

STATE OF WASHINGTON
GAMBLING COMMISSION

In the Matter of the Suspension of the Licenses) NO. CR 2010-00903
to Conduct Gambling Activities of:) *CR 2010-00978*
)
GSC Corporation,) **NOTICE OF AMENDED**
d/b/a Freddie's Club) **ADMINISTRATIVE CHARGES**
Renton, Washington,) **AND OPPORTUNITY FOR AN**
) **ADJUDICATIVE PROCEEDING**
Licensee.)
_____) *Amendments are in italics.*

I.

The Washington State Gambling Commission issued GSC Corporation, d/b/a Freddie's Club, organization number 00-05124, the following licenses:

Number 67-00048, authorizing Class "15" House-Banked Card Room activity; and
Number 05-09169, authorizing Class "F" Punchboard/Pull-Tab activity.

The licenses expire on September 30, 2011, and were issued subject to the licensee's compliance with state gambling laws and regulations.

II.

Rick Day, Director of the Washington State Gambling Commission, charges the licensee with the following violations of the Washington State Gambling Act, 9.46 RCW, and WAC Title 230:

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1) Freddie's Club failed to:

- Closely control and account for all the funds collected for the Progressive Fortune Pai Gow jackpot;
- Reduce the amount of a progressive jackpot prize accrued according to gambling rules;
- Adequately disclose to players the prizes available for the Progressive Fortune Pai Gow Poker jackpot; and
- Collect money for a backup jackpot, in violation of its internal controls.

2) CSG Corporation owns and operates Freddie's Club and Diamond Lil's, both located in Renton. In July 2010, a Commission Special Agent (agent) performed a compliance inspection on Freddie's Club. Lori Bender, President of CSG Corporation, told the agent that CSG

- According to the July 2010 Progressive Fortune Pai Gow accrual records, there should have been \$254,282 in the Progressive Fortune Pai Gow bank account (\$168,214 for the main jackpot and \$86,068 for the backup jackpot).
- The amount of the Progressive Fortune Pai Gow jackpot that Freddie's Club displayed to the players was \$168,214.

5) On July 30, 2010, Ms. Bender transferred money from Diamond Lil's general bank account into Freddie's Club's Progressive Fortune Pai Gow bank account so that there were sufficient funds to cover the jackpot that Freddie's Club displayed to the players.

6) By taking out \$150,000 from the Progressive Fortune Pai Gow bank account for business expenses, Freddie's Club incorrectly reduced the amount of a progressive jackpot prize accrued, in violation of WAC 230-15-695. As a result, Freddie's Club failed to adequately disclose to players the Progressive Fortune Pai Gow jackpot prizes available, in violation of WAC 230-15-680(4).

7) Additionally, Freddie's Club failed to closely control the Progressive Fortune Pai Gow jackpot and failed to account for all the funds collected for the Progressive Fortune Pai Gow jackpot, in violation of WAC 230-15-680(5).

8) According to Freddie's Club internal controls (ICs), 10% of the money collected for the Progressive Fortune Pai Gow jackpot was to go into a backup jackpot. The June 2010 Progressive Fortune Pai Gow accrual records showed that Freddie's Club discontinued accruing funds for the backup jackpot. The licensee did not submit a request or receive approval from the agent to stop funding the backup jackpot.

9) As a result, Freddie's Club failed to follow its ICs, in violation of WAC 230-15-425, failed to submit proposed changes to their internal controls in writing to Commission staff, and failed to submit to the agent, in writing, a proposed change to their internal controls and receive written approval before it stopped accruing funds for the backup jackpot, in violation of WAC 230-15-440.

10) Therefore, under RCW 9.46.075(1) and WAC 230-03-085(1), and (3), grounds exist to suspend Freddie's Club licenses.

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11) *On August 6, 2010, an agent conducted a compliance inspection and found the following surveillance violations:*

- *On July 22, 2010, and July 23, 2010, the licensee documented surveillance recordings that failed to have sufficient clarity to view the activity recorded. Some tapes only played back a black screen and some VCRs failed to record activity from surveillance cameras. The licensee did not report these surveillance violations to the agent as required on the surveillance log.*

18) On August 24, 2010, the agent went to the licensee to see if the surveillance violations were corrected. The agent determined that a few violations were corrected, such as the camera domes that were cleaned to improve the cameras' views. Also the cameras covering the cashier's cage were adjusted to provide a better view. However, the surveillance operator on duty told the agent that many cameras were not adjusted, including the camera view of the soft count room, because the current views were the best they could get.

19) The agent then went to the accounting department and obtained copies of the Master Games Report¹ for four days at the licensee. The agent determined that on those days the licensee operated multiple gambling tables without adequate surveillance, in violation of WAC 230-15-280 and WAC 230-15-285. The agent also received from the accounting department documentation that the licensee had purchased a digital surveillance system.

20) On September 10, 2010, the agent went to the licensee and was told by Mr. Kessler that on August 30, 2010, the licensee installed a digital surveillance system and was also still using VCRs. The licensee failed to submit in writing to the agent proposed changes to their internal controls regarding the new digital surveillance system and receive written approval before making any changes, in violation of WAC 230-15-425.

21) The agent asked Mr. Kessler to show him the surveillance cameras' views, the surveillance recordings for the previous gaming day, and how the cameras and VCRs were functioning. The agent found one camera still had an insufficient view of gambling activity and several cameras showed unclear or fuzzy views.

22) The licensee documented malfunctions on its surveillance logs and was aware of surveillance malfunctions since December 2009. However, the licensee did not correct or report the surveillance malfunctions to Commission staff. On August 6, 2010, the agent notified the licensee of surveillance violations and the agent followed up multiple times with the licensee about correcting the violations. However, by September 10, 2010, the licensee had not corrected all of the violations, demonstrating willful disregard for administrative rules.

23) Therefore, under RCW 9.46.075(1) and (7) and WAC 230-03-085(1), (3), and (7) grounds exist to suspend Freddie's Club licenses.

RCW 9.46.075(1) Denying, suspending, or revoking an application, license or permit

The Commission may deny an application, or suspend or revoke any license or permit issued by it, for any reason or reasons, it deems to be in the public interest. These reasons shall include, but not be limited to, cases wherein the applicant or licensee, or any person with any interest therein: Has violated, failed or refused to comply with the provisions, requirements, conditions, limitations or duties imposed by chapter 9.46 RCW and any amendments thereto, or any rules adopted by the Commission pursuant thereto, or when a violation of any provision of chapter 9.46 RCW, or any Commission rule, has occurred upon any premises occupied or operated by any such person or over which he or she has substantial control.

(7) *Makes a misrepresentation of, or fails to disclose, a material fact to the Commission.*

¹Master Games Report document gambling activity on a specific day at the licensee.

WAC 230-15-440 Modifying internal controls and changing card games offered

(The following subsection applies)

(1) House-banked card game licensees must submit proposed changes to their internal controls in writing to us and receive our written approval before making any changes.

WAC 230-15-330 Keeping a surveillance activities log.

Class F and house-banked card game licensees must keep a log of all surveillance activities in the format we require.

WAC 230-15-280 Surveillance requirements for house-banked card games.

House-banked card game licensees must use a closed circuit television system (CCTV) to closely monitor and record all gambling activities and areas, including, at least:

- (1) Each table, including: (a) Cards; and (b) Wagers; and (c) Chip tray; and (d) Drop box openings; and (e) Table number; and (f) Card shoe; and (g) Shuffling devices; and (h) Players; and (i) Dealers; and*
- (2) The designated gambling areas; and*
- (3) The cashier's cage, including: (a) Outside entrance; and (b) Fill/credit dispenser; and (c) Customer transactions; and (d) Cash and chip drawers; and (e) Vault/safe; and (f) Storage cabinets; and (g) Fill or credit transactions; and (h) Floor; and*
- (4) The count room, including: (a) The audio; and (b) Count table; and (c) Floor; and (d) Counting devices; and (e) Trolley; and (f) Drop boxes; and (g) Storage shelves/cabinets; and (h) Entrance and exit; and*
- (5) The movement of cash, gambling chips, and drop boxes; and*
- (6) Entrances and exits to the card room.*

WAC 230-15-285 Camera and monitor requirements for closed circuit television systems.

- (1) Class F and house-banked licensees' closed circuit television system must consist of light sensitive cameras capable of permitting the viewer to determine card and chip values. Each video camera must be capable of having the images displayed on a video monitor and recorded.*
- (2) Class F and house-banked licensees must install, at least:*
 - (a) Cameras in a manner that will prevent them from being obstructed, tampered with, or disabled; and*
 - (b) Pan, tilt, zoom (PTZ) cameras behind a smoked dome, one-way mirror, or similar materials that conceal the camera from view; and*
 - (c) One or more fixed camera focused over each gambling table, covering the entire table layout.*
 - (d) In nonhouse-banked games, an additional fixed camera must focus over the dealer area, covering the chip rack, all drop box openings, and the community card area; and*
 - (e) A sufficient number of fixed cameras and/or PTZ cameras to monitor players and dealers at each gambling table. The PTZ cameras must be: (i) Permanently programmed; and (ii) Capable of viewing each patron and dealer at each gambling position at least once every five minutes; and*
 - (f) A sufficient number of fixed cameras and/or PTZ cameras in the count area or count room; and*
 - (g) Fixed cameras and/or PTZ cameras in any other location deemed necessary.*
- (3) In addition, house-banked card game licensees must:*