

Division of Gaming Enforcement

Attorney General Cary Edwards  
Director Anthony J. Parrillo

# News

FOR IMMEDIATE RELEASE

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Attorney General Cary Edwards today announced that he has received the results of an operational review of the Division of Gaming Enforcement (DGE,) within the Department of Law and Public Safety.

The Attorney General approved the casino industry's call for the independent audit in February of 1987, calling it "a good idea." At that time, Edwards welcomed the audit and supported the casino industry's request for the review.

"At the time the audit was suggested," Edwards said, "I indicated that the gaming industry had the right to know how and where their dollars were being spent. I had no reason to believe then, and the final report supports, that there has been no over-expenditure or that anything is being done that should not be done."

The review of the Division of Gaming Enforcement was performed by Cresap, a Washington, D.C. based management consulting firm.

The "operational audit" was designed to review the economy, efficiency and effectiveness of DGE's operations, according to the Attorney General.

Edwards noted the performance of an operations audit by a professional consulting firm is an increasingly popular type of

engagement for both the private sector and governmental entities.

Both the Division and the Casino Control Commission agreed to commission separate but interdependent reviews of their organizations, Edwards said.

Cresap, a Towers Perrin Company, was selected to conduct the study as a result of New Jersey's strict competitive bidding process. A second Cresap report, of and for the Casino Control Commission, has been prepared under separate cover.

Edwards noted that the study aimed to review and reconfirm the goals and objectives of the gaming industry regulatory authorities as well as to evaluate the optimum and most efficient use of their resources.

"I am gratified, and certainly not surprised," Edwards said, "to read Cresap's assessment that the DGE has successfully fulfilled its mission over the first ten years of its existence and that together with the Commission has played a leading role in ensuring the overall integrity and therefore success of casino gaming."

The Attorney General added that Gaming Enforcement has successfully accomplished what early observers of New Jersey's legalized gambling experience perceived as an impossible hurdle -- keeping the tentacles of organized crime out of the corporate boardrooms of the casino industry.

Anthony J. Parrillo, Director of the Division of Gaming Enforcement, said the study will be a valuable management tool for identifying strengths upon which to capitalize and targeting opportunities for improvement.

"The study is a future-oriented evaluation of agency activities for purposes of management planning which will ultimately enhance

the overall mission of casino regulators," Parrillo said.

Director Parrillo noted that the report is as useful for pointing out proven agency values as it is for recommending changes for the betterment of the organization.

He explained that the Cresap report reaffirms New Jersey's strict, comprehensive regulatory approach to casino gaming, validates the dual agency structure and confirms that some duplication of effort by the DGE and the Casino Control Commission is both necessary and unavoidable.

"Equally important," Parrillo said, "Cresap concludes that the Division's programs are meeting established statutory objectives."

While Cresap praised Division accomplishments as "remarkable," Parrillo noted that the report made several constructive recommendations designed to increase efficiency in daily operations and to maximize the use of existing resources.

Greater cost savings could be achieved, according to Cresap, by streamlining the organizational structure, reducing the amount of work duplicated by the Commission and deploying enforcement (State Police) personnel more economically.

Noting that while Cresap's suggestions seek to achieve the absolute maximum level of efficiency and economy, Parrillo cautioned that that goal might be more aspirational than practicably attainable.

The Director cited as an example Cresap's recommendation to reduce State Police forces by shifting them from the vulnerable casino hotels, where they protect the safety of millions of patrons and the security of billions of dollars in assets each year, to

patrol cars outside the casino environment, an area exclusively patrolled by municipal law enforcement officers.

After an exhaustive review of Cresap's recommendations, Attorney General Edwards and Director Parrillo will determine which of the recommendations are worthy of further pursuit and which, if implemented, may compromise the Division's effectiveness and therefore the industry's integrity.

In some of the areas mentioned by Cresap, Parrillo noted, the Division has already initiated changes independent of the consultant's advice. For example, Parrillo referred to the Division's highly successful pilot program which reduced the turn-around-time in processing employee applications. The program resulted in an average of 25 days from filing to licensure.

In other areas such as service industry licensing, Cresap has called for an expansion of personnel. Parrillo noted recent legislation has increased the Division's regulatory jurisdiction over on-site subcontractors and other vendors dealing with a casino company during construction or renovation.

Additionally, eligibility criteria for junket agents have been upgraded.

"These new responsibilities have substantially increased the Division's licensing workload," said Parrillo, who will look to Cresap's advice in how to meet the added demand.

Concerning the role of State Police assigned to the DGE, Parrillo referred to Cresap's recommendation that both the Division and the Commission reduce the level of staff dedicated to on-site duties in the casinos.

The Director noted that the State has an overriding law enforcement interest in assuring the safety of the millions of citizens who visit Atlantic City's casinos to gamble, the honesty of the casino games offered to the public, and the security of the billions of dollars in casino assets.

"A significant reduction in State Police personnel could unduly jeopardize these vital areas of law enforcement, consequences Cresap's efficiency study may not have fully appreciated," Parrillo said.

"Anticipated reductions of Commission inspectors, who have certain on-site regulatory responsibilities, will only enhance the need for a continued State Police presence to adequately insure a secure casino environment," he added.

Parrillo said that he and Colonel Clinton L. Pagano, Superintendent of the New Jersey State Police, will address this particular component of Cresap's program.

Parrillo also said he will work closely with the Casino Control Commission to coordinate a joint examination of areas of overlap identified by Cresap and further, to eliminate any unnecessary duplication of effort.

A copy of the Executive Summary, as prepared by Cresap, is attached. Copies of the full report are available by contacting the Attorney General's Public Information Office.

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Attachment

**New Jersey  
Division Of Gaming Enforcement**

**REPORT OF AN ORGANIZATIONAL  
AND OPERATIONAL AUDIT**

**October 1988**

*Cresap*

*a Towers Perrin company*

## II - EXECUTIVE SUMMARY

The Division of Gaming Enforcement (the Division), created by the Casino Control Act of 1977 (the Act), is now in its second decade. Along with the Casino Control Commission (the Commission), the Division regulates all aspects of casino gaming in Atlantic City.

The Act created a comprehensive regulatory scheme that pervades every aspect of the conduct of the casino hotel industry, and is fully cognizant of the special law enforcement considerations associated with casino operations. While the Act constitutes the framework for regulation, Subtitle K of the New Jersey Administrative Code is a supplement, specifying the rules and regulations that help govern the operations and activities of the Commission, the casinos, and their vendors.

For the first several years, the regulators focused on licensing new casinos and the thousands of employees who were hired. As the industry matures, the focus of regulatory efforts is moving increasingly from licensing to ensuring compliance with the Act and other regulations.

### ROLES OF THE DIVISION AND THE COMMISSION

The Division was established as an arm of the New Jersey Department of Law and Public Safety. The Act, which set up the Division, requires that casino gaming and all activity accompanying it conform to the most rigorous standards of business, personal, and public integrity. It empowered the Division to investigate the backgrounds of all license applicants to prove their eligibility. It also directed the Division to investigate all transgressions of the Act and administrative regulations and to prosecute individuals as necessary at hearings before the Commission and, where appropriate, before the State grand jury.

The Commission regulates the casino industry through the licensure of applicants and the adoption of regulations. It is the Commission's responsibility to ensure that only persons of honesty, integrity, and good reputation participate in the casino industry. The Commission is also responsible for assessing and collecting all required fees, taxes, and penalties necessary for the operation of the two regulatory bodies.

## DIVISION OPERATIONS AND ORGANIZATION

The Division has several important functions. It conducts background investigations of license applicants, compliance audits of casino operations, and investigations of suspected noncompliance by licensees; and provides a law enforcement presence in the casinos in conjunction with the New Jersey State Police. To perform these functions, the Division has been divided into three bureaus, Licensing, Compliance, and Administration, which have offices in Trenton and Atlantic City. As shown in Exhibit II-1, the Director and two Deputy Directors (known as the Directorate) serve as senior management, overseeing operations and setting policy.

Division policy dictates that all operations support generation of the organization's legal work products. As a result, most of the key functions of the Bureaus of Licensing and Compliance are directed by attorneys. Each of them has a staff of attorneys who perform functions related to the legal aspects of licensure and compliance.

The Bureau of Licensing is organized around the conduct of the different types of license investigations. These include investigations of parties who wish to own or operate a casino, individuals who seek to work in the industry, and parties who wish to conduct business with the casinos.

The aim of the Bureau of Compliance is to ensure adherence to the Act and administrative regulations regarding casino operations. Responsibilities of the Bureau encompass ensuring compliance with the accounting and internal controls provisions of the Act; as well as with provisions covering alcoholic beverage control, facilities, equipment, security, and the like. The Bureau also monitors the purchase, use and operation of electronic games. It enforces New Jersey statutes, both criminal and civil, with the use of State troopers assigned to the casinos and to various undercover and security operations.

The Division has a separate Bureau, Administration, responsible for personnel management, planning, budgeting, accounting, and purchasing. This Bureau also manages clerical activities, maintains records of investigations and legal proceedings, tracks work flow, and handles the Division's building and maintenance needs.

Several staff functions report within the Office of the Director. The Office of the Major serves as the senior management of the State Police contingent within the Division. The Casino Intelligence unit gathers, maintains, and, when appropriate, communicates information about criminal activity that may affect the casino industry.



The four other staff functions that report to the Directorate are the Chief of Operations, who furnishes information on personnel matters regarding investigative agents; the Office of Equal Employment Opportunity/Affirmative Action, which ensures casino industry compliance to EEO and AA statutes and regulations and oversees the Division's own adherence to affirmative action goals; the Office of Litigation, which tries all cases of major significance or complexity; and Legislative Liaison, which monitors the New Jersey State legislature and promotes statutory changes recommended by the Division.

Division operations are highly labor-intensive. Almost three-fourths of the \$36.4 million budget for fiscal year 1989 is allocated for salary, benefits, and other personnel costs. The Division has a budgeted staffing level of 588 positions. Over the course of the study, approximately 45 to 55 positions have been vacant at any one time. In addition to normal turnover, these vacancies may exist because of a conscious management decision not to fill positions that are not currently needed. Of the total number of budgeted positions, 153 are assigned to State Police personnel.

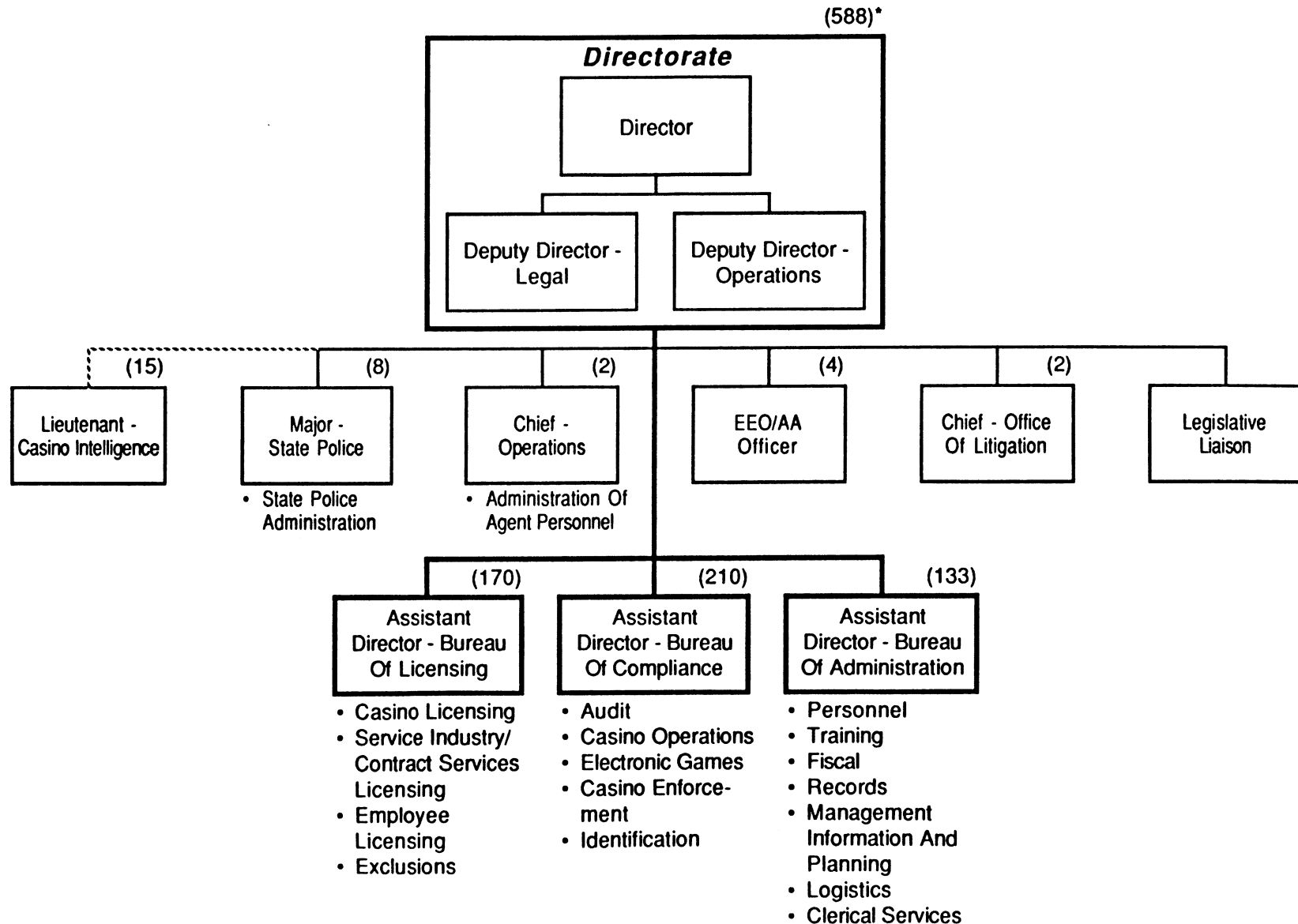
#### OVERALL ASSESSMENT OF THE DIVISION

The Division has successfully fulfilled its mission over the ten years of its existence: to ensure the overall integrity of casino gaming and to keep organized crime out of the casino industry.

The major challenge that lies ahead for the Division is maintaining a high level of compliance with the Act and administrative regulations, while seeking ways to more efficiently carry out its mandate. There are several means to improve operational efficiency and organizational effectiveness as the industry reaches maturity. Opportunities now exist to:

- Enhance the overall effectiveness of the organizational structure
- Streamline the licensing process
- Eliminate unnecessary duplication of functions with the Commission
- Redefine the role of the State Police to enhance operations and realize budgetary savings
- Increase the utility and effectiveness of casino enforcement resources.

## Current Organization And Areas Of Responsibility



\*52 positions are vacant, including 36 that are unassigned.  
Note: Numbers in parentheses represent staffing levels.

## ORGANIZATIONAL EFFECTIVENESS

There are several areas in which the organizational effectiveness of the Division can be improved.

The current organization of the Division fosters multiple reporting relationships, which tend to obscure the chain of command and cause frequent communication breakdowns. Moreover, in certain instances, there are too many supervisory layers, and in several instances line supervisors' span of control is narrow. Excessive layers tend to promote incomplete and less timely communication of information. The Division has tried to correct the situation by requiring unit, section, and bureau heads to write frequent status reports. These efforts have not been entirely successful despite the expenditure of considerable staff time. In addition, because of the numerous layers of organization and the multiple reporting relationships, work products may be subject to several reviews before completion. As a result, some processes require more time than is necessary.

The Division's emphasis on legal products has also hindered efficient operations. Much Division activity which is process oriented does not require legal skills. The Division therefore need not assign attorneys to manage this type of activity.

Compliance activities present another opportunity for improvement. Although another Bureau is responsible for compliance activities, the Casino Licensing Section of the Bureau of Licensing spends increasingly more time monitoring the casinos, despite the fact that the Section's primary responsibility has been to evaluate the casinos' applications for licensure and relicensure. Overall monitoring of each casino can be improved by combining the compliance resources of the Casino Licensing Section and the sections of the Bureau of Compliance that monitor the casinos.

The Identification unit in the Bureau of Compliance has been assigned inappropriately. The unit does not functionally support this bureau, but rather provides important support to the activities of the Bureau of Licensing.

Establishment of the word processing center has increased the amount of time needed for clerical work, while decreasing accountability. Professionals who use the center have expressed dissatisfaction with it for those reasons.

### Recommended Reorganization

The Division should reorganize on the basis of the four bureaus as depicted on the chart in Exhibit II-2:

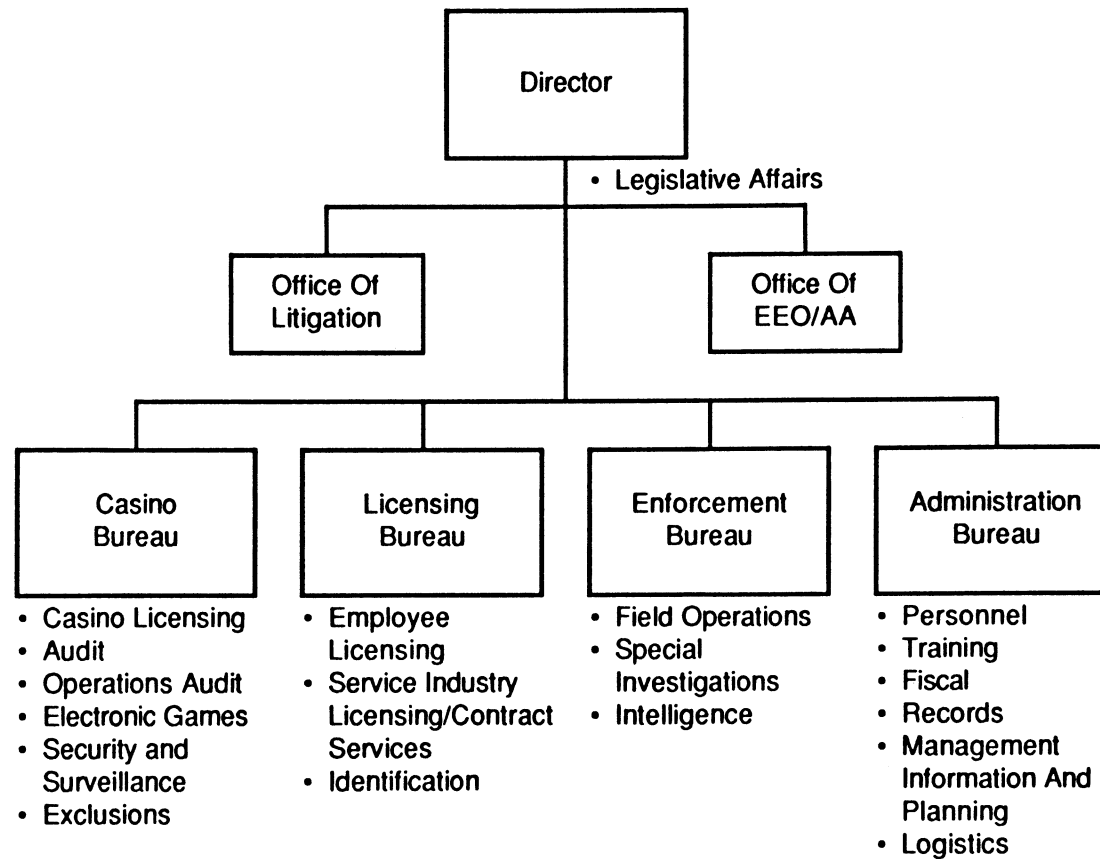
- Casino Bureau - to coordinate Division activities that concern casinos' compliance with the Act and administrative regulations; and to evaluate the casino entities' fitness to be licensed or relicensed
- Licensing Bureau - to perform the background investigations of individuals and service industry companies interested in working in and with the industry and to recommend to the Commission issuance or denial of licenses
- Administration Bureau - to furnish the operating bureaus, the Director, and his staff the support they need in the areas of personnel administration, budgeting, systems, logistics, and recordkeeping
- Enforcement Bureau - to patrol the casinos and surrounding areas in order to respond to incidents and situations that require the presence of a law enforcement officer and to uncover criminal activity such as cheating and drug dealing.

Each operating bureau should be led by a Deputy Director; an Assistant Director should continue to head the Administration Bureau. The number of supervisory layers should be reduced by eliminating one-over-one relationships. This will result in elimination of nine supervisory positions. The number of supervisory levels separating the Director from first line supervisors in each of the Division's principal functional areas will also be reduced.

The Division should reallocate the administrative responsibilities of agents and attorneys to make optimal use of supervisory resources and skills. Supervising agents should be reassigned as section supervisors to manage the Division's process-oriented activities. Attorneys should be reassigned to Offices of Legal Counsel established for the Casino and Licensing Bureaus. These offices should perform all legal work and direct all investigations that are likely to result in legal action.

The compliance functions of the Audit and Casino Licensing Sections should be combined within one bureau, and should report, along with other compliance functions, to the Deputy Director - Casino Bureau. The Audit Section should assume responsibility for casino operations compliance as well as internal controls. The Identification unit should be returned to the Licensing Bureau in order to improve coordination between

## Proposed Organization And Areas Of Responsibility



this function and the sections it supports. The clerical function should be decentralized and clerk-typists should report administratively as well as functionally within the units they support. The Major of the State Police section assigned to the Division should be designated as the Deputy Director - Enforcement, and should be the functional as well as the administrative head of the bureau. The Major should direct the operations of the three principal functions of the State Police: field operations, casino intelligence, and special investigations.

Under the new organizational structure, functions will be grouped to facilitate better coordination of related or similar activities. The organization will be much flatter and the Director and first level supervisors will be separated by fewer organizational levels. As a result, the review process will be faster, communication among managers will be enhanced, decision-making will be simplified, and the perceived need for extremely detailed status reports will be eliminated. In addition, 27 positions will be eliminated through streamlining or reorganization of functions. Two positions should be added to support organizational changes.

#### THE LICENSING PROCESS

Currently, a small percentage of individuals seeking to own, operate, or work for casinos have backgrounds that disqualify them from being licensed. In 1987, less than two percent of all individual license applicants were denied licensure.

However, primarily because the Division's investigations of applicants have remained so uniformly thorough, substantial backlogs have been created. In some licensing areas, backlogs are also attributable to significant increases in applications and fluctuations in volume from year to year. These backlogs can be relieved by streamlining the applications process in the low risk areas of Employee Licensing, without compromising the industry's integrity. However, in the service industry licensing function, a higher risk area, investigative positions should be added to eliminate backlogs. The backlog of junket enterprise investigations should be alleviated by reorganizing the unit.

#### Employee Licensing

The Division should establish criteria to screen out a higher percentage of applicants who have clean or nearly clean backgrounds. Guidelines for suspending or terminating investigations should be developed. Legal reviews revealing no serious derogatory information should be eliminated. The delay between receipt of an application and its assignment to an investigator can be reduced, as can the amount of time investigative agents

spend on certain tasks. These alternatives can also be applied to qualifier licensing. Some statutory and regulatory provisions should be reconsidered as well.

#### Service Industry Licensing

In one particularly high risk area, Service Industry Licensing, the Division should add staff resources. Because many service industry applicants have backgrounds that would disqualify them from licensure, substantial streamlining of the investigative process could actually place the industry at greater risk from organized crime. Painstakingly thorough investigations are generally required.

Ten investigative agent positions should be added to the Section. A separate unit of five agents, including the supervisor, should be established to license construction companies, register labor unions, and monitor their activities. The rest of the additional agents should be added to the ancillary and renewal units.

#### Contract Services Licensing

There are opportunities to eliminate the backlog in the Contract Services licensing area. Changes in the mix of supervisors and subordinates would increase the number of positions available to perform investigations without increasing the total number of positions in the unit. Instead of eliminating the excess supervisory positions, the unit should reclassify them as investigators.

#### DUPLICATION

Although each has separate powers and duties, the Division and the Commission interact on a wide variety of matters, a situation that often makes some duplication unavoidable. Some redundancy has been deemed necessary, but certain duplicate functions can be eliminated without hindering effectiveness.

#### Petitions And Submissions

A major area of overlap is the review of petitions and submissions. They are reviewed by the staffs of both the Commission and the Division. Each agency takes a position on the appropriateness of the proposed change and submits a recommendation to the Commissioners. The Act designates the Commission to receive submissions and petitions and to render decisions on them. The Division should no longer review submissions and petitions on a routine basis; however, in cases where its unique expertise, especially in the areas of law enforcement and electronic games, is essential to the Commission's ability to make an intelligent decision, the Commission should continue to depend on the Division's review.

Because their workload would be reduced, the compliance functions of the Audit and Casino Operations Sections can be combined in the Audit Section to reduce total staffing. Sixteen positions in the Casino Operations Section and three of its five support team positions should be eliminated as a result.

#### Application Processing

The Commission and the Division duplicate certain tasks related to processing license applications when first submitted. Both organizations record basic information about the license applicant in separate data bases. The feasibility and potential benefits of developing a single data base that will adequately serve the purposes of both organizations should be studied.

Both the Commission and the Division review all license applications for completeness. The Commission performs this task when the application is initially submitted. Once the application is received by the Division, the Records Section again reviews it for completeness. The Division should discontinue these reviews.

#### ROLE OF THE STATE POLICE

Troopers have made significant contributions in many areas of Division operations, but the involvement of the State Police in most of these functions is no longer critical and, in fact, has major cost implications. The personnel costs of troopers exceed those of civilian counterparts. There are nonbudgetary costs as well. Assignment of troopers to the Division has produced dual chains of command, which tend to cause confusion and organizational ineffectiveness. All State Police personnel report ultimately to the Major, whose office administratively supports the State Police contingent. However, the Major and his office have little to do with day-to-day line management.

Assignment of State Police to licensing functions is no longer essential to the success of the Division. The Division should therefore replace the 24 State Police positions assigned to the Contract Services function with civilian agents. The nine State Police positions assigned to the Identification and the Security and Surveillance units and the Electronic Games Section should also be transferred out of the Division, since the skills required to perform their functions are not unique to law enforcement officers. These positions should be filled by agents or professionals as required. Finally, 15 State Police positions assigned to the Division are currently vacant and should be transferred from the organization.



The Major should assume line responsibility as the Deputy Director - Enforcement Bureau, and the Office of the Major should be disbanded. The Deputy Director should oversee the functions of the new Enforcement Bureau, which includes Casino Enforcement and Special Investigations. In addition, the Division should require greater accountability from the Casino Intelligence unit. This can be accomplished by having the unit report directly to the Deputy Director, instead of within the Intelligence Section of the State Police.

#### CASINO ENFORCEMENT

The State Police play an important role in Division operations by enforcing criminal laws within the casinos. Troopers should continue to maintain a presence there to ensure that the environment remains safe. However, because the casino floors are heavily staffed with the casinos' own security personnel, opportunities exist for the State Police to extend that safe atmosphere to areas outside the casinos, where patrons may not feel as secure because of Atlantic City's high crime rate.

Therefore, State troopers assigned to the casinos should be redeployed to patrol cars in order to respond to calls for service in areas surrounding the casinos as well as to the casinos themselves. The new deployment will increase the coverage and presence of the State Police, maintain a high level of responsiveness to incidents in the casinos, and permit the Division to significantly reduce staff requirements. By implementing these recommendations, 29 positions would be eliminated.

#### IMPLICATIONS OF THE RECOMMENDATIONS

By implementing the recommendations in this report, the Division will realize significant improvements in its operations, while reducing staffing levels. Approximately \$5.4 million in annual savings will be realized, primarily through the net reduction in the Division's staff of 109 budgeted positions.