

Initial Statement of Reasons
California Code of Regulations, Title 11. Law
Division 3. Gambling Control
Chapter 1. The Bureau of Gambling Control

Proposed Regulations: Schedule of Investigation and Processing Costs

Summary

Business and Professions Code section 19826 requires the Department of Justice (Department), Division of Law Enforcement, Bureau of Gambling Control (Bureau) to conduct background checks, financial audits, and other investigatory services as needed, in conjunction with the California Gambling Control Commission (Commission) in regulating gambling in California. Business and Professions Code sections 19826, 19867, and 19984 require an applicant for a license, determination of suitability, or approval to remit a deposit in an amount of money that, in the judgment of the Bureau Chief, will be adequate to pay the anticipated costs and charges incurred by the Bureau to conduct the mandated review, investigation, or approval.

The 1999 Tribal-State Gaming Compact and comparable provisions of the New or Amended Compacts (hereafter, collectively referred to as Compacts) provide under section 6.4.5 that Gaming Resource Suppliers meeting certain criteria be licensed prior to the sale, lease, or distribution of Gaming Resources to Tribal Gaming Operations or Gaming Facilities. Under section 2.14 of the Compacts, a Management Contractor means any Gaming Resource Supplier with whom the Tribe has contracted for the management of any Gaming Activity or Gaming Facility. The Compacts also require in section 6.4.6 that Financial Sources be licensed prior to extending financing to a Tribal Gaming Facility or Gaming Operation. Further, section 6.5.6 of the Compacts authorizes the Bureau, as part of the State Certification Process, to conduct background investigations on Financial Sources and Gaming Resource Suppliers in order to determine whether the applicant(s) would be found suitable for licensure in a gambling establishment subject to Bureau jurisdiction. This section of the Compacts also requires the applicant to pay the appropriate fees and deposit to conduct the investigation.

This rulemaking proposal is intended to increase the deposit amounts required by the Bureau for the investigation of individuals and business entities applying for state gambling licenses, the review of games, and review of contracts for third party providers of proposition player services. This increase is intended to ensure that the preliminary deposit amounts are adequate to pay the anticipated investigation and processing costs required by Business and Professions Code sections 19826, 19867, and 19984, and that applicants are notified of the potential cost of such investigations and reviews. The proposal also adds the appropriate sections pertaining to the deposit amounts that Gaming Resource Suppliers and Financial Sources are required to remit when submitting an application for a finding of suitability.

Background

The Gambling Control Act (Act) established the statutory authority for the Bureau to carry out its responsibilities as they pertain to gambling enterprises and to persons involved in gambling

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activities, including the proper licensure, registration, review, or approval thereof. Pursuant to Business and Professions Code section 19826, the Bureau must investigate the qualifications of applicants before any gambling license or approval can be issued. In order to effectively protect the public from criminal or corruptive influences, it is necessary to conduct thorough investigations into the backgrounds of each owner, shareholder, corporate officer, and others associated with a particular cardroom, third-party provider of proposition player services or gambling business. The Bureau is also required to perform investigative tasks associated with the proposed relocation of a gambling enterprise and issuance of a license for a new location. In addition, the Bureau has the responsibility to review requests for the approval of games and gaming activities offered for play in gambling establishments, and to review contracts to provide third-party provider of proposition player services to gambling enterprises.

Business and Professions Code section 19826 outlines the Bureau's responsibilities, including the approval of the play of any controlled game, and provides for the reimbursement of costs incurred by the Bureau to review and approve games rules. Business and Professions Code section 19867 requires an applicant for a license, or a determination of suitability to remit a deposit in an amount of money that, in the judgment of the Bureau Chief, will be adequate to pay the anticipated costs and charges incurred by the Bureau to conduct the mandated investigation and processing of the application. Also, during an investigation, the Bureau Chief may require an applicant to deposit additional sums as are required by the Bureau to pay costs and charges of the investigation. Business and Profession Code section 19984 requires the Bureau to approve any agreement, contract, or arrangement between a gambling enterprise and a third-party provider of proposition player services and provides for the Bureau to assess and collect reasonable fees and deposits as necessary to defray the costs of providing regulation and oversight. Costs associated with reviews, background investigations, or approvals are paid by drawing upon that preliminary deposit amount submitted by the applicant to the Bureau. Any money received from an applicant in excess of the actual costs and charges incurred in the investigation or the processing of the application are refunded to the applicant at the conclusion of the investigation, along with a written, itemized accounting of the costs and charges incurred.

Section 6.4.5 of the Compacts specifies that Gaming Resource Suppliers must be licensed by the Tribal Gaming Agency (TGA) prior to the sale, lease, or distribution, or further sale, lease, or distribution, of any such Gaming Resources to, or in connection with, the Tribe's Gaming Operation or Gaming Facility. The Gaming Resource Supplier must, either directly or indirectly, provide, have provided, or be deemed likely to provide at least twenty-five thousand dollars (\$25,000) in Gaming Resources in any 12-month period to the Tribe's Gaming Facility or Gaming Operation. The licensure requirement also applies to a Gaming Resource Supplier who has received at least twenty-five thousand dollars (\$25,000) in any consecutive 12-month period within the 24-month period preceding application.

In addition, section 6.4.6 of the Compacts requires any person extending financing, directly or indirectly, to the Tribe's Gaming Facility or Gaming Operation to undergo a background investigation by the TGA within 90 days of the execution of a contract.

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Upon a determination by the TGA that they intend to issue a license, the TGA shall require the Gaming Resource Supplier or Financial Source to file an application with the State Gaming Agency. The Bureau will then make a determination of suitability for licensure pursuant to section 6.5.6 of the Compacts. The applicant is required to pay any application fee and deposit requested by the Bureau to conduct the background investigation.

Purpose and Rationale for Proposed Regulations

Historically, applicants have submitted a preliminary deposit amount to the Bureau in conjunction with an application for licensure, approval, or finding of suitability. This deposit amount was applied to the Bureau's actual costs of conducting its investigations, as authorized by the Act and the Compacts. In the majority of cases, however, the deposit amounts have not been sufficient to complete the investigation, review, or approval, necessitating subsequent requests for additional deposit amounts. A recent sampling of 90 cases found that the Bureau had to request additional deposit amounts in 68 percent of the cases. By better aligning deposit amounts with the actual costs anticipated to be incurred by the applicant, repeated requests for additional deposits will be minimized and the investigative process will become more efficient.

Contributing to the current disparity between required deposits and actual costs is a recent increase in the hourly rate charged by the Department for licensing-related functions. The Department found that the previous hourly rate of \$63 was insufficient to fully offset the personal services and administrative overhead costs for such functions. Consequently, on March 1, 2009, the hourly rate was increased to \$76 to adequately recover those costs. The proposed deposit amounts were arrived at by multiplying this increased hourly rate by the average number of hours expended during the past year for a representative sample of cases involving background investigations and contract and application reviews. The Bureau has also found that certain license types have required more investigative time due to the structure of the business entity, resulting in the need for a deposit amount that is substantially higher than existing amounts. However, as indicated in the "Required Determinations" section under "Impact to Business," this will not adversely affect businesses as they are already required to pay the amounts through a series of requests from the Bureau.

The proposed regulation herein seeks to amend section 2037 of Article 4 of Chapter 1 of Division 3 of Title 11 of the California Code of Regulations ("section 2037"), pertaining to the Bureau's schedule of deposits, and adds language to notify applicants that submission of a deposit for certain licenses will only be required if requested by the Bureau when an investigation is necessary. Based on the Bureau's renewal process, not all applications for renewal require a full investigation; therefore, a deposit is not always needed.

This proposal also amends section 2037 to include deposit amounts required to conduct investigations of relocations of gambling enterprises. Under Business and Professions Code sections 19805, subdivision (z) and 19875, a gambling license is only valid for the premises encompassed by it. Under Business and Professions Code section 19824, subdivision (e), the Commission must take reasonable action to assure that gambling activities occur in reasonable locations. Accordingly, pursuant to Business and Professions Code section 19867, the Bureau is

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authorized to require necessary deposits for its investigations of requests for relocation of gambling enterprises and the issuance of licenses for the new locations of gambling premises.

In addition, this proposal adds the appropriate sections pertaining to the deposit amounts required to conduct initial investigations of Tribal Gaming Resource Suppliers, and persons extending financing to the Tribe's Gaming Facility or Gaming Operation, hereafter referred to as Tribal vendors. The Bureau's investigations of Tribal vendor applicants have generally been comparable in scope to those involving applicants for State Gambling Licenses who wish to own and/or operate a gambling enterprise. Pursuant to Business and Professions Code section 19867, subdivision (a), the Bureau has required Tribal vendor applicants to pay an initial deposit amount equal to that specified in the schedule of deposit amounts (section 2037) for State Gambling License applicants. Although adoption of this schedule for this purpose is deemed acceptable, this proposal aims to provide, in regulatory context, a separate and distinct deposit amount to be applied specifically to Tribal vendors.

The schedule has also been applied to the renewal amount required for Tribal vendor applicants that are the primary owner or business entity applying to renew their finding of suitability as a Tribal Gaming Resource Supplier, Financial Source or Management Contractor. The Compacts require licenses to be reviewed every two years, after an initial finding of suitability, to determine if these entities have continued to comply with the terms of their license. The Bureau, under its authority to conduct a renewal investigation (Business and Professions Code section 19826, subdivision (a)), has required such applicants to submit a renewal deposit as set forth in section 2037(a)(1)(E). For clarity, language has also been added to notify all other applicants that submission of a renewal deposit, pursuant to Business and Professions Code section 19826, subdivision (a), will only be required if requested by the Bureau when an investigation is necessary.

Section 2037. Schedule of Investigation and Processing Costs (Modify and Add)

This section lists the required deposit amounts to be submitted by the applicant for specified types of background investigations, reviews, or approvals:

Subsection (a) of section 2037 has been amended to include references to Business and Professions Code section 19826 and to section 6.5.6 of the Compacts, which provide authority for the Bureau to investigate the qualifications of an applicant. This subsection also added "game," "gaming activity," and "approval" to indicate that an applicant must submit a deposit amount when requesting an approval for a game, gaming activity, or contract.

Paragraph (1) of subsection (a) has been amended to include a reference to Business and Professions Code section 19826, which provides authority to investigate the qualifications of an applicant.

Subparagraph (A) of paragraph (1) has been amended by striking the words "Sole Proprietor, Corporation, Partnership, Shareholder, Partner, etc." in reference to the applicant. The term applicant is defined in Business and Professions Code section 19805, subdivision (b). These words are unnecessary and could cause confusion, as this section applies to all ownership

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structures, other than trusts, not just to those business entities listed. Section 2037 has also been amended to increase the deposit amount required for an applicant for an initial state gambling license, other than a trust, from \$5,000 to \$6,600.

Subparagraph (B) of paragraph (1) has been amended to increase the deposit amount required for an applicant for an initial state gambling license that is a trust from \$900 to \$1,100.

Subparagraph (C) of paragraph (1) has been amended to increase the deposit amount required for an applicant for an initial state gambling license as an uninvolved spouse with community property from \$750 to \$1,500.

Subparagraph (D) of paragraph (1) has been amended to increase the deposit amount required for an applicant for an initial key employee license from \$1,200 to \$2,400.

Subparagraph (E) of paragraph (1) has been amended to clarify who must pay a deposit amount for the renewal of a state gambling license. The deposit amount previously submitted in accordance with this subparagraph was applied to the renewal of the gambling enterprise's license and to the license of each applicant associated with the gambling enterprise. This amount, however, was inadequate to cover the costs of the renewal background investigation required for both the owner entity and the individual applicant(s). The proposed regulation makes a distinction between the deposit amounts required for renewal of these license types. Subsection (a)(1)(E) now proposes a deposit amount of \$1,600, representing the average actual costs and number of hours required to conduct a site visit by the Bureau and to enable the Bureau to investigate any negative information revealed in the renewal license application for the gambling enterprise. Each individual applicant associated with the gambling enterprise will be required to submit a separate deposit amount for renewal of their state gambling license, as set forth in subsection (a)(1)(F), but only upon notification by the Bureau.

The current subparagraph (E) of paragraph (1) has been re-lettered to (F) to accommodate the addition of the new subparagraph (E) for the gambling enterprise renewal license deposit amount, as described above. This subparagraph has also been amended by striking the words "Sole Proprietor, Corporation, Partnership, Shareholder, Partner, etc." in reference to the applicant, for the same reason as noted under section 2037(a)(1)(A). In addition, the renewal background investigation deposit amount required for applicants has been increased from \$600 to \$725.

Subparagraphs (G), (H), and (I) of paragraph (1), stipulating the deposit amounts required for the renewal of a state gambling license as an uninvolved spouse with community property interest, key employee or trust, respectively, have been re-lettered from (F), (G), and (H), and amended to indicate that the renewal amount will only be required if notified by the Bureau.

Subparagraph (J) of paragraph (1) has been amended to set forth the deposit amount required for the investigative tasks associated with the review of a gambling enterprise's request for a change in location of the gambling premises encompassed by the state gambling license, pursuant to the Bureau's authority under Business and Professions Code section 19826, subdivision (a). The

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proposed deposit amount of \$600 is necessary for the Bureau to cover costs involved in the review which includes, but is not limited to, conducting a site visit, reviewing local ordinances for compliance, checking the business license, reviewing the lease, and contacting the local law enforcement agency in the new jurisdiction. Previously, subparagraph (J) referenced the deposit amount required for the review of a game or gaming activity change, which has been moved to subparagraph (L) due to this proposed amendment of subparagraph (J).

Subparagraph (I) of paragraph (1) has been re-lettered to (K) and amended to increase the deposit amount required for the review of a game or gaming activity from \$315 to \$550. The Bureau's authority to conduct game or gaming activity approvals is provided for in Business and Professions Code section 19826, subdivision (g).

Subparagraph (J) of paragraph (1) has been re-lettered to (L) and amended to increase the necessary deposit amount required for the review of a game, or gaming activity change or amendment from \$252 to \$450. The Bureau's authority to conduct such review is provided for in Business and Professions Code section 19826, subdivision (g).

Subparagraph (M) of paragraph (1) has been added to require a deposit amount of \$400 for review of an application to operate additional tables on a temporary basis as required in Title 4, California Code of Regulations, section 12358.

Subparagraph (N) of paragraph (1) has been added to require a deposit amount of \$400 for review of an application for additional permanent tables as required in Title 4, California Code of Regulations, section 12359.

Paragraph 2 of subsection (a) has been amended to include reference to Business and Professions Code section 19867 which gives authority to charge applicants a deposit amount for the background investigation. This paragraph was also amended to include the appropriate chapter sections under Title 4, California Code of Regulations, that pertain to Third Party Providers of Proposition Player Services. Accordingly, to eliminate redundancy, those references were removed from the subparagraphs that follow.

Subparagraph (A) of paragraph (2) has been amended to include a deposit amount for the review and approval of a continuance of a proposition player contract, which was previously collected under proposition player contract amendments. In addition, the deposit amount for expedited contract review, previously specified in subparagraph (E) of paragraph (2), has been moved to subparagraph (A) for clarity and amended. Subparagraph (A) now proposes a deposit amount of \$750, for each of the contract reviews, reflecting an increase from \$360 for expedited contract review, and from \$600 for approval of contract continuances.

Subparagraph (B) of paragraph (2) has been amended to increase the deposit amount for applicants for proposition player contract amendments from \$450 to \$525.

Subparagraph (C) of paragraph (2) has been amended to add the requirement of a background investigation deposit amount of \$6,000 for either an owner that is a sole proprietorship or for an

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individual who is applying to convert a registration to a license. Generally, background investigations for individuals are less complex than those of business entities as described in subparagraph (D). Therefore, the required deposit amounts are substantially less and have been separated from the deposit amounts required for other business entities.

Subparagraph (D) of paragraph (2) has been amended to increase the deposit amount from \$5,000 to \$11,500 to perform a background investigation of an owner that is a business entity applying to convert a registration to a license. The terms “corporation, partnership, limited partnership, limited liability company, joint venture, or any other business organization” are being added to clarify the types of business entities subject to this deposit amount requirement. The terms “sole proprietorship and trust” are added to clarify that these business organizations are not subject to this deposit amount. Subparagraph (D) previously prescribed the deposit amounts associated with a supervisor of proposition players, which has been moved to subparagraph (F).

Subparagraph (E) of paragraph (2) has been amended to remove the deposit amount for expedited contract review, which has been moved to subparagraph (A) for clarity. In addition, subparagraph (E) has been amended to add the necessary requirement of a background investigation deposit amount of \$2,500 for an owner that is a trust.

Subparagraph (F) of paragraph (2) has been amended to increase the deposit amount required to complete a background investigation on a supervisor of proposition players. The previous deposit amount of \$1,200 had been referenced in subparagraph (D) which is being amended. Therefore, subparagraph (F) proposes new language and prescribes a revised deposit amount of \$2,500.

The current subparagraph (F) of paragraph (2), which references deposits for proposition player and employee investigations has been re-lettered as (G). This subparagraph was also amended for clarity to describe the transaction being investigated as a conversion from a registration to a license in lieu of the referencing other sections of the regulations. The deposit amount did not increase.

Subparagraphs (H) through (J) of paragraph (2) have been added to specify the deposit amount required for renewal of a license for Third-Party Provider owners, including individuals and trusts, as well for supervisors of proposition players. The Bureau’s authority to collect such deposits is set forth in Business and Professions Code section 19984, subdivision (c). The proposed amounts are based on actual costs of similar renewal investigations conducted by the Bureau.

- Subparagraph (H) has been added to require a deposit amount of \$1,500 for a renewal of a license for an owner (e.g., corporation, partnership, limited liability corporation, joint venture, sole proprietorship), except trusts.
- Subparagraph (I) has been added to require a deposit amount of \$800 for a renewal of a license for an individual or trust.

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- Subparagraph (J) has been added to require a deposit amount of \$450 for a renewal of a license for a supervisor of proposition players.

Paragraph (3) has been added to subsection (a) to provide the schedule of deposit amounts to be submitted by a Gaming Resource Supplier or Financial Source conducting business with a Tribal Gaming Operation or Gaming Facility, for an initial or renewal finding of suitability. This paragraph is added pursuant to Business and Professions Code section 19826 and section 6.5.6 of the Compacts, which provide authority for the Bureau to conduct its investigations accordingly. The proposed deposit amounts are based on actual costs for the investigation of Tribal vendors and non-Tribal gambling enterprises that are comparable in scope.

Subparagraph (A) of paragraph (3) has been added to require a deposit amount of \$20,000 for an initial application for finding of suitability on a Gaming Resource Supplier, Financial Source or Management Contractor conducting business with a Tribal Gaming Operation or Gaming Facility. This initial amount will be required for applicants who are the primary owner or business entity.

Subparagraph (B) of paragraph (3) has been added to require a deposit amount of \$6,600 for an initial application for finding of suitability on a Gaming Resource Supplier, Financial Source or Management Contractor conducting business with a Tribal Gaming Operation or Gaming Facility. This initial amount will be required for applicants other than the primary owner or business entity.

Subparagraph (C) of paragraph (3) has been added to require a deposit amount of \$1,600 for a renewal application for finding of suitability on a Gaming Resource Supplier, Financial Source or Management Contractor conducting business with a Tribal Gaming Operation or Gaming Facility. This renewal amount will be required for applicants who are the primary owner or business entity.

Subparagraph (D) of paragraph (3) has been added to require a deposit amount of \$725 for a renewal application for finding of suitability on a Gaming Resource Supplier, Financial Source or Management Contractor conducting business with a Tribal Gaming Operation or Gaming Facility. This renewal amount will be required for applicants other than the primary owner or business entity, and only upon notification by the Bureau that an investigation will be conducted.

Subsection (b) of section 2037 has been added to provide notice that an additional deposit amount will be required when, based on the review of an application, the Bureau has determined that the financial aspects of the background investigation are of such complexity that external specialized resources must be employed. Given the wide variations in scope and complexity of affected investigations, the additional deposit amount will fall into a broad range of from \$20,000 to \$200,000. Subsequent deposits between \$10,000 and \$60,000 may also be necessary to cover continuing investigative costs.

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Investigations subject to this requirement include, but are not limited to, those necessitating close examination of material financial transactions conducted in foreign countries, where differences in language, culture, or business/tax laws effectively preclude Bureau staff from performing this function. Also included are investigations that require an assessment of non-traditional lending structures that have limited regulatory oversight or public reporting requirements, such as those involving hedge funds and private equity firms.

In such cases, the Bureau will employ, on a prearranged contractual basis, a specially qualified investigative or accounting firm to conduct a specific portion of the background investigation and document its findings. To the extent practical, outside auditing firms will be engaged to perform only those specific elements of the investigation that require specialized knowledge, skills, and abilities beyond those expected of the senior level Investigative Auditor classification. Bureau auditing staff will oversee the activities of the outside investigative or accounting firm as necessary to ensure that the proper investigative scope, standards, and methodologies are maintained.

License applicants will be required, initially, to submit the standard deposit amount as specified under subsection (a) of this regulation. This deposit will be applied to costs associated with those investigative tasks performed by the Bureau and will be maintained in a separate account from that holding the deposit to be applied to contracted services. After preliminary review of supplemental information submitted with the application, the Bureau will make a determination on whether the investigation will require the assistance of an outside investigative or accounting firm and, if so, identify the specific tasks to be performed and the approximate costs. Upon receipt of the additional deposit amount, the Bureau will select the firm from several pre-qualified firms that have entered into a Master Service Agreement with the Department. Selection will be based on the firm's capability to most efficiently perform required functions, with favorable consideration given to globally based firms in cases involving foreign travel. The deposit amount will be applied to pay actual costs charged by the firm.

The proposed additional deposit amounts are based on cost estimates furnished by an outside accounting firm which estimates were based on two actual case examples provided by the Bureau. The amounts are also based on cost figures provided by an out-of-state gaming regulatory agency in a case involving an outside accounting firm. To assist in the determination of costs, the Bureau identified several variables that can affect the scope and potential costs of each investigation (see Attachment 1). The breakdown of the cost estimates for each case is contained in Attachment 2.

Required Determinations

TECHNICAL, THEORETICAL, AND/OR EMPIRICAL STUDY, REPORTS, OR DOCUMENTS

1. A list of the variables that the Bureau has identified as potentially affecting deposit amounts is shown in Attachment 1.

2. Worksheets that provide the details of an outside accounting firm's estimated costs of conducting an investigation are shown in Attachment 2.

LOCAL MANDATE

These regulations do not impose any technical, theoretical, or empirical mandates on local agencies or school districts.

REASONABLE ALTERNATIVES TO THE PROPOSED REGULATIONS AND REASONS FOR REJECTING THOSE ALTERNATIVES

The Bureau is not aware of any reasonable alternatives that would as effectively achieve the purposes of the proposed regulations.

REASONABLE ALTERNATIVES TO THE PROPOSED REGULATORY ACTION THAT WOULD LESSEN ANY ADVERSE IMPACT ON SMALL BUSINESSES

The Bureau is not aware of any reasonable alternative that would lessen any adverse impact on small businesses.

IMPACT ON PRIVATE PERSONS

The Bureau has made a determination that the proposed regulation does not adversely impact private persons.

IMPACT ON BUSINESS

The Bureau has made a determination that the proposed regulatory changes will have no adverse impact on businesses. Current procedures require an applicant to submit a deposit which is applied to the costs of the Bureau's investigation. A preliminary assessment is made regarding the sufficiency of that initial deposit to fully recover the Bureau's anticipated costs. It has become evident that, in a majority of cases, the Bureau has required the applicant to submit an additional deposit(s), based on the level of investigation required. Thus, although a series of deposits may be requested over the course of an investigation, the total deposit amount submitted by an applicant does not change.

The intent of this proposal is to increase the initial deposit to a level that will be sufficient to recover the Bureau's anticipated costs, and, thereby, lessen the need for additional deposits from an applicant. Thus, implementing this change does not pass on additional costs to applicants and poses no additional hardship on businesses or individuals.

VARIABLES THAT WOULD IMPACT REQUIRED DEPOSIT AMOUNTS

- Number of companies involved
- Number of principals involved
- Number of countries involved
- Costs in particular countries
- Value of the dollar relative to the country or countries
- Countries with little or ineffective regulatory oversight
- Travel required within the US
- Complexity of organizational structure
- Number of legal organizational entities
- Other state's licenses and/or investigations
- Company's financial stability
- Large cash transactions
- Recurring operating losses
- Large and/or unknown debt sources
- Unaudited financial statements or statements with qualifications or disclaimers
- Any known law enforcement issues
- Known publicity issues that may need to be investigated
- Known inability to meet debts
- Known related parties that may require licensure or further investigation to determine if licensure is required
- Significant related party transactions not in the ordinary course of business or with related entities
- Known parties with significant influence over the applicant
- Company or principles with significant, unusual, or highly complex transactions
- Significant transactions across international borders
- Significant bank accounts in known tax-haven jurisdictions
- Significant amount of suspicious litigation for company and/or principals

Outsourced Auditing Cost Summary

Case "A"	TOTALS
INDIVIDUAL (PRINCIPAL)	
Number of principals - 5	
Duration of Investigation - 2 weeks per principal (1 US, 1 foreign country)	
Personnel Expense (US) @\$15,000 a week	\$15,000
Personnel Expense (Asia) @\$15,000 a week	\$15,000
TOTAL PERSONNEL EXPENSE	\$30,000
Travel	
Airline Travel - Prorated	\$1,000
Hotel - \$350 per night x 7	\$2,450
Per Diem - \$75 x 7	\$525
TOTAL TRAVEL	\$3,975
TOTAL COST PER INDIVIDUAL APPLICANT	\$33,975
TOTAL FOR 5 INDIVIDUAL APPLICANTS (\$33,975 x 5)	\$169,875

BUSINESS (ENTITY)	
Duration of Investigation - 8 weeks (4 US, 4 foreign country)	
Personnel Expense (US) @\$15,000 a week	\$60,000
Personnel Expense (Asia) @\$15,000 a week	\$60,000
TOTAL PERSONNEL EXPENSE	\$120,000
Travel	
Airline Travel - prorated	\$1,000
Hotel - \$350 per night x 7 x 4	\$9,800
Per Diem - \$75 x 7 x 4	\$2,100
TOTAL TRAVEL	\$12,900
TOTAL COST PER BUSINESS APPLICANT	\$132,900

NOTE:

- 1) This case is based on an actual investigation conducted by an outside auditing firm hired by an out of state government agency.
- 2) Hotel and per diem costs are only charged when the auditing firm must travel outside their general location.

Outsourced Auditing Cost Summary

Case "B"

TOTALS

INDIVIDUAL (PRINCIPAL)

Number of Principals - 1

Duration of Investigation - 9 weeks (3 US, 6 foreign country)

Personnel Expense (US) @\$15,000 a week \$45,000

Personnel Expense (Europe) @\$24,500 a week \$147,000

TOTAL PERSONNEL EXPENSE \$192,000

Travel Airline Travel - Prorated \$3,250

Hotel - \$400 per night x 7 (foreign) \$2,800

\$350 per night x 7 (US) \$2,450

Per Diem - \$120 x 7 (foreign) \$840

\$ 75 x 7 (US) \$525

TOTAL TRAVEL \$9,865

TOTAL COST PER INDIVIDUAL APPLICANT

\$201,865

BUSINESS (ENTITY)

Duration of Investigation - 8 weeks total (4 US, 4 foreign country)

Personnel Expense (US) @\$15,000 a week \$60,000

Personnel Expense (Europe) @\$24,500 a week \$98,000

TOTAL PERSONNEL EXPENSE \$158,000

Travel Airline Travel - Prorated \$3,250

Hotel - \$400 per night x 7 (foreign) \$2,800

Per Diem - \$120 x 7 (foreign) \$840

TOTAL TRAVEL \$6,890

TOTAL COST PER BUSINESS APPLICANT

\$164,890

NOTE:

1) This case is based on an existing application received by the Bureau. The estimated costs were provided by an outside auditing firm.

2) Hotel and per diem costs are only charged when the auditing firm must travel outside their general location.

Outsourced Auditing Cost Summary

Case "C"

TOTALS

INDIVIDUAL (PRINCIPAL)

Number of Principals - 3

Duration of Investigation - 5 weeks per principal (2 US, 3 foreign country)

Personnel Expense (US) @\$15,000 a week \$30,000

Personnel Expense (Europe) @\$15,000 a week \$45,000

TOTAL PERSONNEL EXPENSE \$75,000

Travel Airline Travel - Prorated \$1,444

Hotel - \$350 per night x 7 \$2,450

Per Diem - \$75 x 7 \$525

TOTAL TRAVEL \$4,419

TOTAL COST PER INDIVIDUAL APPLICANT \$79,419

TOTAL FOR 3 INDIVIDUAL APPLICANTS (\$79,419 x 3) \$238,257

BUSINESS (ENTITY)

Duration of Investigation - 6 weeks (2 US, 4 foreign country)

Personnel Expense (US) @\$15,000 a week \$30,000

Personnel Expense (Europe) @\$15,000 a week \$60,000

TOTAL PERSONNEL EXPENSE \$90,000

Travel Airline Travel -Prorated \$1,444

Hotel - \$350 per night x 7 \$2,450

Per Diem - \$75 x 7 \$525

TOTAL TRAVEL \$4,419

TOTAL COST PER BUSINESS APPLICANT \$94,419

NOTE:

1) This case is based on an existing application received by the Bureau. The estimated costs were provided by an outside auditing firm.

2) Hotel and per diem costs are only charged when the auditing firm must travel outside their general location.