on a single round of Pai Gow tiles where each round may only last 90 seconds.

Legalized gambling operations provide excellent opportunities to skim off undeclared profits and to launder the proceeds of unlawful activities such as narcotics trafficking and prostitution.

By their very nature, cardroom casinos are vulnerable to money laundering. Card clubs operate as financial institutions in that they conduct cash transactions, accept money for deposit, cash checks, extend credit, conduct wire transfers, rent safe deposit boxes, and provide other financial services upon request. They are not, however, subject to the strict regulations imposed on banks or held to the high licensing standard of casinos located in areas such as New Jersey and Nevada. Following are examples of typical laundering schemes:

- Customers use club employees to avoid conducting cash transactions themselves. Dealers, floormen, and chip runners are used as middlemen between the table and the cage, often conducting large cash transactions on behalf of customers.
- Customers purchase large amounts of chips in the Asian games section of the clubs. They play for a while at low-stakes games and then exchange the bulk of the chips for either cash, in large denomination bills, or a check.
- Player accounts are frequently used to launder money. Due to the poor regulation of the accounts, customers can move virtually unlimited amounts of cash through the accounts without difficulty. A customer may "structure" money into a

player account, making several deposits over a period of time. He may then withdraw this money as cash or a check at any time.

- Customers sometimes deal directly with cage employees in conducting large cash transactions. They simply bribe the employee to evade any reporting requirement.
- Two individuals who know each other come in and play a high-stakes game in the Asian section. Through the course of the game, a large amount of cash is converted to chips, lost by one player to the other, and cashed in as winnings from gambling. One player may claim a large loss of money while the other may claim income derived from gambling at the club.
- Customers take large amounts of cash from the club and "structure" the money into bank checking accounts. They later cash checks from the accounts at the card club. No cash transaction report is filed.

Additionally, the following activities are of special note:

- In 1990, an investigation by federal authorities resulted in criminal prosecutions of investors in the Bicycle Club and the seizure of 36 percent of the assets of the casino. The investigation determined that \$12 million invested in the construction of the casino in 1984 were the proceeds of

illegal drug trafficking being laundered through the business. Four of the initial investors were convicted of federal racketeering charges as a result of this investigation. Recently, the Internal Revenue Service also imposed a \$4.6 million fine against the club for failing to report cash transactions exceeding \$10,000. The reporting requirements are designed in part to identify money laundering activity.

- California Department of Justice special agents have been conducting an investigation of a large cardroom in Southern California. There is information that several bookmakers were laundering millions of dollars of bookmaking proceeds through the players' bank at this card club. Investigators determined it was common for individuals to deposit cash and checks in this players' bank to be used for gambling in the card club. Fictitious names were often used when making deposits into the bank. Often a second person deposited funds into an account for another individual. Bookmakers were believed to use the players' bank as a method to hide their illicit income.

Currently, under U.S. Department of Treasury regulations, casinos licensed by state and local government are deemed to be financial institutions under the Bank Secrecy Act, as they are a business whose cash transactions have a "high degree of usefulness in criminal, tax, or regulatory matters" (31 U.S.C.

§ 5312(a)(2)(U); 31 CFR 1-3.11(g)(7)). However, cardrooms have

not been uniformly perceived as subject to the Bank Secrecy Act, and they have only reported single cash-in transactions in excess of \$10,000 to the I.R.S. under Internal Revenue Code section 6050I, as confidential tax-related information.

However, the financial services offered by cardrooms are comparable to any casino nationwide, and should be subject to the same regulations as other casinos. The Bank Secrecy Act requires scrupulous customer identification, recording and reporting requirements of banks, loan, and finance companies. However, the Act also applies to any business which regularly issues, redeems, or acts as cashier of travelers' checks, checks, money orders, or similar instruments, as well as currency exchanges, licensed senders of money and operators of credit card systems. Numerous non-bank financial institutions are enumerated by the Act, including brokers, insurance companies, pawnbrokers, travel agencies, telegraph companies, businesses engaged in travel agencies, telegraph companies, businesses engaged in vehicle sales, including automobile, airplane and boat sales, and persons involved in real estate closings and settlements.

New casino regulations of the Bank Secrecy Act were proposed by the Secretary of the Treasury on March 12, 1993, which will, once adopted, subject all casinos to identify all cash transactions in or out, recording any transaction in excess of \$3,000; require the aggregation of otherwise unrelated transactions by the same

individual within the same casino playing day, such as deposits in player's accounts, purchase of chips, credit extensions, and the like; require the reporting of aggregated transactions in excess of \$10,000, to the U.S. Treasury Department Financial Center, where the information may be used by law enforcement in auditing potential money laundering schemes. Knowledge will be deemed to be acquired by the casino when casino personnel have reason to believe the same individual is conducting numerous reportable or an aggregated reportable transaction. Severe civil and criminal penalties apply to the failure to report. When these regulations go into effect, cash and credit transactions in cardroom casinos will undoubtedly be subject to more scrutiny than ever before.

Cardrooms provide all the financial services found in other financial institutions subject to the Bank Secrecy Act and, according to U.S. Department of Treasury sources, the evidence demonstrates that the cash transactions have "a high degree of usefulness in criminal matters."

The services offered by the cardrooms are intended to satisfy the customer. Cardrooms allow patrons to conduct a variety of cash transactions. Beginning with the playing table, a customer may exchange currency for chips. These transactions may also take place at any one of the several cage windows available in most clubs. Most employees are also available to conduct transactions

on behalf of customers. Accordingly, drug proceeds or other illicit monies can be easily converted to seemingly legitimate gambling winnings with complete anonymity.

Larger cardrooms accept and issue checks for purchase of chips and payment of winnings at the cage windows. They also provide bank-like services such as wire transfers. A source within a cardroom indicated that during tournaments, clubs transact both inbound and outbound wire transfers for their customers.

For customers who are short on cash, there are other options. All of the larger clubs contain automatic teller machines (ATM) which accept cards from the major systems, as well as most credit cards. They also contain "Comm-Check" machines which issue cash advances on credit cards. Customers pay a substantial fee for use of these machines which issue a chit that is redeemable for cash at any cage window. Additionally, customers may acquire cash advances on credit cards directly at the cage windows.

The cardrooms also offer non-interest bearing "player accounts" in which customers may make deposits. These accounts are similar to standard bank accounts. Account holders make deposits and withdrawals from the account in the form of cash or check. Records are maintained by the club listing transaction dates and amounts. Sources indicate that player accounts are utilized in both money laundering and loan sharking schemes. According to a

reliable confidential source who spent many years working in cardrooms, as well as underground gambling houses, moving illicit money through player accounts is a simple matter.

D. Home-Invasion Robberies

Due to the escalation of gaming, home-invasion robbery is also a growing problem. The Los Angeles Sheriff's Department documented 26 such robberies in a four-month period from December 1991 to April 1992. The perpetrators target potential victims in cardrooms. They may obtain information about the victims through surveillance of big winners or have an associate who works in the cardroom provide the gang with information about potential victims. The victims are followed home and robbed of their money and jewelry. Two of these robberies resulted in homicides, and a third resulted in an attempted murder. Some Asian gang members have been involved in these types of robberies.

IV. Summary and Analysis

Gaming on Indian reservations in this country has become a multi-billion dollar industry. Casino-style gambling on Indian reservations in California is a rapidly growing sector of the gaming industry.

Negotiations for gaming on Indian reservations have resulted in a federal court opinion on the subject of what are the appropriate games for a tribal-state compact. In July 1993, a federal judge in Sacramento declared that virtually all types of casino gambling are the proper subject of negotiations. The judge ruled that if the California State Lottery offers its residents lottery games and keno using electronic equipment, such as TV screens and electronic ticket dispensers, it cannot deny the Indian tribes stand alone video gambling devices, normally prohibited by state law.

Although the state is appealing this verdict, it is continuing to negotiate the details of compacts with the Indians. Several tribes have already negotiated compacts with the State to allow off-track betting. Additionally, Indian tribes in this state are watching casino gaming on Indian reservations in several other states, where other forms of gaming are legitimate. They can be expected to use the precedent set in other states as a means of obtaining similar advantages in California.

No regulatory mechanism exists in California for jointly regulating Indian casinos under tribal-state compacts, beyond the California Horse Racing Board, which only serves to help regulate off-track betting. Without a gaming control commission or division, there is no state agency that is equipped to jointly regulate, with a tribal government, any significant gaming activities on Indian reservations. Further, like cardrooms, Indian casinos are not subject to the Bank Secrecy Act, and thus, do not report cash transactions to FinCEN or to the state.

California is beginning to see a growing trend towards the formation of large cardrooms. Many of the "mom and pop-type" cardrooms are being absorbed through the consolidation of smaller cardrooms and the formation of larger operations comprised of corporations and partnerships.

Hollywood Park Race Track plans to lease space to a group who will open a large card club at its race track in Inglewood, California. This venture would merge horse racing and the cardrooms. Other race tracks are watching this proposed operation and are also likely to ask to expand their operations into multi-gaming facilities.

These large clubs are positioning themselves for what they believe is California's movement toward legalized casino

gambling. Legalized forms of casino-style gaming on Indian reservations will result in a demand by the cardroom industry and some local California jurisdictions to have the same forms of gaming as the Indians have on the reservations. Some city administrators believe gambling is one method of raising revenue to keep pace with a greater demand for local services without raising taxes.

With the concentration by both the public and law enforcement on street gangs and their attendant violence, sophisticated organized crime tends to be overlooked. The La Cosa Nostra has already begun to infiltrate reservation gaming operations in this state, and Chinese Triads have made inroads into the cardroom industry in California. Because card clubs and gaming on Indian reservations generate significant revenue and are relatively unregulated, organized crime will increase their infiltration of management companies that operate gaming on Indian reservations, or become owners and managers of card clubs. Additionally, organized crime is likely to become involved in ancillary businesses connected to gaming operations, such as vendors and service providers, including food and liquor service, entertainment, and tour junkets.

Large expansions of gaming operations are expected to cause additional problems for law enforcement authorities in this state. Casino-style gaming will draw a large number of transient

customers resulting in an increase in serious crimes such as assaults, thefts, burglaries, robberies, and auto theft. Other types of criminal activity such as loan sharking, drug trafficking, prostitution, or bookmaking are likely to become a problem both inside and in the vicinity of gaming establishments. Increases in crime will result in the need for additional law enforcement personnel, and these costs will be passed on to the public.

The experience of Atlantic City, New Jersey, and Deadwood, South Dakota, support this forecast. Since the opening of the first casino hotel in Atlantic City during the Memorial Day weekend of 1978, the number of serious crimes committed annually in both Atlantic City and Atlantic County has risen dramatically; the greatest part of the increase coming in the first five years of legalized gaming. The rise in crime has had a major impact on the agencies charged with enforcing the law and funding law enforcement. The local growth in serious offenses exceeded the rest of New Jersey, and in the early years accounted for most of the increases for the state. Comparing statistics for Atlantic City and Atlantic County with those of similar non-gaming jurisdictions leads to the conclusion that the increases in local crime are a byproduct of gaming and not other social or economic processes and trends.

Slot machines and low-stake poker gaming was legalized in November 1989 in Deadwood, South Dakota. Serious crime in Lawrence County, South Dakota, (where Deadwood is located) increased approximately 40 percent between November 1989 (160 crimes) and January 1991 (225 crimes). Although law enforcement agencies in that area cannot attribute this sharp increase solely to legalized gambling, it was believed to be a contributing factor.

Several law enforcement undercover investigations of California cardrooms found various forms of criminal activity. In 1976, a long-term undercover operation in Santa Clara County cardrooms uncovered widespread cheating, drug trafficking, prostitution, bookmaking, loan sharking, and house banking of card games. In 1981, an investigation of Sacramento County cardrooms uncovered drug trafficking, loan sharking, receiving stolen property, prostitution, side betting, bookmaking, solicitation for assaults, and cheating.

Another significant problem that is cause for concern is corruption. Profits from gaming have provided irresistible temptations for some local officials who have been convicted of this crime. During the next several years, with increased gaming revenue, inadequate oversight of gaming, and the infiltration of organized crime into the gaming industry, incidents of corruption of public officials can be expected to increase in California.

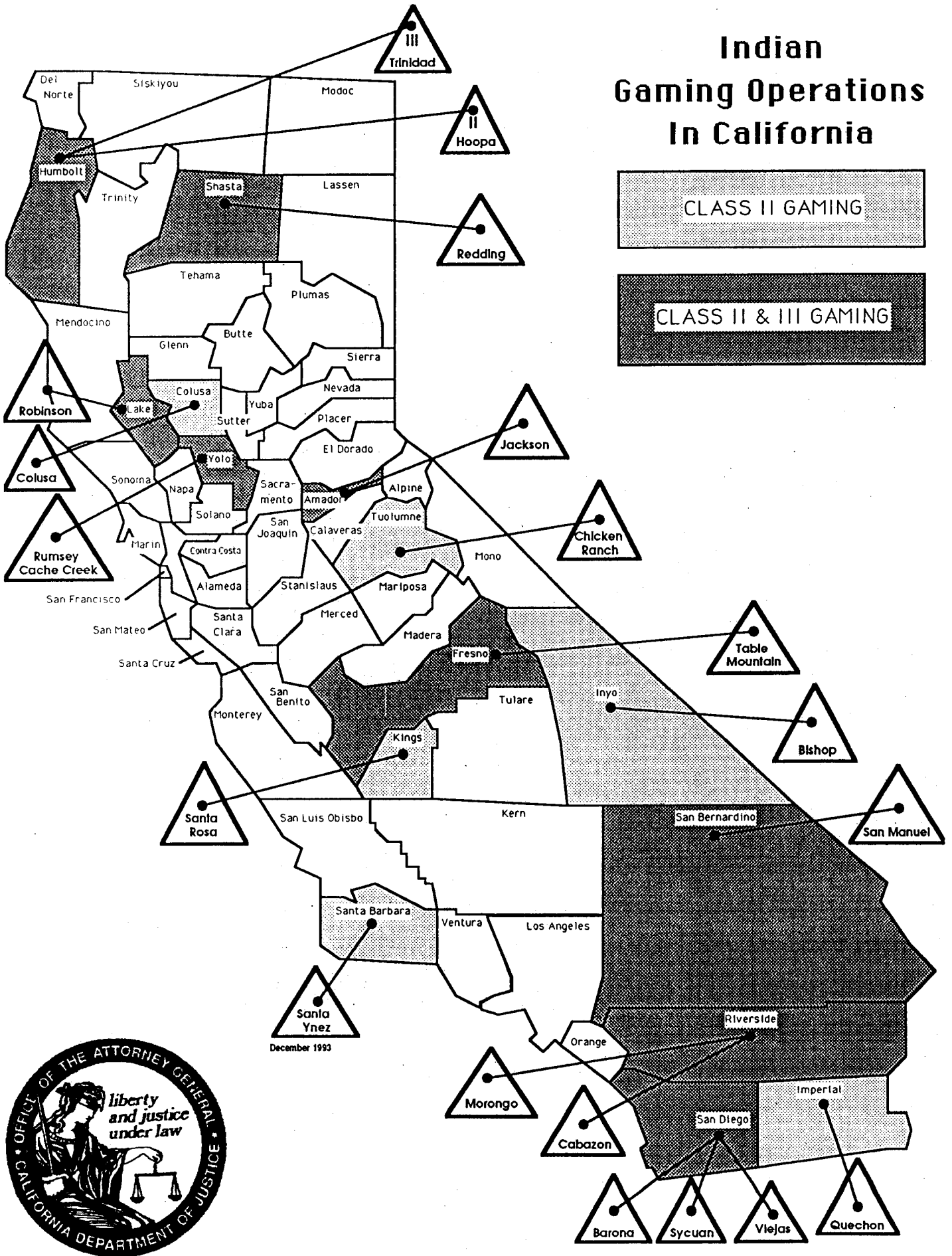
Additionally, a trend observed in a number of jurisdictions has been the supplementing of local budgets with fees or taxes derived from gaming operations. This practice places these jurisdictions in the sometimes untenable position of having to regulate or enforce gaming operations which contribute significant amounts of revenue to the local government. A stringent enforcement or regulation effort by the policing agency can result in decreased gaming revenues, thereby reducing the revenues available to city or county budgets.

Without adequate oversight of gaming in California and sufficient law enforcement resources, organized crime infiltration, corruption, serious violent crime, and illicit activity within the gaming industry is likely to increase.

V. Recommendations

- Adopt a comprehensive gaming control statute which provides the following features:
 - State-level licensing of cardroom casinos by a commission with the power to grant, renew, and revoke licenses, conditional upon favorable law enforcement recommendations
 - Investigatory and enforcement powers vested in Department of Justice
 - Authority for commission regulations to allow for minimum internal control standards for all casinos, including customer identification, cash transaction recording, and reporting requirements
 - A mechanism for the joint regulation, with tribal governments, of tribal class III gaming
- Increase federal, state, and local law enforcement participation in monitoring casino activity, gathering intelligence and targeting of criminal groups and individuals.

Indian Gaming Operations In California



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