

STATE OF WASHINGTON
GAMBLING COMMISSION

In the Matter of the Suspension of the Licenses)
to Conduct Gambling Activities of:)
)
GSC Corporation,)
d/b/a Diamond Lil's)
Renton, Washington,)
)
Licensee.)
_____)

NO. CR 2010-00992

**NOTICE OF ADMINISTRATIVE
CHARGES AND OPPORTUNITY
FOR AN ADJUDICATIVE
PROCEEDING**

I.

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

Number 67-00044, authorizing Class "12" House-Banked Card Room activity; and
Number 05-01996, authorizing Class "D" 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:

1) Diamond Lil's failed to:

- Closely control the Progressive Fortune Pai Gow jackpot and account for all the funds collected;
- Correctly reduce the amount of a progressive jackpot prize accrued;
- 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 in Renton 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 Corporation made multiple withdrawals from both Diamond Lil's and Freddie's Club's Progressive Fortune Pai Gow bank account to pay for operational expenses of each business.

3) Ms. Bender told the agent that she knew that funds could not be withdrawn from the Progressive Fortune Pai Gow bank accounts to pay for operational expenses and only did so with the intent to repay the money.

4) The agent reviewed Diamond Lil's bank statements and accrual records for the Progressive Fortune Pai Gow jackpot for April through July 2010 and found:

a) For April 2010:

- On April 7, 2010 \$40,00 was transferred from Diamond Lil's Progressive Fortune Pai Gow bank account to Diamond Lil's general bank account (to pay for operating expenses).
- According to the April 2010 Progressive Fortune Pai Gow accrual records, there should have been \$52,597 in the Progressive Fortune Pai Gow bank account (\$34,378 for the main jackpot and \$21,622 for the backup jackpot).
- On April 30, 2010, the balance of the Progressive Fortune Pai Gow bank account was \$12,089.
- The amount of the Progressive Fortune Pai Gow jackpot that Diamond Lil's displayed to the players was \$32,661.

b) For May 2010:

- On May 5, 2010, \$12,000 was transferred from Diamond Lil's Progressive Fortune Pai Gow bank account to Freddie's Club's token bank account.¹
- Ms. Bender told the agent that the May 5, 2010, loan to Freddie's Club was to repay money CSG Corporation took from Freddie's Club to pay for Diamond Lil's operating expenses.
- According to the May 2010 Progressive Fortune Pai Gow accrual records, there should have been \$54,232 in the Progressive Fortune Pai Gow bank account (\$32,916 for the main jackpot and \$21,315 for the backup jackpot).
- On May 31, 2010, the balance of the Progressive Fortune Pai Gow bank account was \$866.
- The amount of the Progressive Fortune Pai Gow jackpot that Diamond Lil's displayed to the players was \$32,916.

c) For June 2010:

- There were three deposits and no withdrawals and made to the Progressive Fortune Pai Gow bank account.
- According to the June 2010 Progressive Fortune Pai Gow accrual records, Diamond Lil's discontinued accruing funds for the backup jackpot on June 6, 2010.

¹ The card room employees pool their tips, and Freddie's Club keeps the tips in a bank account. It then distributes, at payroll time, the tips to the card room employees based on the hours worked by the employees.

- Additionally, the June 2010 accrual records show that there should have been \$54,852 in the Progressive Fortune Pai Gow bank account (\$33,229 for the main jackpot and \$21,622 for the backup jackpot).
- On June 30, 2010, the balance of the Progressive Fortune Pai Gow bank account was \$2,765.
- The amount of the Progressive Fortune Pai Gow jackpot that Diamond Lil's displayed to the players was \$33,229.

d) For July 2010:

- On July 28, 2010, the balance of the Progressive Fortune Pai Gow bank account was \$2,852.
- According to the July 2010 Progressive Fortune Pai Gow accrual records, there should have been \$56,001 in the Progressive Fortune Pai Gow bank account (\$34,378 for the main jackpot and \$21,622 for the backup jackpot).
- The amount of the Progressive Fortune Pai Gow jackpot that Diamond Lil's displayed to the players was \$34,378.

5) On August 16, 2010, Diamond Lil's deposited gambling revenue funds into its Progressive Fortune Pai Gow bank account so that there were sufficient funds to cover the jackpot that Diamond Lil's displayed to the players.

6) By taking out \$52,000 from the Progressive Fortune Pai Gow bank account for business expenses and repayment of a loan from Freddie's Club, Diamond Lil's incorrectly reduced the amount of a progressive jackpot prize accrued, in violation of WAC 230-15-695. As a result, Diamond Lil's failed to adequately disclose to players the Progressive Fortune Pai Gow jackpot prizes available, in violation of WAC 230-15-680(4).

7) Additionally, Diamond Lil's 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 Diamond Lil's internal controls (ICs), 20% 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 Diamond Lil's 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, Diamond Lil's failed to follow its ICs, in violation of WAC 230-15-425 and 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 Diamond Lil's 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;

WAC 230-03-085 Denying, suspending, or revoking an application, license or permit

We may deny, suspend, or revoke any application, license or permit, when the applicant, licensee, or anyone holding a substantial interest in the applicant's or licensee's business or organization:

(The following subsections apply.)

- (1) Commits any act that constitutes grounds for denying, suspending, or revoking licenses or permits under RCW 9.46.075.
- (3) Has demonstrated willful disregard for complying with ordinances, statutes, administrative rules, or court orders, whether at the local, state, or federal level.

WAC 230-15-680 Operating progressive jackpot prizes

House-banked card game licensees may operate progressive jackpot prizes with certain approved house-banked card games.

- (1) To participate in a progressive jackpot, a player places a separate wager, part of which accrues to the progressively increasing prize.
- (2) Manufacturer's game rules determine the winning patterns or combinations of cards.
- (3) Licensees must offer a primary jackpot and may have a secondary or reserve jackpot prize.
- (4) Licensees must adequately disclose to players the prizes available and how they are won.
- (5) Licensees must ensure that they closely control progressive jackpot games and account for all the funds collected.

WAC 230-15-695 Adjusting progressive jackpot amounts

House-banked card game licensees must not reduce the amount of a progressive jackpot prize accrued or displayed except for the following reasons:

- (1) To reduce the jackpot and the advertised amount by the amount won; or
- (2) To correct an amount displayed incorrectly because of malfunctioning equipment; or
- (3) To correct the display when the amount displayed is greater than the predetermined maximum prize limit; or
- (4) To reduce a reserve or secondary jackpot as long as they record the funds removed as gross receipts and properly documented that in their records; or
- (5) To reduce a reserve or secondary jackpot to recover seed money that was not taken from gross receipts, if they properly document those funds in their records; or
- (6) To reduce the jackpot by the dollar amount they paid for merchandise they award as prizes.

WAC 230-15-425 Internal controls

(The following subsections apply.)

- (1) House-banked card game licensees must:
 - (a) Adopt internal controls in the format we require; and
 - (b) Ensure that all games are closely controlled and operated in accordance with gambling laws, our rules, and the house-banked card game licensee's internal controls (ICs); and
 - (c) Follow all ICs at all times

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.

III.

Jurisdiction of this proceeding is based on 9.46 RCW, Gambling, chapter 34.05 RCW, the Administrative Procedure Act, and WAC Title 230.

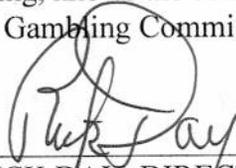
The licensee will have the opportunity to have a hearing on the alleged violations.

In order to have a hearing or discuss settlement options, the enclosed request for hearing must be completed and returned to the Gambling Commission **within 23 days** from the date of the mailing of this notice.

Based on RCW 34.05.440, failure to return a request for hearing will result in the entry of a default order **SUSPENDING YOUR LICENSES FOR 30 DAYS**.

STATE OF WASHINGTON)
) ss.
 COUNTY OF THURSTON)

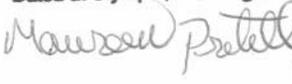
Rick Day, being duly sworn on oath, says: That he has read this Notice of Administrative Charges and Opportunity for An Adjudicative Proceeding, knows the contents of it, believes it to be true, that he is the Director of the Washington State Gambling Commission, and in that capacity has executed said Notice.

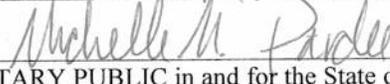


 RICK DAY, DIRECTOR

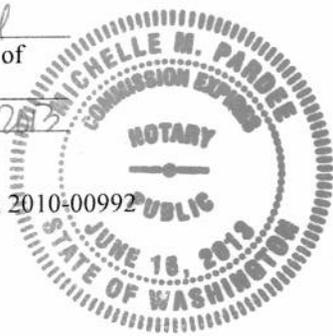
STATE OF WASHINGTON)
) ss
 COUNTY OF THURSTON)

I hereby certify that I have this day served a copy of the document upon all parties of record in the proceeding by mailing a copy thereof, properly addressed with postage prepaid, by regular and certified mail to each party to the proceeding or his or her attorney or authorized agent.

Dated at Olympia, Washington this 29 day of November, 2010

 Communications and Legal Department
 Washington State Gambling Commission

SUBSCRIBED AND SWORN TO before me this 29 day of November, 2010.


 NOTARY PUBLIC in and for the State of Washington residing at Wacey
 My commission expires on June 16, 2013





Washington State Gambling Commission
Communications and Legal Department

Dated at Olympia, Washington this _____ day of _____

proceeding or his or her attorney or authorized agent.
with postage prepaid, by register and certified mail to each party to the
of record in the proceeding by mailing a copy thereof, properly addressed
I hereby certify that I have this day served a copy of the document upon all parties

COUNTY OF THURSTON)
STATE OF WASHINGTON)
SS

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