



## NEW SOUTH WALES CASINO CONTROL AUTHORITY

15 December 2000

The Hon J Richard Face  
Minister for Gaming and Racing  
Level 13, 55 Hunter Street  
SYDNEY NSW 2000

Dear Minister

I wish to advise that the Authority has completed its investigation of the casino operator pursuant to s.31 of the Casino Control Act 1992.

Following completion of the investigation, the Authority has formed the following opinion:

- the casino operator is a suitable person to continue to give effect to the casino licence and the Casino Control Act 1992; and
- it is in the public interest that the casino licence should continue in force.

To assist the Authority in forming its opinion, the Authority asked Mr P D McClellan QC to conduct an inquiry pursuant to s.143 of the Casino Control Act. The report by Mr McClellan is attached and I advise that the Authority has accepted his findings, and conclusions and endorsed his recommendations.

The Authority will now take the necessary action it considers appropriate in light of its findings.

Yours sincerely

**Sir Nicholas Shehadie A.C. O.B.E.**  
Chairman



**NEW SOUTH WALES  
CASINO CONTROL AUTHORITY**

**REPORT OF THE INQUIRY BY  
MR P D McCLELLAN QC PURSUANT TO  
SECTION 143 OF THE CASINO CONTROL ACT  
1992**

**SYDNEY, DECEMBER 2000**

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15 December 2000

Sir Nicholas Shehadie A.C. O.B.E.  
Chairman  
NSW Casino Control Authority  
Level 17, 309 Kent Street  
SYDNEY NSW 2000

Dear Sir Nicholas

I enclose my report under s.143 of the Casino Control Act 1992. The report details the findings, conclusions and recommendations I have made with respect to the matters raised in the terms of reference provided by the Authority.

I advise that in my opinion, for the reasons set forth in the report, it would be appropriate for the Authority to form the opinion:

- the casino operator is a suitable person to continue to give effect to the casino licence and the Casino Control Act 1992; and
- it is in the public interest that the casino licence should continue in force.

Yours sincerely

Peter McClellan QC

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## GLOSSARY OF TERMS

Act	Casino Control Act 1992 (NSW)
AUSTRAC	Australian Transaction Reports and Analysis Centre
Authority	NSW Casino Control Authority
Buy ins	The purchase of chips for cash or cash equivalent
Cash ins	Obtaining cash or cash equivalent for chips
CCTV	Closed Circuit Television
Harrah's	Harrah's Entertainment Inc
Leighton	Leighton Properties Pty Ltd
SCM	Sydney Casino Management Pty Ltd
Showboat	Showboat Inc
Star City	Star City Pty Ltd
Star City Holdings	Star City Holdings Limited
Street Report	Inquiry into the establishment and operation of legal casinos conducted by Sir Laurence Street
Tabcorp	Tabcorp Holdings Limited
The 1997 Report	First Report of Investigation pursuant to s.31 of the Casino Control Act 1992 (NSW)

## SUMMARY AND RECOMMENDATIONS

This investigation has been conducted to assist the Authority in forming the opinion required by s.31 of the Act as to whether Star City, the casino operator, is a suitable person to continue to give effect to the casino licence and whether it is in the public interest that the casino licence should continue in force. The investigation has been conducted in accordance with the detailed Terms of Reference provided to me by the Authority.

The Report does not refer to individuals by name. This approach has been adopted to ensure that the Report is not inappropriately used to criticise individuals. The review is not concerned with the performance of individuals but it is required to examine the position of the corporation. The performance of individuals is a matter for Star City. However, where it is necessary to understand the evidence, the title of an individual is included.

In addition, I accept that the fear expressed by many witnesses of their names and those they identified being publicly revealed, was genuinely held. I appreciate that adverse comment on the evidence of some witnesses may cast doubt on the evidence of others, particularly from the same level within Star City. While this is regretted, I have formed the view that it is not appropriate for me to make adverse findings against individuals.

Because of the media reports of activities at the casino, significant resources have been applied by the Inquiry to the issues of criminals and other undesirable persons, and the effectiveness of Star City in controlling their activity.

I was previously appointed by the Authority to conduct the s.143 Inquiry which assisted the Authority's investigation under s.31 in 1997. I reported my satisfaction with the casino operations at that time and in particular on the material then available, concluded that criminal activity was not a problem. The current investigation has disclosed a different picture from that available in 1997.

After receiving oral evidence, mostly sworn, and with the benefit of submissions from Star City, I have concluded that at least until recently Star City had developed significant problems in the operation of its private gaming area known as the Endeavour Room. The corporate culture was inappropriate and effective procedures were not in place to deal with prostitution, loan sharking, the service of alcohol, money laundering and sexual harassment. There was a potential for Casino management to be corruptly influenced in the discharge of their duties, although I am satisfied this did not occur.

The initial response of Star City to the allegations made in the media was basically denial, although there was a grudging acceptance of possible minor problems in some areas. Having regard to the evidence which I have obtained, the denials are not acceptable and reflect adversely on those who made them. For reasons explained in the report, the evidence by some witnesses that they were unaware of unacceptable activity in the casino, particularly in the Endeavour Room suggests either incompetence by not observing the obvious or that the answers were untruthful. Regrettably in some cases I have formed the view that the witness did not tell the truth.

To determine whether the casino operator, inevitably a corporation, is a fit and proper person to hold the licence, many issues must be examined. To a great extent those issues are reflected in the diverse matters brought forward by the Terms of Reference for this Inquiry. Failure to adequately perform in relation to some matters does not automatically mean that the licence should be revoked. The difficulties may be capable of being remedied by changes in procedure or management personnel or both. Undoubtedly, if the operator was engaged in dishonest conduct, particularly if the State was being defrauded or individual players dishonestly treated and it was believed the situation could not be remedied, it would be appropriate to consider withdrawing the licence. Beyond these matters the issue is more complex.

I am satisfied that Star City has failed to meet the standards which the Authority was entitled to expect from it in managing some aspects of the casino – in particular, the Endeavour Room. Furthermore, some of its managers have failed to adequately discharge their responsibilities within the casino. However, I am satisfied that Star City has maintained the integrity of its responsibilities with respect to State revenues and is honest in its dealings with its patrons. Serious as the problems have been, I do not believe the current senior management of Star City has been compromised.

I have spoken at length with the Chairman of Star City who is also the Managing Director of Tabcorp, of which Star City is a wholly owned subsidiary. I am satisfied that Tabcorp is determined that the necessary changes will be made to Star City's culture and the management structure and resources will be reviewed. The Chairman has already contributed significantly to the approach of Star City to my Inquiry and took the step of retaining the Hon. J. Cripps QC to carry out an investigation of the allegations raised by Four Corners for Tabcorp.

Accordingly, I have come to the view that Star City is a suitable person to continue to give effect to the casino licence. However, because of the difficulties which have been confirmed by my Inquiry, I recommend that the Authority continue to monitor progress of Star City towards achieving a satisfactory culture and the desired management outcome. It would be

appropriate for the Authority to determine whether appropriate changes have been made and review the position, with the assistance of formal interviews at the end of 2001.

Of course, the fitness of Star City must again be reviewed as required by the statute by the end of 2003.

I have also examined whether it is in the public interest for the casino licence to continue in force. Although it is apparent that there have been some problems at the casino, I am satisfied that Star City is capable of responding effectively to them. The casino continues to make a significant contribution to the recreational opportunities for the many residents and tourists who enjoy this form of entertainment. It cannot be doubted that some people's lives are damaged by gambling, often tragically, but I do not believe the casino contributes more than any other gambling venue to these problems.

Accordingly, I have concluded that it is in the public interest that the casino licence continue in force.

During the course of the Inquiry, I have identified a number of matters which, if implemented, should improve the management of the casino and the effectiveness of its regulation. It is imperative that the changes recommended in relation to the Endeavour Room and the added focus on the operations of that Room do not have an adverse effect on the operations on the main gaming floor.

I have set out below a summary of recommendations.

I was also requested by the Premier to advise him in relation to future regulation and some other matters. My reply is effectively the material in Chapter 9 of this Report.

## **RECOMMENDATIONS**

I make the following recommendations:

1. The Authority continue to monitor the progress of Star City towards achieving a satisfactory culture and the desired management outcome and review the position, with the assistance of formal interviews, at the end of 2001. (Chapter 8)

### **Regulatory Structure**

2. The Director of Casino Surveillance and his staff become part of the Casino Control Authority and report to the Chief Executive and Board of the Authority. (Chapter 9)
3. The functions of the Director and his staff be assumed by the Authority and the statutory office of Director be abolished. (Chapter 9)
4. A Casino Intelligence Unit be established within the Police Service to focus on major and/or systemic criminal issues with the casino, among other matters. (Chapter 9)
5. The Authority establish a standing committee under clause 18 of Schedule 1 to the Act, to monitor the presence of criminals and other undesirables in the casino and matters of loan sharking and prostitution. The Committee should comprise a senior member of the Police Service, representing the Commissioner and one or more members of the Authority. That Committee should also advise the Board on exclusions. (Chapter 9)
6. The Act be amended to empower the Authority to issue written references to the Commissioner of Police seeking advice on major and/or systemic criminal issues connected with the casino and to require the Commissioner to formally report to the Authority on matters the subject of reference. (Chapter 9)
7. The statutory objects of the Authority be amended to be the objects of the Casino Control Act. (Chapter 9)
8. The person conducting a s.143 Inquiry be empowered to
  - 8.1.1. require any person directly or indirectly associated with matters the subject of an inquiry to give evidence; and

- 8.1.2. prevent the publication of evidence or documents produced on public interest grounds where publication may jeopardise an investigation or an inquiry. (Chapter 9)
9. The Act be amended to permit the Authority to divulge information to the New South Wales Police Service. (Chapter 9)
10. The Act be amended to require internal control procedures to be created in respect of private gaming areas. (Chapter 9)
11. The Act be amended to empower the Authority to at any time require its staff members and consultants to submit to a probity review. (Chapter 9)
12. The Authority be given the power to exclude persons from the casino. That power should not be the subject of appeal or review. (Chapter 6)

### **Criminal Influence and Exploitation**

13. The Authority obtain from Star City at regular intervals the names of all new members of the Endeavour Room. The Authority should then advise the relevant law enforcement agencies of those names and seek any information held by them. (Chapter 5)
14. All members of the Endeavour Room be issued with a membership card containing their name, date of birth and a photograph of the member. (Chapter 5)
15. Each buy in and cash in conducted within the Endeavour Room and in the high limit pits on the main gaming floor by members of the Endeavour Room only occur after production of his or her membership card and on the satisfaction that the person conducting the buy in or cash in is the card holder. Further, that the Authority and Star City determine a method by which this can be achieved. (Chapter 5)
16. Star City and the Authority take all necessary steps to ensure that by enforcing appropriate requirements in the Endeavour Room this does not cause problems to emerge on the main gaming floor. (Chapter 8)
17. Star City should be required to record and provide to the Authority details of the buy ins and cash ins by each member of a junket, and the amount of the final settlement to

which they are entitled. These details should be provided for transactions over \$10,000 regardless of whether they are in cash or some other form. (Chapter 5)

18. The federal agencies considering the draft reform proposals in relation to imminent suspect transactions have discussions with Star City and the Authority to determine whether international transfers of funds undertaken by or from Star City on behalf of its patrons can be effectively the subject of the draft reform proposals. (Chapter 5)

19. The Authority be permitted access to information held by AUSTRAC concerning Star City. (Chapter 5)

20. There be a national approach to the exclusion of patrons from casinos in Australia. (Chapter 6)

### **Intoxication**

21. The Authority closely monitor the use of alcohol in the casino to ensure that staff appropriately satisfy their obligations under the Act concerning the presence of, and gambling by intoxicated persons. (Chapter 5)

### **Other Matters**

22. The adequacy of the resources available to the Investigation Department of the casino should be monitored by Star City and the Authority to ensure it is able to function effectively. (Chapter 4)

23. The Authority and Star City review the operation of the complimentary system in order to develop a system more resistant to abuse and one in which players are treated fairly. (Chapter 4)

24. The Authority examine the Coroner's recommendations in relation to the death of Peter Dalamangas and ensure that Star City takes all appropriate action. (Chapter 4)

25. Star City liaise with those banks which have automatic teller machines on Star City premises to explore permitting those machines to accept deposits. (Chapter 7)

# CHAPTER ONE

## INTRODUCTION

### BACKGROUND

Every three years, the Casino Control Authority is required by s.31 of the Casino Control Act 1992 to investigate and form an opinion as to whether or not the casino operator is a suitable person to continue to give effect to the casino licence and whether it is in the public interest that the casino licence should continue in force. The Authority is to report its findings and opinion to the Minister, giving reasons for its opinion, and is to take whatever action under the Act it considers appropriate in the light of its findings.

The licence held by Star City was granted on 14 December 1994. This is the second triennial investigation under the Act.

At the time of the Report of the 1997 triennial review, the Showboat Inc group had an 85% interest in the company contracted to provide casino management expertise to Star City, the holder of the casino licence. Following the merger between Showboat and Harrah's Entertainment Inc in June 1998, the latter controlled the casino management company.

In April 1999 Tabcorp, a publicly listed Australian company, agreed with Harrah's to purchase Harrah's interest in the Star City management contract. It subsequently acquired all shares in Star City Holdings, which owns Star City, the holder of the casino licence. Star City is now a wholly owned subsidiary of Tabcorp which is one of Australia's largest gaming companies. Its shareholders include Westpac, Chase Manhattan Bank and Citicorp.

Initially, the Authority determined to conduct the investigation required by s.31 of the Act itself. Following the airing of allegations on the ABC Four Corners program on 24 April 2000, the Authority engaged me to conduct an Inquiry under s.143 of the Act and to report my findings and opinion to the Authority, giving reasons. The Authority will then report to the Minister as required by s.31 of the Act. The Authority appointed Ms Gail Furness of counsel to assist me.

An inquiry under s.143 of the Act allows the person presiding to require evidence to be given on oath and obtain information as he or she sees fit. Submissions made and evidence given attract absolute privilege.

## THE INVESTIGATION

As I reported in 1997, the Act gives little guidance to the Authority in conducting its investigation. Section 11 specifies five matters which the Authority is to have regard to when considering applications for a casino licence. They are:

- (a) the requirements of section 12 (suitability of applicant and close associates of applicant);
- (b) the standard and nature of the proposed casino, and the facilities to be provided in, or in conjunction with, the proposed casino;
- (c) the likely impact of the use of the premises concerned as a casino on tourism, employment and economic development generally in the place or region in which the premises are located;
- (d) the expertise of the applicant, having regard to the obligations of the holder of a casino licence under this Act; and
- (e) such other matters as the Authority considers relevant.

The Act was amended earlier this year to remove as an object of the Authority the promotion of tourism, employment and economic development generally in the State. This matter remains to be considered when determining applications for a licence, and accordingly is a matter which would be the subject of consideration in relation to a triennial review. However, given the clear intention of Parliament that tourism, employment and economic development no longer be an object of the Authority, it has little significance in any decision with respect to the licence.

Section 12 of the Act relates to the suitability of the applicant and close associates of the applicant. It provides that the Authority must not grant a casino licence unless it is satisfied that the applicant and each close associate is suitable to be concerned in or associated with the management and operation of a casino. In short, it requires the Authority to consider:-

- The character, honesty and integrity of individuals and organisations.
- The financial stability of individuals and organisations and the suitability and adequacy of financial resources available to licence applicants.
- Management expertise in casino operations.

Close associates are considered in s.13 of the Act. It provides that a person is a close associate of an applicant or the holder of a licence if the person holds or will hold a relevant financial interest, or is or will be entitled to exercise any relevant power and by virtue of that

interest or power is or will be able in the opinion of the Authority to exercise significant influence over or with respect to the management of the casino business of the operator.

A person is also a close associate if the person holds or will hold any relevant position, whether in his or her own right or on behalf of any other person, in the casino business. Relevant financial interest and relevant power are defined in wide terms in s.13 of the Act.

The Authority commenced its investigation in December 1999 by calling for submissions. By March 2000, it had received submissions from 52 individuals and groups including suppliers and contractors to the casino, the tourism industry, NSW clubs, gambling and counselling services and others with an interest in the gaming industry. In addition, Star City made a submission.

Most of the submissions are supportive of the operations of the casino and are authored by those who contract to the casino.

The Authority established a team of three people to assist it in carrying out the investigation. They were Margaret Hannon and Mark Duggan, both seconded from the staff of the Director of Casino Surveillance, and an Authority employee, Orla Murray. Subsequently, Mr Duggan returned to the Director's employ and Anthony Krithinakis was seconded from Clayton Utz, Lawyers to assist in the Inquiry.

Prior to my appointment in May, the Authority had interviewed nine people. Those interviews were recorded and a copy of the transcript was provided to the person interviewed. The Authority did not provide copies of those transcripts to any person other than those interviewed. It is clear that some of those transcripts found their way into the media and I can only presume they were provided by the interviewee. I am satisfied they were not obtained from the Authority.

## **THE INQUIRY**

I was appointed on 19 May 2000 and Ms Gail Furness of counsel was appointed to assist me on that same day. The Authority determined that the Inquiry should consider the following:

1. The suitability of the casino operator, and each close associate of the casino operator, as nominated by the authority from time to time, to be concerned in or associated with the management and operation of Star City casino having regard to whether:
  - 1.1 the casino operator and each close associate are of good repute, having regard to character, honesty and integrity;

- 1.2 the casino operator has or has arranged a satisfactory ownership, trust or corporate structure;
  - 1.3 the casino operator and each close associate are of sound and stable financial background;
  - 1.4 the casino operator has or is able to obtain financial resources that are both suitable and adequate for ensuring the financial viability of the casino;
  - 1.5 the casino operator has or is able to obtain the services of persons who have sufficient experience in the management and operation of a casino;
  - 1.6 the casino operator has sufficient business ability to maintain a successful casino;
  - 1.7 the casino operator or any close associate has any business association with any person, body or association nominated by the Authority from time to time who, in the opinion of the Authority is not a good repute having regard to character, honesty and integrity or has undesirable or unsatisfactory financial sources;
  - 1.8 each director, partner, trustee, executive officer and secretary and any other officer or person determined by the Authority to be associated or connected with the ownership, administration or management of the operations or business of the casino operator or a close associate of the casino operator is a suitable person to act in that capacity.
2. The standard and nature of the casino which commenced operations on 26 November 1997 and the facilities provided in, or in conjunction with the casino.
  3. The impact of the use of the casino premises on tourism, employment and economic development generally in Sydney and New South Wales.
  4. The expertise of the casino operator having regard to the obligations of the holder of a casino licence under the Act, including the extent to which the casino operator has complied with:
    - its obligations under the Act;
    - its obligations under the casino licence; and
    - legal agreements between the Authority and the casino operator.
  5. The effect of the casino in relation to the public interest including, but not limited to:
    - 5.1 the impact or potential of findings by the Authority in relation to the matters referred to in paragraphs 1 to 4 above; and
    - 5.2 the impact or potential impact of casino operations on individuals who attend, or who may attend the casino and their families; and
    - 5.3 the impact or potential impact of the casino on the public interest having regard to submissions made to the Authority by the public.
  6. The maintenance and administration of systems by the casino operator to:
    - 6.1 ensure that the management and operation of the casino remains free from criminal influence or exploitation; and
    - 6.2 ensure that gaming in the casino is conducted honestly.
  7. Specific matters which have been the subject of recent media reports, including:

- 7.1 alleged money laundering activities by persons who frequent the casino;
- 7.2 the alleged attendance of criminals or persons of ill repute at the casino;
- 7.3 criminal activity generally, or other activity which may be considered undesirable which may be associated with the casino.

Advertisements were placed in the newspapers indicating the Terms of Reference and inviting submissions by 17 July 2000. Seven submissions have been received by the Inquiry. The total list of submissions received appears at in Annexure 1.

The Authority wrote to a large number of individuals and organisations advising them of the Terms of Reference of the Inquiry and seeking their input.

I sat in public on 16 June 2000 to describe the process I proposed to adopt in conducting the Inquiry. At that time I said:

*“The environment in which the casino should operate can be found in the legislation establishing it and in the report of Sir Laurence Street on the Establishment and Operation of Legal Casinos. He reported in November 1991 at which time two casinos were proposed. In the preface to the Report Sir Laurence said:*

*‘The introduction of casinos is feared on criminological grounds. Provided that three requirements are met, these fears can be placed aside. The three requirements are:*

- *The selection of an operator whose integrity and commitment to preserving a crime – free environment in, and in relation to, the casino are assured;*
- *The formulation of a comprehensive regulatory structure for the operation of the casino; and*
- *The diligent enforcement of that regulatory structure.’*

*It can be seen from these remarks that Sir Laurence placed considerable stress on the role of the operator in managing activity in the Casino. I agree, the operator must accept primary responsibility for these activities and the conduct of its patrons as well as for other matters which it can control.”*

I sat in public again on 31 August 2000 to report on the evidence received so far, to advise the reasons for my decision to hold private hearings and to air my initial views as to the need for reform to the regulatory structure. More will be said on that later.

On that day I outlined the process which the investigation would follow, particularly in relation to affording Star City an opportunity to be appraised of the evidence I had received relevant to it and to make submissions.

I also sought further submissions concerning the issues discussed.

The 1997 Report was largely concerned with the probity of the operator. Showboat, an American corporation held the licence and it had been indicated that an Australian company, Publishing and Broadcasting Limited may purchase the company which managed the casino. In the event that did not occur but probity matters continued to require investigation both in Australia and in the United States.

In this Inquiry, because Tabcorp has only recently acquired the company which controls Star City, the Authority has considered probity issues in relation to the changes in detail. It has been unnecessary for me to retrace the matters considered in that probity investigation.

The Terms of Reference for this Inquiry reflect concern about the extent of criminal presence and influence in the casino and those matters form a large part of this Inquiry.

## **COURSE OF INQUIRY**

Private hearings were held over 26 days between July and October 2000 at the Authority's premises and in the hearing room at the Independent Commission Against Corruption. Evidence has been taken from over 50 witnesses, including VIP Executive Hosts and Hosts, former members of the casino staff and former and current casino patrons some of whom have been excluded by the Commissioner of Police and by Star City. In addition, Government Inspectors, heads of the Star City's investigation, surveillance and security departments, gaming shift managers, a casino manager, security officers, the Director of Casino Surveillance, his Manager of Inspections and Government Inspectors gave evidence.

Management responsible for the operations of the private gaming rooms, table games and asset protection and the Chief Executive Officer of Star City have also given evidence. Star City was represented by Alan Sullivan QC instructed by Stan Lewis, a partner with Coudert Brothers, Solicitors and International Attorneys, during the hearings in which evidence was heard from Star City management.

All of these hearings have been conducted in private and recorded and most of the witnesses have been sworn. To protect the confidentiality of the evidence given, no copies of transcripts have been provided to witnesses, although copies of relevant transcripts have been provided to Star City.

Most of those who provided evidence to me were unwilling to repeat the evidence in public. Many expressed a fear for their safety from persons they

have named, a fear which I accept is genuinely held. I formed the view that it would not be responsible to publish details which include the names of either the witnesses or those who they may have identified in their testimony.

The outcome of my Inquiry does not depend on a judgement as to whether any person has, beyond reasonable doubt, committed an offence or engaged in criminal activity. I must consider and form a view as to whether illegal or undesirable activity occurs in or is associated with the casino. However this is for the purpose of assessing one of many matters relevant to the question of the suitability of Star City to hold the licence and the public interest in the licence continuing.

I am not required to apply a criminal standard of proof or necessarily find that particular incidents occurred at specified times and locations. I have formed views based on a reasonable level of satisfaction after considering the weight of the evidence and other material available to me.

For this purpose it was not necessary to call the various witnesses to repeat their evidence in public. To do so would have raised issues as to the reputation of persons not directly involved in the process and would almost certainly have diverted the Inquiry from its true purpose.

Notices were served on Star City on 22 June, 13 July, 28 July and 14 August 2000 requiring it to advise of a number of matters including its knowledge of money laundering, soliciting, loan sharking and criminal activity within the casino. Various documents were also sought. The Notice dated 22 June 2000 is reproduced at Annexure 2. Voluminous material was provided. Further material was sought and produced during the course of the Inquiry. This material has all been examined. Among the material Star City provided, were copies of records of interviews conducted by the casino's investigator with over 70 members of staff. These interviews followed the airing of allegations on the ABC's Four Corners program on 24 April 2000 and centred upon staff's knowledge of soliciting, loan sharking and intoxicated patrons.

The Director of Casino Surveillance was required to produce reports by Notices dated 22 June, 13 July, 19 July and 28 July concerning a number of matters including his knowledge of money laundering, soliciting, loan sharking and criminal activity within the casino. Again, documents were also sought and provided. The Notice dated 22 June 2000 is reproduced at Annexure 3. That material has also been analysed.

In addition, the Inquiry benefited from visits to Crown Casino in Melbourne, Burswood Casino in Perth and Jupiters and Treasury casinos in Queensland. Discussions were held with regulators, police officers, casino employees and others in these States. Much useful information was obtained.

I have had discussions with some of the Trustees of the Casino Community Benefit Fund and a number of organisations which offer counselling services to the community to deal with gambling problems. The Director of Policy and Development and the Manager of Policy with the Department of Gaming and Racing have been most helpful in providing information on the social impact of gaming.

Professor Jan McMillan from the University of Western Sydney also provided me with her views and the results of recent research undertaken by her and her colleagues.

I have met on several occasions, with representatives of law enforcement agencies including, the New South Wales Crime Commission, the National Crime Authority, the Australian Federal Police and the New South Wales Police Service, each of whom who has provided valuable assistance in understanding the relationship between the casino and crime in this State.

The Inquiry has also liaised with the Task Force established by the NSW Police to deal with aspects of the allegations aired by the ABC Four Corners program. That Task Force specifically considered allegations of illegal drug activity within the Endeavour Room and money lending and associated criminal activity of money laundering and extortion. It recently completed its investigations and concluded that there was insufficient evidence to substantiate charges against any person.

AUSTRAC, the Federal agency with responsibility for the administration of the financial transactions reports legislation has informed the Inquiry of its involvement with the movement of money in the casino and issues it has in relation to effective recording practices. The casino is obviously an environment where there are significant cash transactions daily. AUSTRAC conducted a Joint Study with the casino as to the casino's compliance with the Financial Transactions Reports Act 1988 in June and September 2000. Its findings are referred to in this Report.

After the ABC Four Corners program in April 2000, Tabcorp engaged the Hon. J Cripps QC to conduct an investigation into the allegations made on Four Corners. I have had the benefit of discussions with Mr Cripps during the course of his investigations and have been provided with a copy of his report to Tabcorp dated November 2000.

## **CHAPTER TWO**

### **CASINO OPERATOR**

#### **CHANGES IN STRUCTURE**

Since 1997, Star City has undergone a number of significant changes to its corporate structure. Annexure 4 indicates its current corporate structure.

#### **Harrah's Entertainment and Showboat Inc**

At the time of the 1997 Report, Star City Holdings wholly owned Star City, the holder of the licence. Showboat controlled approximately 26% of Star City Holdings with the remaining 74% held by others.

Sydney Casino Management Pty Ltd (SCM) held the contract to provide management services to Star City.

On 19 December 1997, Harrah's and Showboat announced an intention to merge their companies through a restructure of their share holding which would result in Showboat becoming a wholly owned division of the Harrah's group.

As this merger would result in Harrah's and some of its personnel becoming close associates of Star City, the Authority was required to investigate the reputation of Harrah's, its Directors and related entities.

The Authority conducted extensive inquiries in the United States, New Zealand and Queensland during early 1998. In May 1998, the Authority completed its investigation into Harrah's and did not object to it taking a controlling interest in Showboat. Harrah's were subsequently approved as a close associate of Star City.

#### **The Leighton Group**

Leighton Properties Pty Ltd (Leighton) has a 15% interest in SCM, which is held in trust by AXA Trustees Limited. On 1 October 1998, Leighton sought the approval of the Authority to terminate the trust arrangements.

Leighton's trust arrangements came into existence prior to the finalisation of the Tobias Inquiry in December 1994. Mr Murray Tobias QC had been tasked with the responsibility of conducting the Public Inquiry into the Leighton and Showboat consortium. Leighton, through

a subsidiary was part of the Sydney Harbour Casino consortium as the developer/constructor of the casino complex.

The issues under consideration related to findings of the 1991 NSW Royal Commission into the Building Industry and the practice of winning tenderers for construction contracts paying unsuccessful tenderers their costs of tendering. Mr Tobias, and subsequently the Authority, made adverse findings with respect to the probity of the Leighton Group and some of its executives.

The effect of the termination of the Leighton trust arrangements would be that Leighton would become close associates of Star City effectively holding a 15% interest in the company which provides management services to Star City.

Leighton's request to the Authority for approval to terminate the trust arrangements triggered the provision of s.35 of the Act which effectively required the Authority to inquire into whether Leighton was suitable to be associated with the management of the casino.

Inquiries were undertaken throughout Australia, Germany and in south East Asia during 1999. Public submissions were also sought. The Authority examined Leighton's business operations, its financial ability, experience in casino management and overall probity.

The Authority's investigation was completed in September 1999. The Authority determined not to give its approval to the disbandment of the trust arrangements. However, it did agree to extend the time for sale of the Trust property until 2020 and to allow Leighton to receive income from the trust.

## **Tabcorp**

On 19 April 1999, Tabcorp Holdings Ltd ("Tabcorp") sought the Authority's approval to purchase the interest of Harrah's in SCM as well as Harrah's equity in Star City Holdings. In addition, Tabcorp made an offer to acquire the interests of all the other shareholders in Star City Holdings. Tabcorp would then become, in effect the owner of Star City and, for the purposes of the Act, a close associate.

On 7 May 1999, the Authority announced that it had commenced an investigation into Tabcorp and its directors, associated companies and their directors.

The Authority undertook an extensive examination of Tabcorp's business operations and interests principally in Victoria. It examined the company's financial capacity, its legal arrangements, experience in casino management and its overall probity.

No issues of concern were revealed. In respect of its casino management expertise, the Authority noted that the company proposed to enter into an agreement with Harrah's which would provide Tabcorp with access to Harrah's experience and expertise in the operation of casinos.

In October 1999, Tabcorp announced that it had acquired more than 90 per cent of the preferred ordinary shares in Star City Holdings and that it would acquire all outstanding preferred ordinary shares.

Tabcorp received approval from the Authority for:

- The acquisition of all the shares and options in Star City Holdings under a takeover scheme;
- The acquisition of an 85% interest in the management agreement for Star City casino through acquisition of Showboat Australia Pty Ltd (then owned by Harrah's); and
- An agreement with Harrah's that secured access to Harrah's operating expertise for a period of three years.

Tabcorp, a public company listed on the Stock Exchange, now wholly owns Star City. Tabcorp's major shareholders are some of the largest financial institutions in Australia and are well known within the Australian business community. Tabcorp's directors are Messrs M B Robinson, I R Wilson, W V Wilson, A G Hodgson, D G Simpson, P M Wade, G M Bennett, R F E Warburton and P G Satre. The major shareholders are listed at Annexure 5.

## **PROBITY**

In September 2000, for the purpose of this Inquiry, a criminal record search was undertaken into Tabcorp and other key close associates of the casino operator, primarily the directors of Tabcorp and directors of associated entities. A list of those considered to be close associates for this purpose is shown at Annexure 6. As the Authority had completed an extensive investigation into Tabcorp's probity last year, a less intensive review was undertaken.

No matters of an adverse nature have been identified.

Harrah's remains a close associate of Star City by virtue of its contract with SCM to provide its knowledge and experience in operating casinos. The Authority made inquiries into Harrah's and requested information from each of the United States jurisdictions in which Harrah's (and/or its associated companies) operate or manage gaming facilities. No matters

of a serious nature were recorded. However, it was reported that Harrah's companies have gaming violations recorded against them in at least two US jurisdictions. These violations relate to matters including minors on casino premises, intoxicated patrons and breaches of the currency reporting transaction rules.

Criminal record checks were also undertaken into those entities which had entered into controlled contracts with Star City. For the purposes of this Inquiry, these entities have been considered business associates of the casino operator.

There were no matters of significance raised by these checks with one exception. Police intelligence reveals that one contractor may have criminal associations. Further inquiries are being made and I expect that the Authority will take appropriate action on receipt of that information.

## **MANAGEMENT**

As reported above, in October 1999 the Authority completed a probity assessment of Tabcorp. It formed the view that Tabcorp has or was able to obtain the services of persons who have sufficient experience in the management and operation of a casino. It noted that Tabcorp had indicated in discussions with the Authority that it proposed to make few changes to senior management in Star City, at least during any settling in period. In addition, the Authority approved the agreement with Harrah's for it to provide its operating expertise.

Showboat Australia, Harrah's and the Authority signed a Casino Services Agreement on 11 January 2000. Since signing the Agreement, Star City has replaced Showboat as a party to the Agreement.

The agreement provides Tabcorp with access to Harrah's knowledge and experience in operating casinos for three years. It also provides Tabcorp with a mechanism to benchmark all aspects of the operations of the casino complex against Harrah's hotel and casino operations in the areas of financial controls, human resource management and casino and hotel operations.

Paragraph 7 of the Agreement provides for the establishment of an Advisory Committee which has the function of reviewing the operations of the casino complex. The Agreement provides that the Committee must meet for that purpose up to three times per year or if requested by Tabcorp up to five times per year. The Agreement also stipulates that Harrah's is to provide three persons as members of the Committee.

Star City advises me that Harrah's has provided Tabcorp with detailed reports in the areas of financial operations, table games, slot and the regulatory environment. I am told that the regulatory matters which have been the subject of reports, relate to legislative and other changes in New Jersey, one of the United States jurisdictions in which Harrah's operates casinos.

The Director of Casino Surveillance has reported to me that a number of significant changes have occurred in the management of Star City since the 1997 Report. These include the departures of Neil Gamble, Chief Executive Officer, Jim Hoggett, General Manager Corporate Affairs, Wes Elam, Chief Operating Officer, Nick Papal, Vice President Player Development and George Gulyas, Internal Audit Director.

David Banks, previously the Chief Operating Officer, replaced Neil Gamble as Chief Executive Officer. Jim Hoggett is currently engaged as a consultant. It is understood that Tabcorp has now outsourced its internal audit functions to KPMG.

Notwithstanding these changes, I am satisfied that there are sufficient persons among the office holders of SCM who have demonstrated experience in the management and operation of a casino to support those whose expertise has not been developed in a casino or gaming environment.

## **FINANCIAL MATTERS**

In considering the suitability of Star City, I am to have regard to its financial background and financial resources.

PKF, Chartered Accountants and Business Advisers were engaged by the Authority to review the financial performance of Star City Holdings and Tabcorp.

PKF reported that between 1997 and June 2000, Star City's actual revenue and profit before abnormal items were below the figures previously forecast by the company. I am advised that the then current Asian financial crisis provides a reasonable explanation for such results.

While Star City was unable to achieve its forecast figures, gross revenue increased between December 1997 and the year ended June 2000.

I am advised that Tabcorp, following its acquisition of Star City, brought with it a stricter level of corporate governance and a more thorough financial reporting regime. Tabcorp carried out an extensive review of Star City's operations prior to the acquisition.

Star City's forecasts for the three years ending 30 June 2003 predict an annual increase in gross revenues and profit before tax and abnormals. PKF is of the view that these forecasts have been comprehensively prepared and in PKF's opinion are more reliable than previous forecasts prepared by Star City.

I understand that net borrowings of Star City have decreased over the last three years and the funding facilities available to it have increased. I am advised that Tabcorp is very strong financially.

Star City's present and forecast trading results show that there are sufficient internally generated funds to enable the reinvestment of funds into the casino operations to ensure that it remains a major player in the gaming industry. In addition I am satisfied that Tabcorp has the financial resources to supply major contributions of capital to Star City if they should be required.

## **SPECIAL EMPLOYEES**

The Act requires any person who is employed or working in the casino in a managerial capacity or who is authorised to make decisions, involving the exercise of his or her discretion, that regulate operations in a casino to be the holder of a special employee licence.

Similarly, persons employed or working in the casino in any capacity related to the conduct of gaming, movement, exchange or counting of money or chips, security or surveillance or the operation, maintenance, construction or repair of gaming equipment are also required to hold a special employee licence.

Section 52 of the Act provides that the Authority is not to grant a licence unless satisfied that the applicant is a suitable person to exercise the functions that the proposed licence would authorise. For that purpose, the Authority is to make an assessment of:

- the integrity, responsibility, personal background and financial stability of the applicant;
- the general reputation of the applicant having regard to character, honesty and integrity; and
- the suitability of the applicant to perform the type of work proposed to be performed by the applicant as a licensee.

The Act specifically provides that each licence application must be referred to the Director of Casino Surveillance for report and recommendation. The Director is required to investigate and inquire into each application and report to the Authority recommending either that the application be granted or refused.

Pending finalisation of the investigation by the Director and a final determination of a licence application, the Authority is empowered to issue provisional licences. In September 1999 the Authority approved the introduction of on-the-spot provisional licences providing licence applicants met certain criteria.

Between 1 January 1998 and 30 November 2000, the Authority issued 1,385 special employee licences and 1,259 provisional licences, and refused to grant a licence to 25 applicants.

The reasons for these refusals have varied. Many of these applicants were found to have been involved in criminal activities. Convictions have included drug possession, fraud, assault, receiving stolen goods, larceny and other lesser offences.

Prior to the Authority making a final decision to refuse a licence application, it provides each applicant with a minimum of 14 days to make submissions as to why he or she believes they should be granted a licence. A committee is appointed to hear the submissions and a full report is prepared before a decision is made as to whether or not to accept the recommendation by the Director of Casino Surveillance that the application be refused.

Not all applicants avail themselves of the opportunity to attend and provide further written or oral submissions. However, the majority do attend and often provide information of considerable assistance. As a result, the Authority has, on occasion, not accepted the recommendation of the Director of Casino Surveillance.

A number of licence applicants were fine defaulters who paid their fines as part of the licence application process and a number of other applicants were found to have failed to comply with income tax laws. These mostly related to the failure to lodge returns.

Between 1 January 1998 and 30 November 2000, the Authority cancelled the provisional licences of 22 individuals and has taken disciplinary action against a further 27 persons. Licence cancellations have occurred for various reasons, including the licensee being the subject of a criminal charge and for failing to advise the Authority of a criminal charge.

A number of licence holders who would have been the subject of disciplinary action by the Authority avoided that process by either resigning or being dismissed by Star City.

The names and particulars of licensees who were the subject of disciplinary action or who avoid disciplinary action through resignation or dismissal are made available by the Authority to casino regulatory bodies in other jurisdictions in the event those persons lodge applications for licences.

The Authority is also required by the Act to consider applications for the variation of the functions that a person may exercise in the casino pursuant to their licence.

Between 1 January 1998 and 30 November 2000, the Authority has approved 4,675 variations to special employee licences that have permitted the licence holders to exercise different functions in connection with the casino.

## **CONTROLLED AND NOTIFIABLE CONTRACTS**

Where the casino operator proposes to enter into a contract with a person or organisation for the supply of security or surveillance equipment of any value or for gaming equipment worth more than \$5,000 or for the supply of any other goods or services to a casino for \$200,000 or more, the casino operator must provide to the Authority written notice of the details of the proposed contract. These contracts are known as "controlled contracts".

Under s.37 of the Act, the Authority has the power to object to any proposed controlled contract. The Act specifically excludes construction contracts and contracts of employment from the controlled contract provisions.

Between 1995 and 30 November 2000, approximately 310 controlled contracts have been entered into by Star City. The controlled contracts relate to a wide range of goods and services including gaming equipment, security and surveillance equipment, cleaning, hotel services and food and beverage supplies.

During the time under review, no contracts have been objected to by the Authority.

If the Authority considers a person associated with a controlled contractor to have the power to exercise significant influence over operations in the casino, it may require that person to be

licensed as a special employee. To obtain that license, that person must undergo a probity assessment, the same process that certain employees of the casino operator undergo. From January 1998 to 30 November 2000, 16 people who are associated with a controlled contractor have been required to apply for and have been granted a special employee licence.

The casino operator is also obliged to advise the Authority of contracts entered into by the casino operator for the provision of general goods or services to the casino for less than \$200,000. These are known as notifiable contracts. There is no power for the Authority to object to such contracts.

Between 1995 and 30 November 2000, approximately 792 notifiable contracts have been notified to the Authority.

Star City believes this threshold is excessive and restrictive in terms of its ability to attract competitive quotes for supplies and has approached the Government to have the threshold increased to \$500,000. I understand that the Government is currently considering this submission.

## **CONCLUSION**

Having regard to the information before me and subject to the comments and recommendations made elsewhere in this Report, I am satisfied that:

- The casino operator and each close associate are of good repute, having regard to character, honesty and integrity;
- The casino operator has or has arranged a satisfactory ownership, trust or corporate structure;
- The casino operator and each close associate are of sound and stable financial background;
- The casino operator has or is able to obtain financial resources that are both suitable and adequate for ensuring the financial viability of the casino;
- The casino operator has or is able to obtain the services of persons who have sufficient experience in the management and operation of a casino;
- The casino operator has sufficient business ability to maintain a successful casino;
- The casino operator or any close associate does not have any business association with any person, body or association nominated by the Authority from time to time who,

in the opinion of the Authority is not of good repute having regard to character, honesty and integrity or has undesirable or unsatisfactory financial sources;

- Each director, partner, trustee, executive officer and secretary and any other officer or person determined by the Authority to be associated or connected with the ownership, administration or management of the operations or business of the casino operator or a close associate of the casino operator is a suitable person to act in that capacity.

# CHAPTER THREE

## CASINO FACILITIES

This Chapter of the Report addresses paragraph two of the Terms of Reference. It considers the standard and nature of the casino which commenced operations on 26 November 1997 and the facilities provided in or in conjunction with it.

Star City consists of the casino, a 352 room hotel, a 139 apartment building, convention and meeting facilities for 900, the Lyric Theatre and Showroom and a number of bars, restaurants and shopping facilities.

In 1997 I recorded my satisfaction with the standard and nature of the permanent casino and its facilities.

### MAJOR WORKS

Following the opening of the permanent casino, a number of major works have been undertaken by Star City. They include the following:

1. An increase in the seating capacity of the Showroom from 900 to 1000 seats.
2. The conversion of the casino soft count room into offices and the refit of the hard count room to accommodate the soft count equipment.
3. Extensions to the back of house areas to accommodate additional staff.
4. The refitting of the surveillance room to include security control facilities.
5. The creation of four new function rooms and a kitchen fit out on the Mezzanine level.
6. Changing the main gaming floor layout with gaming table and slot machine relocations. The most notable change being to include additional tables in pit 12 as part of the reorganisation to accommodate international junket gaming in the casino.
7. The installation of additional cameras in the casino, externally and in the car park.

I understand that Star City has entered into a lease with the Authority in relation to an adjoining site known as the Switching Station Site. The lease required Star City to construct a Convention Centre on that property. The period stipulated for construction under the lease has now expired and no construction has taken place. Accordingly, penalty payments are now required to be paid under the lease.

I understand that the Authority is currently negotiating with Star City with respect to its intentions in relation to that property and the lease.

## **LYRIC THEATRE**

Star City operates the Lyric Theatre and Showroom with combined seating capacity of 3,000. The two theatres attracted over 538,000 patrons in the year July 1999 to June 2000.

As part of my Inquiry, the Authority engaged Pannell Kerr Forster Consulting Australia Pty Ltd to investigate and appraise the management and operation of the Lyric Theatre. The inclusion of the Lyric Theatre in the proposal put forward by Showboat, was a significant reason for that consortium's success in being granted the original licence for the casino. Accordingly, I was concerned to ensure that this component of the casino was being operated effectively and meeting its intended purpose.

The consultants advised me that the Lyric Theatre provides a superior quality venue with a capacity that makes Sydney internationally competitive. The type and quantity of entertainment provided is satisfactory given the current levels of availability of suitable product. I understand there has been a significant shortage of suitable productions. The consultants also reported that the management and its policies and procedures in relation to the theatre were satisfactory.

## **HOTEL**

The consultants were also requested to report upon the standard and nature of the hotel facilities. I am advised that the physical condition and functionality of the hotel's operations are satisfactory. The hotel and related facilities remain consistent with the standard of the property on opening.

## **GAMING EQUIPMENT**

### **Casino Table Games**

The maximum number of gaming tables permitted in the casino is 210.

Section 66 of the Act provides that all table games played at Star City must be conducted in accordance with rules approved by the Authority by Order published in the NSW Government Gazette.

The approved rules of games are publicly available at the casino and on the Authority's Internet site. In addition, Star City is required to ensure that brochures summarising the approved games and rules of play (in a text approved by the Authority) and the rules are provided to patrons on request.

Table games and derivatives currently approved for play in the casino are:

- Baccarat;
- Big Wheel;
- Blackjack (Super Sevens option);
- Caribbean Stud Poker;
- Craps;
- Let It Ride;
- Mini Baccarat;
- Pai Gow;
- Roulette;
- Sic-Bo; and
- Two-Up.

Of these, both Baccarat and Let It Ride are not currently available for play in the casino.

With the stabilisation of operations at the permanent site, Star City commenced consolidating the casino's operational base and revising initial administrative and operational arrangements. As a result, the Authority processed a large number of submissions seeking approval of new and revised operational arrangements including:

- modifications to the games mix and casino floor layout;
- the installation of "PitCam" facilities in the Endeavour Room;

- amendments to the rules and dealing procedures for Baccarat and Mini Baccarat permitting players to simultaneously wager on all betting options;
- amendments to the rules and dealing procedures for the game of Blackjack to provide Star City with greater flexibility in terms of game and revenue protection;
- variations to standard dealing procedures to provide a greater degree of flexibility in the application of approved dealing options;
- amendments to general dealing procedures to enable the use of pre-shuffled cards in conjunction with multi-deck shuffling devices;
- the establishment of a permanent 'Learn the Games' facility;
- the introduction of a range of automated CDROM based croupier training programs;
- new gaming equipment including new playing cards, new table supports, additional pit stands and dual tray chip racks designed to reduce the number of necessary chip fills;
- revised pit procedures;
- facilities and control procedures related to the introduction of Star Keno; and
- procedures governing the casino's new International Junket/Premium Player Programs and the tracking of commission play revenue.

Star City has reported that the PitTrak system which operates at all tables enables players to be electronically rated by the use of a card. The system also contains a special alert button to attract the attention of the Surveillance Department if a suspicious transaction is attempted. It is also possible to track the operations of individual dealers so that any unusual results or discrepancies can be detected. Star City anticipates that the Surveillance Department will soon be able to monitor transactions between individual dealers and patrons to ensure no collusion is taking place.

The casino has also introduced the PitCam system on gaming tables. This enables the pit staff to review the results of recent hands on a screen within the pit so that any disputes can be easily resolved without referring to the Surveillance Department.

Star City uses automatic shuffling machines, which speeds up the process of shuffling cards. Equipment has also been introduced to expedite the collection of gaming chips from roulette tables.

The Director of Casino Surveillance is of the opinion that there is an adequate stock of gaming chips in the casino. Existing chips appear to be satisfactory for their intended purpose. The only major problem arose in June 1999, when a number of counterfeit \$500 gaming chips were detected in the casino. The \$500 chips were subsequently removed from circulation pending investigation. The Authority commenced an investigation under s.30 of the Act into the incident, the findings of which are dealt with elsewhere in this report.

### **Electronic Gaming Machines**

The maximum number of electronic gaming machines permitted for use in the casino is 1500.

Section 68 of the Act provides that the Authority may approve of gaming equipment for use in the casino and for this purpose may investigate or authorise the investigation of gaming equipment for the purpose of determining whether the equipment is suitable to be approved for use in the casino.

Section 69 of the Act empowers the Authority to direct Star City to rectify or destroy defective gaming equipment.

The casino is permitted to have the same type of gaming machines as are available in registered clubs, with the same games as are permitted in clubs together with the same bet and prize limits.

The NSW Licensing Court approves electronic gaming machine manufacturers and gaming machines are tested and approved by the Liquor Administration Board. For the purposes of gaming machines and games on those machines used in the casino, the Authority accepts the certification as to their suitability provided by the Liquor Administration Board.

However, the Authority takes a particular interest in the computer based systems under which they operate in the casino and requires the computer based equipment to be fully tested prior to approving its use in connection with gaming.

The Authority also has in place arrangements with the Liquor Administration Board for the Board to be advised where defective equipment is found to have been installed in the casino.

## Tournaments

Under the rules relating to the conduct of tournaments, Star City is required to make separate application to the Authority for approval to conduct individual games tournaments.

The Authority, as part of the approval process, reviews proposed pit operating procedures and conditions of entry for individual tournaments. The following table summarises the operator's tournament program to date:

	<b>BLACKJACK</b>	<b>BACCARAT</b>	<b>ROULETTE</b>	<b>NO. OF PLAYERS</b>	<b>PRIZE MONEY</b>
1997-98	7	1		275	\$661,000
1998-99	8	6		621	\$1,840,900
Sept Qtr '99	2	1		342	\$340,000
Dec Qtr '99	3	1		99	\$313,000
Mar Qtr '00	1	1	1	140	\$122,000
Jun Qtr '00	-	-	-	-	-
July '00	-	-	-	-	-
<b>Total</b>	<b>21</b>	<b>10</b>	<b>1</b>	<b>1,477</b>	<b>\$3,276,900</b>

All tournament entry fees must be paid into the prize pool for distribution to winning players with Star City supplementing some prize pools with additional funds and/or prizes.

## Star Keno

Star City introduced the game of keno to the casino on 26 November 1998. The game is branded 'Star Keno'.

The agreement with the keno operator (AWA Ltd / Club Gaming Systems Pty Ltd), allows for a commission rebate to Star City based on turnover.

Since the commencement of 'Star Keno' operations, the Authority has approved of the installation of an additional Keno terminal on the main gaming floor, the transmission of keno

game results via the guestlink television system to Star City's hotel rooms and apartments as well as changes to the televised keno draw graphic display.

Operation of 'Star Keno' in the private gaming room commenced in early May 1999.

## **SURVEILLANCE**

The Surveillance Department is responsible for ensuring the protection of Star City's assets, and the integrity of gaming operations. According to the Surveillance Director's position description, it is also responsible for the integrity of its gaming operations and for the detection of cheating, theft, embezzlement and other illegal activities within the casino premises.

The surveillance system has approximately 965 cameras. At least two thirds of those cameras, 600 or more, monitor gaming areas. The remaining cameras observe activities in outside areas such as the car park, the hotel and external perimeter areas.

I am satisfied that Star City has the necessary surveillance capacity. I state elsewhere in this Report that the Surveillance Department is well placed to assist in detecting suspicious transactions.

## **CONCLUSION**

I am satisfied that the standard and nature of the casino and the facilities provided within it are appropriate.

# **CHAPTER FOUR**

## **CASINO OPERATIONS**

### **LEGAL OBLIGATIONS BETWEEN THE AUTHORITY AND THE CASINO OPERATOR**

There are a number of agreements in place between the Authority and Star City. These agreements are summarised in Annexure 7.

As part of the s.31 investigation, Star City has been required to provide to the Authority evidence of its compliance with all of its legal obligations. Star City's response has been assessed and I am satisfied that there has been general compliance by Star City with its obligations under the relevant legal agreements.

### **LITIGATION**

Section 35 of the Act provides that Star City is to advise the Authority of any major or minor changes in its state of affairs.

During the period of this review, Star City has complied with this requirement and has advised the Authority of various legal actions to which it is or was a party. Except for a small number of claims, most legal action has resulted from workers compensation and public liability issues.

Two proceedings were resolved during the period under review. The first were District Court proceedings against Star City alleging unlawful arrest, assault and false imprisonment. The Plaintiff's claim arose out of an incident in November 1996 when he was removed from the premises by security staff. The judgement was handed down on 30 May 2000 with the court rejecting the Plaintiff's claim and costs being awarded to Star City.

The second proceedings involved Sydney Harbour Casino in the Supreme Court. The Plaintiff claimed false imprisonment arising out of an incident in June 1996 when it was alleged he was overpaid at a gaming table in the Endeavour Room. When he attempted to leave the casino premises after trying to verify the overpayment, security staff detained him.

Judgment was handed down on 22 November 1999 in favour of the Plaintiff. The Court found that the casino had acted in a high handed manner in depriving the Plaintiff of his liberty. He was awarded an amount of \$75,000 with exemplary damages in the amount of \$35,000. The issues arising from matter are considered elsewhere in this Report.

Alexander Preston commenced Supreme Court proceedings in September 1998, against Star City. Mr Preston has claimed that Star City has breached its duty of care to him by inducing him to gamble and permitting him to gamble whilst intoxicated. He has claimed damages for gambling losses, depression and anxiety. The issue of intoxication is dealt with elsewhere in this Report.

Mr Preston also commenced action in the District Court in 1998 against Star City alleging breach of contract, and in 1999 commenced further action against David Banks, then Star City's Chief Operating Officer and Star City for defamation. In 1999, Neil Gamble the former Chief Executive Officer of Star City commenced action against Mr Preston for defamation.

These matters are yet to be finalised.

I am satisfied that Star City has complied with its obligations in notifying the Authority of changes in its state of affairs.

## PRIVATE GAMING FACILITIES

The private gaming facilities of the casino consist of the Endeavour Room and three smaller rooms, known as the Inner Sanctums. There are 45 gaming tables in the Endeavour Room with two each in each of the Inner Sanctums. Membership of the Endeavour Room is at the discretion of the management of the casino and is based on level of play. A player must usually have an average bet of \$75-\$100 and play for 30 to 40 hours per month to gain and retain membership to the Endeavour Room. Different requirements exist for international players, corporate members and those with memberships of equivalent rooms in other casinos. Members are entitled to bring visitors to the Endeavour Room.

Patrons of the Endeavour Room are assisted by VIP Hosts and Executive Hosts who arrange accommodation, the use of limousines and hire cars and administer the complimentary system offered by the casino.

Star City's table games complimentary system is based on a player's turnover at the tables. It provides a range of services or items such as accommodation, airfares and food at either no cost to the patron or at a reduced cost.

Play is rated on the number of hands played per hour and an estimate made of the win which theoretically the casino should have taken during that period. From that theoretical win figure, a percentage is allocated to a complimentary value and that value is used to determine the level of benefit provided.

In addition, a player who consistently loses money at a high rate, would be given special consideration based upon his or her historical loss when determining the level of complimentaries to which that individual may be entitled.

VIP Hosts have the authority to issue vouchers for complimentary services on the basis of points which have accrued and have a discretion to offer a further \$250 worth of services. VIP Executive Hosts and those occupying more senior positions have greater discretion, depending upon their position to offer complimentaries to patrons whose play might otherwise suggest they had no such entitlement.

Unlike many of the systems operated by casinos in the United States and indeed in Victoria, Star City players are not made aware of their accrued complimentary points. The system was explained by Star City's VIP Operations Manager as an *"added privilege and its an added bonus and its not something that we're suggesting that the person has got to be using to the last cent; its information that we're trying to keep for ourselves. We resist ... telling them this....."*

Star City's VIP Services Vice President stated that it had *"always been company policy not to advise patrons their comp value"*. However, he expressed the view that a transparent system was more desirable as it would reduce disputes with patrons. I understand that it is considered that fewer complimentary services are redeemed in circumstances where the patron is unaware of the exact amount owing to them. Complimentaries appear to account for up to 25% of the expenditure of the food and beverage department within the casino.

A number of patrons have told me of disputes that have arisen between them and Hosts as to the availability of complimentary benefits. Because precise information is not available, there is naturally room for much debate as to the amount of complimentary services available to a patron.

Of more concern, is evidence that players have given their complimentary to members of staff from time to time for their use. This is a most undesirable situation and one which offends against the provisions of the Act prohibiting the acceptance by staff of a gratuity. It is obviously the responsibility of those who manage the room and their staff to ensure that staff are aware of their responsibilities and that such conduct is detected and appropriate action is taken. I note that in recent months more than one Host has had his or her employment terminated for manipulation of the complimentary system.

It is also clear that the current system can lead to abuses by unscrupulous staff members. It has been suggested to me that some staff may have transferred one patron's entitlement to other patron's, without the knowledge of the first patron.

Star City takes the view that the provision of complimentary to patrons is exclusively within the discretion of Star City. In its view, there is no legitimate expectation or right of patrons to receive benefits. It is a privilege which Star City confers upon patrons of its choice, at its discretion. However, the Chairman agrees that the discretionary aspect of the system should be made transparent.

I understand that there are commercial reasons for resisting a transparent system and I note that Tabcorp proposes to grant only more senior staff the discretion as to what benefits will be made available. While it can be said that only a transparent system will best be able to resist corruption, I accept that there are a variety of factors to consider in designing and implementing a complimentary system. The current system is, however, in my view, not operating adequately.

Accordingly, I recommend that the Authority and Star City review the operation of the complimentary system in order to develop a system more resistant to abuse and one in which players are treated fairly.

## MINORS

The Act places specific obligations on Star City to ensure that minors do not gain access to the licensed gaming areas of the casino complex. The Authority through the Director of Casino Surveillance has monitored this obligation.

If a minor enters the casino, Star City has committed an offence with a maximum penalty of \$5,500. In addition, if a minor is in the casino and Star City does not remove the minor immediately, there is a further penalty of \$5,500. Further, if the casino or a casino employee is aware that a person who may reasonably be suspected of being a minor, is attempting to enter the casino, the casino or the employee, must refuse that person entry to the casino. A failure to comply with this provision also attracts a maximum penalty of \$5,500.

According to Star City, between January 1998 and June 2000, there were some 126 instances of minors gaining access to the licensed area of the casino. Star City stated that the majority of these cases involved young children or infants, in the company of their parents who were detected in the licensed casino area on their way to the Garden Buffet restaurant. Star City also states that they are detected quickly and "*ushered from the gaming floor as a matter of urgency.*"

Further, it appears that high numbers of minors are refused entry as on a daily basis approximately 25 underage persons are refused entry.

Section 96 of the Act empowers Star City to seek substantial proof of age before permitting a person to enter the casino. This includes documentary evidence, such as a driver's licence, passport or other document.

As a result of consultation with the Authority, the casino has taken a series of steps to ameliorate the problem of minors entering the casino including:

- A security officer is stationed at the top of the stairs/ escalators in the Porte Cochere entrance between the hours of 12 noon to approximately 12 midnight. Star City claims this has been effective in stopping a number of minors, who have slipped past the officers at the bottom of the stairs, from entering casino gaming areas;

- Two prominent signs have been placed at the bottom of the same stairs advising of the prohibition on minors. The operator claims these have been effective in drawing the attention of visitors who tend to ignore the signs on the main outside doors;
- A staff notice of the need to be vigilant has been posted around the casino;
- Brochures have been printed in English, Chinese, Vietnamese and Korean stating Star City's policy on unattended children;
- Posters have been erected in the car parks to deter parents from leaving their children in motor vehicles;
- A notice is given to all hotel guests with their room key advising them of the prohibition so that those with children will take proper precautions and in particular warning them not to use the casino stairs to access the Garden Buffet;

Two letters of censure have been issued to Star City by the Authority concerning minors being present in the licensed area of the casino since the 1997 Report. In the first matter, the Authority took this form of disciplinary action when minors were in the licensed area for a very short period of time and security personnel quickly responded to the incident.

The second letter of censure was issued in November 2000 in relation to a number of occasions in which minors were in the casino or the Lightning Ridge Bar between December 1999 and September 2000. The Authority took this action after it was satisfied that corrective measures have been effectively instituted by Star City.

In the period under review Star City has undertaken efforts to ensure that the community is appropriately advised of the obligation not to leave minors unattended and at risk in the vicinity of the casino complex. Star City has reported to me that in the period from January 1998 to June 2000, it has issued 65 exclusion orders to persons who have left children unattended while they visited the casino. The number of patrons excluded for "unattended child" has dropped significantly since the opening of the permanent casino.

## **PATRON AND STAFF COMPLAINTS**

By notice dated the 22 June 2000, Star City was required to provide the Inquiry with the number of complaints received by patrons and staff of the casino and the details of each complaint, including any action taken by the casino in relation to the complaint.

Star City has received thousands of comments and complaints in the period under review from patrons and a small number of complaints from staff.

## **Patron Complaints**

Most complaints related to patrons' views on the quality of service experienced during their stay at Star City, with the majority being positive. Much of the comment concerned minor matters. Complaints ranged from a poor shuttle-bus service to rude dealers. Star City appears to have responded appropriately to the complaints made.

One incident which attracted a substantial amount of public comment was the death of Peter Dalamangas in early 1998. About 40 patrons voiced their concerns over Star City's handling of the incident. This matter is dealt with elsewhere in this Report.

Over 30 complaints related to incidents in the car park including car break ins, thefts and assaults. There were a small number of complaints of assaults by other patrons, and on five occasions complaints of assaults by security officers. Each allegation of assault against a security officer was investigated by Star City and four of them were referred to its insurer or solicitor.

A few complaints were recorded of the theft of chips and money and some of syndicate play by patrons. Complaints about table gaming matters can be dealt with with the assistance of the PitCam system. This enables staff to determine immediately whether a mistake has been made. Where the incident is not caught on PitCam or the player continues to dispute the ruling, it can be referred to the Surveillance Department which monitors every gaming table in the complex. In the 12 months to June 1999, 10,444 disputes were referred to Surveillance for determination. In 99 per cent of cases, Star City tells me the disputes were resolved satisfactorily, often in favour of the player.

In the gaming area there are approximately 230,400 transactions per day. In the first seven months of 2000, there were 198 gaming incident reports, that is disputes which table staff could not resolve immediately.

In regard to gaming disputes, any patron who is not satisfied with the way a dispute has been resolved by Star City can take up the matter with a Government Inspector, who are on-site 24 hours a day.

## **Staff Complaints**

Some 54 staff complaints were recorded in the period. About half of those complaints concerned conditions of work and, in particular, rostering. Fifteen complaints were of sexual harassment of staff, generally by other staff.

As a result of the sexual harassment complaints, the employment of two employees was terminated, two staff members resigned, and a number were counselled as to Star City's procedures. Disciplinary action was taken against four staff members, one matter was referred to the police and no action was taken or the action was not advised in five cases.

Star City indicated that it has a number of formal and informal mechanisms in place to ensure the resolution of workplace issues raised by its employees.

Star City released a 'Sexual and Other Harassment' policy statement on 1 July 1998, and a 'Resolution of Workplace Issues and Concerns' policy statement on 17 November 1999, to "*provide a framework that assists in resolving disputes and grievances quickly*".

## Conclusion

Star City tells me that in general terms, patrons rate Star City very highly. Regular customer surveys indicate that around 63 per cent of patrons rate the complex as "*very good*" or "*terrific*". In the latest survey, in late 1999, 93% of patrons said their visit to Star City met or exceeded their expectations.

I am satisfied that Star City has in place appropriate policies and procedures to deal with complaints by patrons and staff and that the number and nature of complaints made do not give rise to concern.

## MOVEMENT OF CHIPS

The 1997 Inquiry considered the possibility of casino chips being used as a form of currency. There had, at the time, also been a number of unsubstantiated reports of significant chip movements in and out of the country.

At that time I concluded that there did not appear to be a substantial problem with the movement of chips in and out of the casino and the Authority indicated that it proposed to monitor the matter closely in conjunction with relevant law enforcement agencies and to review it after the first 12 months of operation of the permanent casino.

The matter of international chip movements was discussed at the Casino Regulators/Key Law Enforcement Agencies meetings held in June 1999 and June 2000.

The Australian Customs Service indicated in 1999 that Customs officers were continuing to monitor the movement of any large quantities of small denomination chips or small quantities of large denomination chips in and out of the country. The movement of outstanding casino chips had not been linked to illicit activity and had not proven to be of substantial interest to law enforcement agencies.

The June 1999 meeting was also advised that no significant new instances of casino chips had been located in the luggage of overseas travellers.

The Victorian Casino and Gaming Authority advised that the issue had been removed from their agenda pending any further law enforcement concerns arising.

Again, in June 2000, the Australian Customs Service indicated that the situation as outlined in 1999, had remained the same and there was no new evidence that casino chips were being used as alternate currency for illicit dealings.

Both Star City and the Authority monitor the number and value of unredeemed chips on a regular basis. Most unredeemed chips are presumed to be either retained by patrons for future cash out, permanently souvenired or held by players at the gaming tables.

## COUNTERFEIT CHIPS

On 15 June 1999, the Authority was notified that a large number of counterfeit \$500 chips had been detected on the casino premises.

A report provided by the Director of Casino Surveillance stated that although the outstanding balance of \$500 chips recorded in the casino's daily 'Chip Liability Report' had been in constant decline over the four days from Friday 10 June 1999, the counterfeit chip threat had not been identified until the stock of \$500 chips exceeded that on the inventory.

A Police and Star City internal investigation was commenced. The Australian Federal Police advised the Authority that a suspect had been identified and was under investigation. No charges have resulted from the police investigation to date.

The Authority also conducted an investigation into the matter which was completed in January 2000. It found that weaknesses in internal controls and related risk management procedures contributed to the delay in identifying the threat and to difficulties experienced in identifying possible suspects from surveillance tape footage.

Star City responded to the findings of the Authority recognising that existing controls needed tightening to detect the possibility of counterfeit chips sooner. It also outlined the remedial action being implemented in a number of key areas including enhancing existing camera surveillance and other physical security measures in and around the main gaming floor cage area.

## Conclusion

I am satisfied that the movement of chips in and out of the casino does not pose a problem and that it is unlikely that significant numbers of casino chips are being used as currency for illegal activities or for money laundering purposes.

I am also satisfied that the major recommendations made in the Authority's investigation into counterfeit chips have been satisfactorily implemented by Star City.

## INCOMPLETE DECKS OF PLAYING CARDS

Between January and April 1998, the Director of Casino Surveillance reported to the Authority thirteen incidents of the game of Blackjack being played with an incomplete deck of cards contrary to Blackjack rule 3.1. The Authority commenced an investigation and in July 1998, it issued 'Show Cause' notices to Star City in relation to breaches of the Blackjack rule 3.1 or the Mini Baccarat rule 3.1.

A letter of censure was issued to Star City for permitting Mini Baccarat to be played with decks containing fewer than 52 cards on three occasions between 9 February 1998 and 31 March 1998. The Authority issued another letter of censure at the same time for permitting Blackjack to be played with decks containing fewer than 52 cards on thirteen occasions between 6 January 1998 and 18 March 1998.

The Director of Casino Surveillance advised the Authority that the significant increase in incidents in 1998 appeared to result from gaming staff failing to notice missing cards. These incidents had only occurred since the commencement of operations in the permanent casino. He concluded that a lack of training or awareness by dealers was responsible.

Further incidents of incomplete decks of playing cards were detected throughout 1998. Government Inspectors reported a considerably reduced number of incidents in 1999 and 2000.

## HONEST GAMING

Cheating is an offence under s.87 of the Act with a maximum penalty of \$11,000 or imprisonment for 2 years or both. Between January 1998 and June 2000, statistics provided by Star City show that approximately 237 persons had been excluded from the casino for gaming related offences. These offences included card cheating, chip theft, syndicate play and collusion with casino staff. The Police has also prosecuted some of these persons. Detailed below are some of the incidents that have occurred during the reporting period.

- Investigations into an incident at the casino in May 1998 revealed that four casino patrons appeared to have a well-rehearsed procedure for betting after the result is determined. The first patron would place a late bet consisting of one colour chip and two cash chips while appearing to attempt to place a new bet for the next game. The second and third patrons would then claim winnings for the cash and colour chips respectively while the fourth patron would distract the games supervisor by engaging him or her in discussion.

One of the four patrons was found and excluded and escorted from the premises. The other three patrons exited the casino prior to being detained.

- In March 1999, Star City Surveillance Department observed one patron receiving payment of \$1,700 for a \$100 wager that had been placed by a second patron after the dealer had called 'no more bets'. A third member of the group was speaking with the games supervisor at the time of the incident in order to distract him.  
The three patrons were detained by Star City security and the winnings from the late bet were recouped and the patrons later prosecuted. They were found guilty of the offence of cheating under the Act and each fined \$500.
- In August 1998, Star City experienced problems with groups of persons, known as the "Link Gangs" who were in effect dominating banks of slots machines whenever the jackpot for a particular bank of machines was near the maximum jackpot win. Seven patrons were subsequently excluded for alleged "syndicate play " between 7 and 11 December 1998.
- In September 1998, a number of cards on a Mini-Baccarat table were found to have been clearly scratched on the backs, while a number of other cards had a depression etched in the card face which, when turned over, was visible on the card back. A total of 26 cards were marked, 25 of which were either eights or nines.

A review of video surveillance footage revealed at least 29 instances of attempted card marking by three male patrons. Thirteen cards were marked whilst in the discard rack and the remainder whilst in play on the table layout. It was suspected that the discard rack cards were marked

by an abrasive substance like sandpaper attached to the fingertip. The cards on the layout were marked by a gaming chip. Video surveillance photographs of the suspect males were obtained.

- There have also been attempts by patrons to involve casino staff in arrangements to dishonestly obtain money from the casino. In March 1999, a patron approached a dealer on a Caribbean Stud Poker table and offered payment of \$500 or more per day if the dealer was willing to participate in a Caribbean Stud Poker "scam". The dealer reported the conversation to a Gaming Shift Manager who advised the Government inspectorate of the incident.

The patron was excluded by Star City when he later attended the casino.

- However some casino staff have colluded with patrons to obtain money by deceit. In September 1998, a past posting incident was drawn to the attention of the Gaming Shift Manager by another patron who indicated the incident could involve collusion between the past poster and a dealer.

A review of videotape footage confirmed the past posting activity. The patron involved in these incidents was excluded and escorted from the casino by police. Star City subsequently terminated the dealer's employment.

- In March 1999, a casino dealer was suspended by Star City after inquiries involving the player rating entries of an Endeavour Room member. A review of surveillance footage contradicted a system entry which indicated the patron playing at a mini baccarat table for three hours, losing \$4000 and averaging \$500 per hand. The footage showed the patron was not present and no player had that level of activity.
- In May 2000, another casino dealer was observed to pay losing wagers and stand-offs to two patrons on seven occasions in May 2000 for a total overpayment of \$550. The dealer was dismissed by Star City.
- The casino has also been the victim of slot machine tampering. In June 1999 an attendant who responded to a complaint about a jammed machine noted a triangular piece of plastic inserted into the coin chute of the machine. All machines were subsequently checked by electronic gaming personnel resulting in about 50 or 60 plastic inserts being located in the coin chutes of upright machines in slot banks A and B. Similar plastic inserts were reportedly replaced in one bank of machines within two hours of them being removed by electronic gaming personnel.

The same month a piece of metal was found in a coin comparator. The metal was placed there in an attempt to block the coins going into the machine.

## **Conclusion**

It is not unexpected that there will be people who will attempt to dishonestly obtain benefit from Star City. However, given the number of people who visit the casino on a daily basis, the number of instances where this occurs is very small and I am satisfied that Star City takes swift action to limit their endeavours.

## **INTERNATIONAL JUNKET/PREMIUM PLAYER COMMISSION PROGRAMS**

**In October 1998, the Government approved a separate tax rate for gaming revenue derived from the casino's proposed new International Junket/Premium Player Commission Programs.**

The flat tax rate of 10% on gaming revenue earned from the programs allows the operator to offer competitive commission rebates based on betting turnover or losses to attract premium foreign gamblers or international 'high rollers' to the casino.

As part of the Duty Agreement, Star City is required to pay an annual non-refundable advance duty payment of \$6 million in two half yearly instalments of \$3 million. When international commission program revenue in a calendar year exceeds \$60 million, the additional 10% duty is payable at four weekly intervals.

Star City commenced international commission play operations on 14 December 1998.

Internal Control Procedures governing international commission program operations have been established to ensure the isolation and accurate tracking of commission play revenue for taxation purposes and to restrict the registration of program participants to bona fide overseas residents.

To help cater for the anticipated additional patronage attracted by the commission programs, the Minister by direction, increased the maximum number of gaming tables permitted to be used in the casino in May 1999 from 200 to 210. This was subject to a number of conditions

ensuring that local patrons are not displaced from gaming tables in favour of commission program players.

## **INVESTIGATIONS AND SECURITY**

### **Investigations**

Star City employs an Investigations Manager and an Investigations Officer. Their responsibilities include handling all investigations relating to staff, liaising with law enforcement agencies and conducting investigations as required.

Following the ABC Four Corners program in April 2000, the Investigations Manager, with the assistance of the Surveillance Director was tasked to interview staff concerning the allegations raised in that program. The purpose of the interviews was to determine whether staff were aware of activities such as loan sharking, money lending, prostitution, intoxication and sexual harassment occurring in the casino. Over 70 interviews were conducted and a typed transcript of each interview was made. The Investigations Manager concluded from the interviews that loan sharking and prostitution were taking place. Sexual harassment of staff by other staff was also identified.

Such an investigation had not been undertaken before by Star City. It revealed significant problems in the culture existing within management and some staff in the casino. It is clear from the evidence and other information I have gathered in the course of my Inquiry that an effective Investigations Department is essential in combating criminal influence and undesirable activity in the casino. More is said about these matters later in the Report.

The Investigations Manager told me that he did not have sufficient resources to do his job.

*"We have never been able to touch on the Endeavour Room...we are not up there ... I want to be there 24 hours a day with staff to be going through that PGR room constantly and I just haven't been able to do it".*

The senior manager to whom the Investigations Manager reports tells me he is proposing to augment the resources available to the investigators by using staff from the Surveillance and Security Departments.

I note that a number of the proposed changes being considered by Star City involve an increased role for the Investigations Department. It is imperative that that Department is appropriately resourced to undertake those functions.

I recommend that the adequacy of the resources available to the Investigation Department of the casino be monitored by Star City and the Authority to ensure it is able to function effectively.

## **Security**

There are approximately 160 security officers employed at Star City casino. The Security Department is responsible for the protection of Star City's assets, its employees and its patrons.

In or around early 1998, the Security Department's responsibility for CCTV facilities was transferred to the Surveillance Department. It now has no role in monitoring the casino's cameras.

During the period under review, the Security Department has been the subject of scrutiny, in particular relating to the detention of patrons. Two matters are referred to below.

### Death of Peter Dalamangas

On the morning of 31 January 1998, Peter Dalamangas, died following an incident when a group of five men including Mr Dalamangas were asked to leave the casino premises by casino security staff. This followed one of them kicking over a coin bucket. Mr Dalamangas and his group had arrived at the casino at about 4.45am.

As the group exited the doors at the Porte Cochere entrance at about 6.20am, a brawl erupted involving a number of security officers and the five men. Three patrons were restrained outside the exit doors while the other two were held face down on the floor of the foyer areas at the bottom of the escalators.

By about 6.26am Peter Dalamangas, who was restrained in the foyer area, had lost consciousness. He was subsequently examined by casino medical officers and then transported by ambulance to hospital.

Two of the male patrons including James Dalamangas the brother of the deceased, and three casino security officers were charged with assault as a result of the incident. One of the security officers accepted a redundancy from the casino shortly after the incident. Another subsequently surrendered his special employee licence in September 1998 and another was rostered away from duties in the casino public areas.

In October 1998, one of the casino security officers charged was found guilty of assault occasioning actual bodily harm on the brother of the deceased, James Dalamangas, and was fined \$2000. The Magistrate found that the level of force used by this officer was unnecessary. In December 1998, a charge of assault against a second security officer was dismissed. In February 1999 a third officer was convicted of assault and fined \$1500.

In June 2000 a Coroner's jury delivered a verdict that Peter Dalamangas had died as a result of the combined effects of asphyxiation and a severe heart condition. It found that the restraint used by Star City security officers on Peter Dalamangas was initially justifiable but that it was then imposed and maintained for longer than was necessary and utilised force that was unjustifiable, and in the absence of adequate supervision by responsible officers of Star City casino.

The coroner is yet to release his recommendations.

### Walter Vignoli

Walter Vignoli commenced Supreme Court proceedings against Sydney Harbour Casino alleging false imprisonment. Mr Vignoli's claim arose out of incident that occurred at the temporary casino in June 1996 when it was alleged that he was overpaid at a gaming table in the Endeavour Room.

Mr Vignoli attempted to leave the casino premises after unsuccessfully trying to verify the overpayment, and was detained by security staff.

The Court found in favour of Mr Vignoli in November 1999 and stated that the casino had acted in a 'high handed' manner in depriving Mr Vignoli of his liberty.

Mr Vignoli was awarded an amount of \$75,000 with exemplary damages in the amount of \$35,000.

### Authority Investigation

On 6 February 1998, the Authority commenced an investigation pursuant to s.30 of the Act into the adequacy and appropriateness of practices and procedures connected with the

delivery of casino security services, and the interaction between casino security personnel and members of the public.

As part of its investigation, it reviewed incidents involving the detention and eviction of patrons at Star City since 1995.

The Director of Casino Surveillance was also asked to report on whether there were grounds for disciplinary action against any licensee involved in or connected with the Dalamangas incident. He recommended that two licensed employees be disciplined. Ultimately each was the subject of criminal charges and resigned. No disciplinary action was taken.

While the investigation necessarily included examination of the circumstances surrounding this particular incident, the aim of the investigation was not to investigate the incident itself or the culpability of the persons involved. Within the context of evaluating relevant practices and procedures and identifying opportunities for improvement, the focus of the inquiry was:

- the licensing of casino security personnel;
- security staff recruitment and personnel management practices;
- the training of security personnel;
- security internal control procedures; and
- past incidents and complaints against security personnel.

The major findings of the investigation were:

- in the practices and procedures relating to incident management, security enforcement functions and appropriate customer service standards need improvement;
- the security training syllabus should be strengthened in areas relating to the legal obligations and restrictions on casino security personnel, communication and customer service skills; and
- a more comprehensive incident and complaint review process is required to identify and remedy any deficiencies in Security Department recruitment policies, personnel management practices and operational procedures.

The Authority's principal recommendations were:

- prospective security officers to have demonstrated a defined standard of competency;
- the implementation of a random security training audit program;
- revised recruitment, training and personnel management policies;
- revised incident and complaint handling processes; and
- revised Internal Control Procedures to ensure that patrons are not detained for any longer than is reasonable while waiting on the attendance of police and where practicable government inspectors are notified prior to the commencement of eviction or detention proceedings.

The Authority tells me that Star City has satisfactorily acted upon all of the principal recommendations.

I understand that since 1998, Star City has employed the Canberra Institute of Technology to draft a revised Security Training Program. The Authority has approved that program. In addition, I understand that Star City is conducting a trial of modified handcuffs. These handcuffs would only be used at the direction of a person holding the position of shift manager and above and would only be applied by a shift supervisor.

#### Conclusion

Security officers play an important role in the protection of staff, patrons and the assets of the casino as well as in the detection of criminal and undesirable activity. It is important that they be properly trained, adequately equipped and sufficiently resourced to carry out these duties.

I recommend that the Authority examine the Coroner's recommendations, when available, in relation to the death of Peter Dalamangas and ensure that Star City takes all appropriate action.

## **MATTERS UNDER REVIEW IN 1997**

The 1997 Report indicated that there were a number of matters then under review by the Director of Casino Surveillance.

These matters included the provision of credit facilities, soliciting on casino premises and minors obtaining 'Big Time Club' memberships.

I understand that the Director of Casino Surveillance had investigated a number of incidents where patron had presented several cheques which were later dishonoured. As a result, there was a concern that a form of credit may have been extended to at least one patron in June 1997.

The Director conducted a number of audits during 1998 which confirmed his concern about the reinstatement of cheque cashing privileges immediately after patrons 'made good' their outstanding debts. A number of weaknesses in the revised procedures were also identified.

In May 1999, Star City was requested by the Authority to revise the cheque cashing Internal Control Procedures with a view to defining cash equivalents and documenting procedures for the handling of bank cheques.

This revision was requested as a result of an incident in April 1997 where casino cage personnel accepted a bank cheque that was subsequently dishonoured. The Authority has since approved revised internal controls.

With respect to soliciting, the Director had reported a case which appeared to be one of organised soliciting occurring on the casino premises during late 1997. The matter was reported to Star City in September 1997. However after excluding the person concerned later that month, Star City then revoked the exclusion order in March 1998 - less than six months later. The matter of soliciting is discussed later in this Report.

Finally, the Director received information in September 1997 that two minors, aged 16 and 17 years had entered the casino separately in 1997 and had obtained 'Big Time Club' membership. He reported this incident to the Authority.

Star City was unable to locate the membership application or the form of identity used by both persons to join the club.

The Director also reported that one of the minors identified above was found guilty in 1999 of having fraudulently obtained over \$4m on credit with various stockbroking firms whilst still a minor.

It appears for reasons which are not clear, that no disciplinary action was taken.

## **Conclusion**

The matters which were outstanding at the time of the 1997 Inquiry are similar to those which exist today. Soliciting and minors on the casino premises are matters which require continuing vigilance by Star City.

## **GIFTS**

One of the witnesses before me gave evidence that he had the following exchange with a former employee of Star City. The discussion was in the context of the action which might be taken as a result of the death of Peter Dalamangas:

*“What about the Minister?” ... They said, “Oh, we invite him to a couple of functions, a few functions, shower him with a few gifts. We have before this tale.”*

The person who made this allegation did not claim to have any direct knowledge but was relying on statements by others. Although in other circumstances the allegation might merely have been ignored, because of the nature of the Inquiry I took the matter up with the Minister for Gaming and

Racing. Mr Face told me that he has never accepted any gifts from the casino and the allegation is false. I accept his statement without reservation.

# **CHAPTER FIVE**

## **CRIMINAL AND UNDESIRABLE BEHAVIOUR**

### **BACKGROUND**

One of the objects of the Authority is to maintain and administer systems for the licensing, supervision and control of the casino for the purpose of ensuring that the management and operation of the casino remains free from criminal influence or exploitation.

Beyond this object, in my view, the Act as a whole should be interpreted to oblige Star City and the Director of Casino Surveillance to ensure that outcome.

It is well known from experience overseas, particularly in the United States, that casinos attract criminal elements. The presence of large amounts of cash, the entertainment and the possibility of a lucky profit from casino gambling makes a casino attractive to criminals.

There are a number of mechanisms in place to deter criminals and other undesirables from influencing the operations of the casino and exploiting the opportunities to be found there. Rigorous probity checks are undertaken on those who wish to enter into commercial arrangements with the casino and on certain employees. Surveillance cameras are in place and monitored by both the casino and the regulator.

However, it is plain from the evidence and other information I have received during the course of my Inquiry that more needs to be done, particularly in relation to the Endeavour Room. Star City must ensure that it embraces a culture which actively discourages the presence of criminals, gambling the proceeds of crime, loan sharking, soliciting and other undesirable conduct. Effective procedures must be in place by the casino, the regulator and the police to avoid any influence by criminals and their money.

It should be emphasised that the problems associated with criminals disclosed by my Inquiry concern the operations of the Endeavour Room.

### **1997 REVIEW AND THE CURRENT TERMS OF REFERENCE**

The 1997 Report into the suitability of the casino operator and other matters followed a series of media reports of criminal and undesirable activity in the temporary casino. During my

Inquiry and some months prior to my Report, 28 people were excluded from the casino at the direction of the Commissioner of Police. At that time, and largely because of the intervention by the Commissioner, I was satisfied that appropriate measures were in place to ensure the Authority's objective in relation to criminal activity could be achieved.

In the 1997 Report, I concluded that there were appropriate measures in place to co-ordinate law enforcement and casino operations so that undesirable activity was discouraged. I also said:

*"However, if the Authority is to be able to properly exercise its co-ordinating role, it is essential that the relevant law enforcement and related agencies are vigilant in exercising their responsibilities and expeditiously bring matters to the Authority's attention".*

The experience of the three years since the opening of the permanent casino tends to suggest that all those concerned with the operation of the casino have not applied the necessary vigilance.

This Chapter examines the allegations of criminal and undesirable behaviour and addresses the following Terms of Reference:

6. The maintenance and administration of systems by the casino operator to:
  - 6.1 ensure that the management and operation of the casino remains free from criminal influence or exploitation; and
  - 6.2 ensure that gaming in the casino is conducted honestly.
7. Specific matters which have been the subject of recent media reports, including:
  - 7.1 alleged money laundering activities by persons who frequent the casino;
  - 7.2 the alleged attendance of criminals or persons of ill repute at the casino; and
  - 7.3 criminal activity generally, or other activity which may be considered undesirable which may be associated with the casino.

## **PROSTITUTION**

Prostitution is an offence if it takes place within the casino premises.

## **The Evidence**

Most of the VIP Hosts and Executive Hosts who gave sworn evidence, told me of their knowledge of prostitutes in the Endeavour Room, some of whom had been present for years. Their evidence was based on observations of women and, on occasion, men in the room, and comments made to them by patrons and by other staff. However, about half a dozen of the Hosts gave evidence that they had never observed soliciting or prostitutes.

A number of staff told of a patron who attended the room very frequently with different women. He was well known and his activities were the subject of much talk. One host suggested that he was not prevented from bringing the women in because he was a regular player. This patron was ultimately excluded by the Commissioner of Police some eight months after surveillance by the casino captured footage which showed the patron and another person soliciting on behalf of women in their company. His conduct has been brought to the attention of the police by the Director of Casino Surveillance and Star City.

Security staff who gave evidence before me told of their knowledge of soliciting. Two officers described their observations of women leaving the room with different men for short periods – the clear inference being that they were soliciting.

Current and former patrons of the Endeavour Room gave evidence that prostitutes worked the room. They said that sex is available from individuals soliciting and from those who organise on their behalf.

Former staff of the casino, and in particular the Endeavour Room, have told me that soliciting has been common. As I indicated earlier, VIP Hosts, gaming, security and food and beverage staff were interviewed by the casino investigators following the Four Corners program in April this year with respect to their knowledge of activities in the Endeavour Room. Among the observations reported were the following:

*“(A patron) would move around the Endeavour Room and target elderly men, He would make suggestive movements and then depart with them. He would return about an hour later.”*

*“(A patron) would be in and out a lot during her visits to the Endeavour Room. She would leave on numerous occasions during my shift with different men. And return to do the same again. She was not gone for long periods of time as I recall.”*

*We had a female prostitute about five to six months back, she was a white female, mid to late thirties, who perched herself at the bar and waited for about five hours. She would occasionally get up and attempt to chat up a player and if she was successful she would depart with him and return in a few hours.”*

*“There are some Asian girls, one of which has been excluded recently, she was very slim and youthful, always wore a micro mini, and black boots. She never played but just hung around. She would come and go with different men with a faster rate which indicated she may have a room or going to the car park.”*

### **The Evidence of Some Managers**

All of this evidence is in contrast to that from the VIP Services Operations Manager, who said that he had neither observed nor heard of the presence of prostitutes soliciting in the Room. This manager tells me he spends around six hours between eight o'clock at night until the early hours of the morning, five days a week, in the Endeavour Room and has done so for some four years. The senior manager to whom he reported gave similar evidence of not observing or hearing of the presence of prostitutes soliciting in the Room.

Senior gaming staff with responsibilities in the Endeavour Room also said that they had not observed soliciting and generally had not been told of it occurring.

Both the Investigations Manager and the Surveillance Director understood their responsibility to be to respond to requests for their services, rather than monitoring the casino and in particular the Endeavour Room, for soliciting.

The Security Director saw it as within his department's responsibility to monitor for, and report incidents of, soliciting. However, he has taken no steps to ensure soliciting does not occur, his efforts being limited to telling his staff to report any 'incidents', although he had made no express reference to soliciting. He tells me he has not received any reports from his staff, nor has he heard that any of his staff believe that soliciting is taking place.

The Table Games General Manager believes his departments have responsibility for ensuring that soliciting does not take place. He is responsible for Table Games and VIP Services. However he too has not put any procedures in place. He tells me he has not seen it or had it reported to him, save for one mention in a shift report some nine months ago.

The Legal and Asset Protection General Manager said he suspected that prostitution happened in the casino. Star City's Chief Executive Officer told me he believed that soliciting had occurred both on the main gaming floor and in the Endeavour Room. He said he had received only isolated reports of such incidents in the past.

The evidence before me is that, prior to my Inquiry, there were no written instructions to staff within the casino to report incidents of suspected soliciting. The Hosts were not instructed to report such activities, although they are best placed to detect it, spending their entire shifts in the room, talking to patrons. Security and table games staff had not been told to report incidents of soliciting.

Star City excluded three Endeavour Room patrons for suspected prostitution or soliciting activities in June 2000. The evidence it relied upon was primarily the observations by staff of women leaving the room with different men,

although in one case physical contact was observed between a prostitute and a patron.

In its final submission to me, Star City accepts that there were a number of persons engaged in soliciting for quite a long time within the Endeavour Room.

### **An Illustration from the Evidence**

The following evidence illustrates the dangers of undesirable characters being permitted to gain and retain membership of the private gaming rooms.

A patron who was excluded in June 2000 was a regular attendee at the casino since it opened at its temporary site and had held membership of the Endeavour Room for years. He gambled little and certainly below the level stipulated by the casino as necessary to retain membership of the room.

He visited the Endeavour Room most days and apparently passed the time in conversation with managers and staff of the room as well as patrons. The managers tell me that he was considered an asset to the casino because of his standing within his ethnic community. I am also told that he assisted the manager in the resolution of disputes within the room and advised on appropriate protocol when dealing with members of his community both within the casino, at functions organised by the casino, and outside the casino. He was considered to be "*an excellent PR man*" for the casino. This man had a very close relationship with management.

This evidence may be unremarkable until the man's business is known. I am satisfied from the evidence and information I have received that this patron operates a brothel which was known by a number of the staff in the room and that he was engaged in money lending.

Staff of the room gave evidence that many patrons had told them that he provided prostitutes to them. A patron told another staff member that she had

borrowed money from him with interest. He was ultimately excluded by Star City in June 2000.

Managers of the room deny they knew this man ran a brothel or was a loan shark. I regret that having regard to all the evidence I do not accept the denials. Furthermore, I am satisfied that competent managers of the room would have known of this man's reputation and activities. In his evidence, the casino's senior lawyer said that as a consequence of these findings "*you'd be entitled to suggest that the Authority look at the way Star City manages that room and the people who are charged with the job of managing that room.*"

## **Conclusion**

I am satisfied on the evidence before me that soliciting for the purposes of prostitution has been occurring in the Endeavour Room. Given the nature and purpose of my Inquiry it is not possible to be conclusive as to the extent of the activity. I am conscious that some of the evidence before me concerns incidents which occurred some time ago, and that some of the witnesses have not been in the casino in recent times. I am satisfied, however, that it has occurred not infrequently.

A 'high roller' room of a casino will always be a desirable location for those involved in prostitution. The combination of money, alcohol, a 24-hour operation and a predominantly male environment is likely to attract those selling sexual services. However, prostitution is illegal in the casino and it is the responsibility of Star City to have in place procedures to ensure that it is detected and appropriate action taken when found.

I do not accept that such activity is necessarily secretive or hard to detect. The information obtained by Star City itself clearly indicates that this is not the case.

The management of the casino has had no effective procedures in place to monitor and detect incidences of soliciting. It must be the primary

responsibility of the casino to be aware of and deal with undesirable activities on its premises.

It is also of concern that the managers charged with the responsibility of ensuring the operations of the casino are conducted lawfully and appropriately, tell me they have not known of the presence of prostitutes soliciting. Many of their staff had observed suspicious behaviour and formed the view soliciting was taking place. The question must be asked why those to whom they report had no knowledge.

The evidence from those who manage the Room and some Hosts that they were unaware of the presence of prostitutes soliciting cannot be accepted. I am satisfied that the nature of the activity in the Room was such that it would have been impossible not to be aware that it was occurring. I am satisfied that the Hosts and managers of the Room must have observed the activity.

It is clear that at least communication between staff and their managers and senior management was not effective. It may be that some of the senior managers did not want to know of the activity, effectively turned a blind eye to its occurrence, and this message was conveyed to staff who obliged by not reporting it.

## **MONEY LENDING AND LOAN SHARKING**

Casinos are places where money and chips are regularly exchanged between players. It may occur between friends or associates with the expectation that the money will be repaid without any charge. It may also happen between a player who lends on a commercial basis to others, that is the loan is to be repaid with interest often at exorbitant rates. It may be lent on the understanding that if it is not repaid, the threat of harm or actual harm may result. Lending at exorbitant rates or with threats is commonly referred to as loan sharking. It is not appropriate for these forms of lending to occur in casinos.

## The Evidence

The evidence before me reveals a range of views among casino staff and management as to what constitutes loan sharking. For some the lending of money with interest is sufficient, and for others some associated threat is needed to characterise the conduct as loan sharking. No doubt, depending on the view of the staff member concerned, observations of commercial money lending at the casino will have passed unreported.

There was ample evidence before me of money and other valuables being frequently exchanged in the casino and particularly in the Endeavour Room. Many Hosts have witnessed activities consistent with loan sharking, have been informed by patrons of loan sharking activities or have a belief that loan sharking takes place in the Endeavour Room. I am satisfied that those to whom they report, have not instructed them to report such activities, although on occasion some of them have, with little result.

Again, about half a dozen Hosts who gave evidence, denied ever observing any loan sharking and were not aware of any money lending.

A Security officer provided descriptions of activities she believes to be loan sharking:

*“One of them will go around and appears to be the person who approaches the person who needs the money, kind of is the forward person. He will go back. He will either phone or he will go and speak to someone else who goes and phones some time later you will see another person speak to this person and suddenly the man has got money.”*

*“We would see people coming in at very regular times, not playing games, hovering around the table, You would see people losing big time and these people would go around them”.*

Current and former patrons gave evidence of loan sharking. Some were approached to borrow money at varying interest rates depending on the lender: 5% per week, 10% per day or 10% per week. Some were approached to lend money to the shark for them to lend to other patrons. The witnesses described these activities as not discreet. One current patron had

borrowed, at 10% per day decreasing to 10% per week, from the one patron for 18 months before the shark was excluded at the direction of the Commissioner of Police.

Former staff in the room say they knew it was taking place and one said that money lending "*couldn't have been more blatant*".

### **Some instances of loan sharking taken from the evidence**

- There was a frequent gambler at the casino since 1998, who was identified as a loan shark in that year by the Director of Casino Surveillance. Information was given to the Director by another patron that he borrowed money with interest at the rate of 15% per day. There followed a deal of surveillance material of him lending money and chips to others.

Staff observed him lending money and of being in the company of women believed to be prostitutes. Casino table games managers obtained statements from their staff of his activities in March 1999. In the following months, the casino's Surveillance Department obtained footage of this person engaged in behaviour consistent with soliciting on behalf of women. The Vice President of VIP Services said he did not know of this monitoring nor did the Security Director.

The Director of Casino Surveillance informed the police of his activities in April 1999 and Star City did so some months later. Notwithstanding the power vested in each of the Director of Casino Surveillance and Star City to exclude, neither sought to exercise that power. It was not until December 1999 that he was excluded at the direction of the Commissioner of Police

- Throughout 1998 another patron was observed on many occasions lending money and on one occasion exchanging a watch for money. An analysis of his cage withdrawals and table 'buy ins' in mid 1998,

revealed that less than half the cash withdrawn at the cage made it to the table as a 'buy in'.

The Director of Casino Surveillance referred him to the Police in August 1999. He was excluded at the direction of the Commissioner of Police in December 1999 for loan sharking and associations with drug importers and suspected Triad leaders.

- Another patron was described by most of those I spoke with as a loan shark. She was observed lending money and making records in notebooks on numerous occasions throughout 1998 and 1999. Staff overheard conversations between her and other patrons consistent with loan sharking.

She was not excluded until December 1999 when this occurred at the direction of the Commissioner of Police.

### **Management Response to Loan Sharking**

The evidence as to who has responsibility for dealing with this activity within Star City is not as clear.

The Surveillance Director does not see it as his role to detect loan sharking; he tells me that loan sharking cannot be detected from his area. Nor does the VIP Services Department view itself as responsible. The VIP Operations Manager thought that the Surveillance Department was responsible. Both he and the manager to whom he reports, the Vice President of VIP Services, gave evidence that they had not observed nor had it been reported to them by staff that money lending or loan sharking might have been taking place.

I have evidence from staff and patrons that the Vice President of VIP Services was informed on three occasions of observations of suspicious money lending. One patron told me of a conversation between the Vice President

and himself in which he informed the Vice President of having borrowed money from a loan shark.

When questioned about these matters, the Vice President gave evidence that he had been told by two patrons in May 2000 that another patron was a money lender. He initially referred to that information as a “rumour”, although he later accepted that it was much more than that. He referred that information to the casino investigators. He further stated that he had no recollection of receiving any information from staff or any other patrons concerning money-lending activities.

The Security Director told me he did not know what loan sharking was and incidences of it had not been reported to him. *Loan sharking... is not our jurisdiction. It is the jurisdiction of surveillance and the investigators.”*

The Manager of Investigations suggested that any monitoring of loan sharking is done by the Director of Casino Surveillance. However, following interviews with staff this year after the Four Corners program, he drew this conclusion of the presence of money lenders in the casino:

*“There’s this group that are comfortable, like, they have their own little comfort zone, they know each other, and they have been up there for quite some time”.*

He said that they always heard of the odd person who they suspected was lending money.

The Director of Casino Surveillance thought that monitoring for such activity was the responsibility of the casino and tells me he had expressed that view to the casino. Notwithstanding, some of his staff have detected activity they believed was loan sharking.

I understand that meetings were held on a monthly basis between the casino, the Director of Casino Surveillance and representatives of law enforcement agencies. At three meetings between June 1998 and July 1999, the police

provided information they had received about loan sharking in the casino. Similarly, on three occasions between 15 July 1998 and 30 September 1998 the head of the Security, (or his deputy) Surveillance and Investigation Departments of the casino were shown videotape compilations by the Director of Casino Surveillance of suspected money lending. It seems that none of Surveillance, Security or Investigations departments responded by reviewing their procedures to ensure they were effectively monitoring the casino for this activity.

Star City excluded six patrons in June 2000 for loan sharking. I understand that the evidence on which it based its exclusions was observations by staff of money being handed over and then recordings being made in note books and players who having lost all money, left the room with a person and returning with cash.

## **Conclusion**

As with prostitution, a 'high roller' room provides the ingredients for a successful loan sharking operation: large amounts of cash being spent, the lure of winning and the need to replace the money lost to continue gambling. It is in recognition of the vulnerability of gamblers that credit is prohibited within a casino and automatic teller machines are not permitted within the casino premises.

I am satisfied that loan sharking has been occurring in the Endeavour Room. I am also satisfied that it can be detected by those who wish to do so. The evidence I have received and indeed, the evidence on which Star City based some of its exclusions this year is of clear and observable patterns of behaviour by a number of identified patrons.

I do not accept the evidence of some of the Hosts and the management of the Room who told me that they were not aware of loan sharking and money lenders. Those managers most likely tolerated the activity or at least deliberately ignored it.

I said in 1997 that responsibility for dealing with loan sharking lies with law enforcement agencies. I expressed the view that it was an undesirable activity and one which was very difficult to uncover because of the reluctance of victims to come forward. Responsibility, I reported, lay with the Police Service and related law enforcement agencies that have the necessary powers to address the problem.

However, I did not and do not absolve Star City from having systems in place to identify when this insidious activity is taking place. Star City has staff on the floor 24 hours a day and is best placed to detect any problems.

It is clear that Star City has not, until recently, responded to this issue. Responsibility has not been effectively allocated nor adopted in ensuring loan sharks do not operate in its environment. Communication between management and staff has been weak.

## **THE PRESENCE OF CRIMINALS IN THE CASINO**

### **The Evidence**

During the course of the Authority's investigation and prior to my Inquiry, a list of the top 1000 gamblers at Star City apparently compiled in or from 1996 data, became public. I understand that that list was generated by the casino for its purposes and is not information which is ordinarily available to the regulators, except by specific request. I do not know how the list became public.

I subsequently sought from Star City, a list of the 100 gamblers with the largest turnovers for the period April 1998 to March 2000. I gave that list to a number of law enforcement agencies and asked them to provide me with advice as to whether anyone on the list was known to them because of a criminal conviction or a belief that they engaged in criminal activity.

The results were disturbing, if not unsurprising. It seems that over 40% of local players on the list of 100 are known to one or more law enforcement

agencies. This raises serious concerns about the potential for the casino to be influenced by these people.

Star City tell me that one of its primary concerns has been to stamp out any tendency for suspicious patrons to congregate in the private gaming room or elsewhere in the complex. It says it works with law enforcement agencies to deter and exclude patrons with undesirable backgrounds.

## **Conclusion**

Obviously there have been criminals using the casino for, at the least, entertainment purposes. It is equally obvious and, I believe, accepted by those responsible for the operations and regulation of the casino that they should not be there.

Sir Laurence Street noted as:

*"... the real matter of concern is that the collateral activities of criminals who resort to casinos for recreation and amusement could present a risk of compromising the integrity of the gambling operations in the casino".*

He was then of the view that strict enforcement of the regulatory code and vigilance on the part of the Government Inspectorate would be adequate to protect against this risk. After four years of operation, it is clear that more is needed. Recommendations are made in this Chapter and Chapter 9 to address this problem.

## **MONEY LAUNDERING**

### **Definition**

Money laundering is often discussed but commonly misunderstood.

Any person engaging in any transaction that involves, under State legislation, the proceeds of crime or, under Commonwealth legislation, the proceeds of a

serious offence commits the offence of money laundering. (s.73 Confiscation of Proceeds of Crime Act 1989 (NSW); s.81 Proceeds of Crime Act 1987 (Cth))

Applying this definition, the Director of Casino Surveillance tells me that it is reasonable to assume that certain casino patrons would have laundered money on almost a daily basis.

A narrower and more generally understood definition is that found in the 1988 Vienna Convention. The United Nations' Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances describes the conversion or transfer of property derived from specified offences for the purpose of concealing or disguising the illicit origin of the property as money laundering.

### **The Evidence**

I reported in the 1997 report that although it was possible that money laundering occurred in casinos, I was satisfied that it was likely to be quite limited. I expressed the view that persons who may gamble the proceeds of crime would be effectively dealt with by the relevant law enforcement agencies.

In contrast to the information given to me in 1997, I have been told in this Inquiry by some law enforcement agencies that they suspect that money laundering is taking place at Star City. They believe that there are opportunities for patrons to launder money at the casino although there are significant problems in obtaining sufficient proof for successful prosecutions.

The National Crime Authority submitted to me:

*It is submitted that the narrow definition of money laundering (the Vienna Convention) (is) misplaced and all but precluded any possibility that money laundering could in fact be found to be occurring through casinos. It is certainly not suggested that the narrow definition was deliberately selected for the purpose of ensuring such an outcome, particularly in light of the fact that*

*the NCA appears to have been the first to adopt such a definition. Nevertheless, it is submitted that this was the practical effect of choosing the narrow definition.*

It is submitted to me by the National Crime Authority that the mere waging of the proceeds of crime can conceal or disguise the illicit origin of criminal proceeds very effectively.

I am told that the proceeds from a range of criminal activities are principally derived, at first instance, in the form of creased banknotes of relatively small denominations. In large sums, these notes are extremely heavy, voluminous and difficult to transport. Cash proceeds from drug trafficking also tend to become physically contaminated with particles of the drug in question which can be detected through various scientific tests. Thus methods are sought by criminals to refine the cash proceeds into crisper, cleaner banknotes of higher denomination or convert them into cheques, electronic funds or some other form of cash equivalent.

Star City obviously provides a venue for large volumes of banknotes to be converted into chips or deposited and eventually exchanged for notes of higher denomination, cheques or electronic funds.

I have no direct evidence of money laundering having taken place at the casino. However, because the casino has been frequented by persons known to have been engaged in criminal activity who have gambled large sums of money, I am satisfied that money laundering has occurred. In addition, the National Crime Authority tells me it reasonably suspects that it is occurring.

The principal measure in place to reduce the capacity of patrons of the casino to launder funds is the requirement on the casino to report significant and suspect cash transactions.

## **Reporting Significant Cash Transactions**

Star City has obligations under the Financial Transactions Reports Act 1988. Those obligations include reporting cash transactions over \$10,000, termed significant transactions, to the federal agency AUSTRAC. It must report the details for both the person conducting the transaction, as well as the person on whose behalf the transaction was conducted. The details to be reported include the name, address, occupation, date of birth, the method used to verify the identity of the person and whether the transaction was conducted on behalf of another person. If the transaction was for another, the name, address and occupation of that other person are to be reported.

Star City has reported about 18,000 transactions to AUSTRAC in the last 12 months.

I understand that AUSTRAC conducted a Joint Study with Star City of the casino's compliance with this legislation in June 2000 and conducted a follow up review in September. Initially AUSTRAC found that 10% of significant cash transactions were not reported by Star City. Following discussions with Star City concerning the methodology adopted, the subsequent review concluded that about 4% of significant cash transactions had not been reported to AUSTRAC. These transactions included possible buy ins at tables.

Star City informs me that it has amended its procedures in line with AUSTRAC's recommendations to require, among other matters, senior cage staff to ensure that all reports of significant cash transactions are made.

AUSTRAC has advised Star City that it remains concerned as to the level of under reporting and I understand that Star City will undertake its own review of its under reporting and make the results known to AUSTRAC by 15 January 2001. However, it is clear that AUSTRAC formed the view that the non compliance and weaknesses which were disclosed by the Joint Study resulted from control and procedural shortcomings rather than any deliberate avoidance of its obligations.

## **Suspect Cash Transactions**

Star City must also report suspect cash transactions to AUSTRAC. Under the legislation, a suspect transaction is where a dealer has reasonable grounds to suspect that the transaction may be relevant to criminal activity. Those who conduct transactions so as to avoid the reporting requirements have committed an offence against the legislation.

Suspect transactions could include associates betting against each other in even money games, cheques being requested on cash ins which are not the result of gaming winnings, patrons buying in for just under \$10,000 so as to avoid the reporting requirement for significant cash transactions, patrons buying in then cashing in without playing, players using others to buy chips or cash out on their behalf and the exchange of smaller denomination bank notes to larger ones. Of the 18,000 reports made to AUSTRAC by Star City, about 250 were of suspect transactions.

Examples from information received by the Inquiry of suspect transactions in the casino are provided to indicate the range of transactions which are conducted at the casino. It is not suggested that Star City acted in contravention of AUSTRAC requirements in the examples which follow:

- In 1998, a 22-year-old patron who had been a player since 1997, bought over \$76,000 in chips. He was not recorded as buying in for most of 1999, until November and December of that year when he bought in for almost \$1 million. His transactions on at least 10 occasions involved a large quantity of \$50 notes being exchanged for \$100 notes. One suspect transaction report was completed. He was excluded at the direction of the Commissioner of Police in September 2000. He had an extensive criminal record and was believed by police to be involved in the Sydney drug trade.
- From mid to late 1998, a convicted criminal bought over \$2.2 million in chips at the casino. In a period of one day he bought in for about \$400,000 and was observed betting most of his chips in one hand. At the time he was 30 years of age.

The Director of Casino Surveillance was aware he was recently released from prison and a number of staff of the casino also believed that to be the case.

In 1999 he was reported constantly changing smaller denomination notes to larger ones and performing a number of cash transactions for just under \$10,000. In about a three-month period he had a total buy in of \$5.25 million. The Director of Casino Surveillance referred him to the Police in August 1999 and he was excluded at the direction of the Commissioner of Police in December 1999.

I understand he has subsequently been charged with the possession of a significant amount of cash suspected of being illegally obtained and various drug related matters.

- In early 1999, a patron was observed changing about \$40,000 in soaking wet \$100 notes over four tables, then leaving the casino. He ran a small trade business and in the 18 months prior had owed Star City tens of thousands of dollars following the presentation of a dishonoured cheque. He paid it off in small instalments. Then in a five-week period in autumn 1999 he bought in for \$2.9 million.

He was excluded at the direction of the Commissioner of Police in September 2000. He was believed to be involved in drug importations.

The evidence of gaming shift managers to me is that no guidance is given to them or by them to assist staff in forming the view as to whether a cash transaction is suspicious.

AUSTRAC also came to the view that there were not specific examples in the procedures of potential types of suspect transactions and made recommendations designed to remedy the problem.

AUSTRAC recommended that the Surveillance Department be more involved in ensuring that potential suspicious activity was reported. This issue was raised with me by the Director of Casino Surveillance who also is of the view that the Star City's Surveillance Department should play a greater role in the monitoring and reporting of suspect transactions.

I agree that the active monitoring of players known to gamble or deal in large sums of money is necessary to combat laundering. The Surveillance Department is well placed to assist.

### **Identification**

Systems for the reporting of significant or suspect cash transactions will only be effective if the identity of the person engaged in the transaction is known and confirmed.

Star City does not confirm the identity of players through requiring photo identification, such as a driver's licence, prior to completing a report to AUSTRAC.

Of concern during my Inquiry was the apparent ease with which a patron may provide false identification details to the casino when cashing \$10,000 or more. There is no photo identification on the membership card issued to members of the Endeavour Room and it is that card which appears to form the basis of the information provided to AUSTRAC.

Evidence was also given to me of patrons using other people to change cash to chips and/or cash in chips, thus avoiding a record being made of the transaction in the name of the person on whose behalf it was conducted. Such activities can result in the audit trail of the true ownership of the funds becoming obscure and not capable of precise proof for the purposes of prosecution.

A Government Inspector gave the following evidence:

*...one person sitting there and they do a buy-in of 5,000 and five minutes later they do another buy-in of 5,000, or they will pass 5,000 across to somebody else and they will go and walk over, particularly the prost - well, the people who we thought were the prostitutes, ...runners to other tables.*

*We very rarely saw those actually reported, and I would say with some confidence that they still aren't reported today, that if somebody gives 5,000 to two of their friends and will talk, "Change these," that one won't recorded, even though it was quite obvious to the person that the source of the money was coming from one particular person, could it be viewed as two separate cash transactions.*

It is also clear from reports prepared by Government Inspectors that patrons use others to change money and cash chips.

Changes to the operation of the Endeavour Room are needed to further reduce the risk of the casino being used to launder funds. To ensure that the identity of the person dealing in the funds can be properly obtained, a photograph identifying the person should be part of the membership card of the Endeavour Room. I understand that this is a matter which is under consideration by Star City.

In order to ensure that all suspect and significant transactions are accurately reported to AUSTRAC in the name of the person on whose behalf the transaction was made, the membership card should be used when any transaction is made. No transaction, including table buy ins, should be made unless the member produces his or her card and the dealer confirms that the card holder and person is the same.

Star City submits that it wishes to protect the privacy of the Endeavour Room members and their right not to use their membership cards for all transactions. In light of the information I have obtained from the National Crime Authority, I am unable to agree that the right to privacy outweighs the public interest in reducing opportunities for funds to be laundered.

I recommend that all members of the Endeavour Room be issued with a membership card containing their name, date of birth and a photograph of the member.

I recommend that each buy in and cash in conducted within the Endeavour Room and in the high limit pits on the main gaming floor by members of the Endeavour Room only occur after production of his or her membership card and on the satisfaction that the person conducting the transaction is the card holder. Further, that the Authority and Star City determine a method by which this can be achieved.

## **Federal Proposals**

I am aware that a report of the Australian Law Reform Commission *Confiscation that Counts* (Report No. 87) concluded that there was an urgent need for a legislative mechanism to enable law enforcement agencies to be alerted to imminent, but not yet completed, highly suspect transactions in a manner which would enable restraining action to be undertaken. As a result of this recommendation, some federal agencies including the National Crime Authority, AUSTRAC and the Australian Federal Police are considering draft reform proposals. These developments are at an early stage, their future as yet uncertain.

During the course of considering those proposals, attention should be directed to the international transfer of funds undertaken by or from Star City on behalf of its patrons. It may be that those transactions which can be identified as highly suspect can be similarly the subject of restraint to permit law enforcement agencies to undertake relevant inquiries.

This is obviously a complex area which impacts on other cash dealers. Accordingly, I recommend that the federal agencies considering the draft reform proposals have discussions with Star City and the Authority to determine whether international transfers of funds undertaken by or from Star City on behalf of its patrons can effectively be the subject of the draft reform proposals.

#### **Disclosure of Information to the Authority**

AUSTRAC is not permitted to disclose information about matters reported to it, to the Authority. However, it can disclose such information to law enforcement agencies including the Independent Commission Against Corruption and the New South Wales Crime Commission.

I recommended that the Authority be granted access to AUSTRAC data in relation to Star City in my 1997 Report. I understand that this matter has been the subject of correspondence between the Minister for Gaming and Racing and the Federal Justice Minister for some time. I am told that the Federal Justice Minister is of the view that as the Authority can access all financial information from the casino, it is not necessary to access AUSTRAC data. I regret that I cannot share this view.

While the Authority has the power to require Star City to advise it of and provide copies to the Authority of its reports to AUSTRAC, I understand that the information held by AUSTRAC is potentially of greater assistance to the Authority. Law enforcement agencies and AUSTRAC tell me that AUSTRAC

compiles analyses of the data provided to it and makes its database available to those agencies which permit the data to be manipulated to suit the agency's requirements.

Accordingly, I remain of the view that the Authority should have access to AUSTRAC's holdings on Star City. I understand that AUSTRAC supports such access. For the Authority to satisfy its obligations in relation to keeping the casino free from criminal influence or exploitation information from AUSTRAC's database is vital.

I recommend that the Authority be permitted access to information held by AUSTRAC concerning Star City.

### **Junkets**

Star City operates junkets which are arrangements for the promotion of gaming in the casino by groups of international players. They usually involve transport, accommodation, food, drink and entertainment for the junket players, some or all of which are paid for by the casino or are otherwise provided on a complimentary basis.

The junket operators are responsible for the funds of their individual junket members. They bring in the accumulated funds of the junket participants to Australia, provide each member with access to their own funds during their stay with the casino and take out the remaining funds as one transaction on completion of the junket.

Members of junkets use the junket to act, in effect, as a private banker for the players. When settlement is made with the casino, the junket operator settles the amount in his name. Thus no individual junket player is identified although they are able to access and gamble with substantial amounts of funds.

I have little doubt that apart from the concessions offered to members of junkets in order to attract the business, which can be significant, the prospect of anonymity to the individual player is a significant factor in the popularity of junkets. Anecdotal material suggests that at least some junket players may be concerned that their gambling not be public knowledge in their home country.

In an attempt to confront these issues, I recommend that Star City be required to record and provide to the Authority details of the buy ins and cash ins by members of a junket, including the amount of the final settlement to which they are entitled. These details should be provided for transactions over \$10,000 regardless of whether they are in cash or some other form.

I note that the AUSTRAC audit found that Star City did not report details of significant cash transactions by individual junket participants. AUSTRAC is now satisfied that appropriate measures have been implemented by Star City to ensure that such matters are reported in the future.

## **Conclusion**

It is obvious that casinos will always attract people with cash to gamble and some of those funds will be illegally obtained. The issue is whether the procedures in place are adequate to allow prompt identification of those patrons and the taking of appropriate action to exclude them.

Star City informs me, and I accept, that it does not wish to see the proceeds of crime gambled or money laundered at the casino.

I accept that it not reasonable to expect the casino, or the regulator acting alone, to form a view as to the source of funds being gambled and to then exclude on the basis of that opinion. It is plain that law enforcement agencies are best placed to form the view as to whether there is a reasonable suspicion that a patron is gambling the proceeds of crime. They have access to intelligence, criminal records and other information which will be of assistance.

The most effective response to the presence of criminals and other undesirables in the casino, whether they are engaged in soliciting, loan sharking or dealing in or washing the proceeds of crime, is to identify and exclude them.

Star City has submitted that the Authority can access membership details and then pass that information onto police. However, I understand that the information to which the Authority has access automatically does not permit it to ascertain new members, without first being advised of the names by Star City.

Accordingly, I recommend that the Authority obtain from Star City at regular intervals the names of all new members of the Endeavour Room. The Authority should then advise the relevant law enforcement agencies of those names and seek any information held by them. If a reasonable belief can be formed that any member is a criminal or criminal associate, or gambling the proceeds of crime, he or she should be excluded.

There may be privacy considerations arising from this recommendation which may need to be addressed by the Authority and Star City.

## **DRUG RELATED ACTIVITY**

The Police Taskforce to which I referred in Chapter 1 has investigated the allegations made during the Four Corners program and subsequently, concerning illegal drug activity in the Endeavour Room. I have not sought to replicate that investigation.

I am satisfied on the evidence and other information I have received that while activities associated with the use of drugs take place in the casino, the relevant authorities and Star City are taking appropriate action. In a venue which attracts millions of visitors per year, regrettably, it is inevitable that some will be drug users who will endeavour to access drugs on the premises.

## **INTOXICATION**

## **Introduction**

Star City cannot permit a person to become intoxicated within the gaming area of the casino. It commits an offence if it or its staff allows that to occur. Penalties up to \$11,000 apply.

Further, Star City cannot permit an intoxicated person to gamble in the casino. If it does, it may be prosecuted for an offence under the Act and/or be the subject of disciplinary action by the Authority. The combination of alcohol and gambling can give rise to special concerns. A gambler becomes especially vulnerable when his or her judgement and capacity to bet sensibly becomes impaired by alcohol.

Unlike many other venues supplying alcohol, Star City provides liquor on a complimentary basis to persons who attend the private gaming rooms and who gamble at the 'high stakes' pit on the main gaming floor. The Authority, has approved this activity and also permits the casino to offer free drinks to patrons on special occasions, for example, Melbourne Cup functions or where a patron wins a substantial jackpot and the drink is to celebrate that win. In addition, the casino provides free soft drinks, tea and coffee to patrons on the main gaming floor.

I understand that in those areas in which alcoholic drinks are provided free of charge, a staff member serves patrons at the gaming tables. In other areas, alcoholic drinks must be purchased at the bar.

## **Star City's submissions**

In its July submission to this Inquiry, Star City stated that it is committed to the responsible service of alcohol and that all its staff undergo the 'Responsible Service of Alcohol' training course.

When describing the exclusion policy of the casino, Star City reported: *"...anyone suspected of becoming intoxicated will be asked to leave the casino for 24 hours."*

Star City's Food and Beverage Departmental Procedure states, among other matters, that customers are to be refused service of alcohol before they reach the point of intoxication and further, that customers who are intoxicated are removed by security staff immediately.

The flow chart for the responsible service of alcohol in the Endeavour Room states that if a patron is believed to be nearing intoxication, a VIP Host or the Gaming Shift Manager is notified. They investigate the matter and the patron is advised that no further alcoholic drinks will be served. The patron is asked to leave if intoxicated or if he or she has another alcoholic drink.

Star City's submission further states:

*Star City is aware, from the gaming shift reports, of 80 incidents where it has been determined that patrons using gaming facilities were approaching intoxication. In every case the patron was either asked to leave, escorted from the premises or physically removed.*

## **The Evidence**

It must be said at the outset that the evidence before me is at odds with the Star City's stated position. Staff who gave evidence have significantly varying views of their responsibilities in relation to the service of alcohol. In the main, their understanding of their role and the roles of fellow staff is inconsistent with the stated policy of the casino.

Many Hosts told me that they had seen members in the Endeavour Room gambling whilst intoxicated. Some said they had not. One Host said he had not seen any person stopped from gambling because of intoxication, in his experience it was more usual to have their drinks cut off. This was the experience of a number of other Hosts. One reported telling a known player that he could not continue to gamble because he was drunk. The patron kept playing and had coffee.

The security staff have a different perspective. When asked whether he had told a Host that patrons were gambling whilst intoxicated, one security officer said:

*Oh, many, many times. We also told them they're leaving. They also told us that they were making the decisions...The host and the exec host, or mainly the exec host, would override us on all that stuff because money talks.*

*Q. These people would keep gambling, would they?*

*A. Oh yeah. Money talks. You know, that's what we were told.*

The same security officer related this story:

*..... but there was one occasion there - I'm not sure if he was a solicitor or a lawyer or what he was. Apparently he was a very powerful man. He had a lot of money. He actually dropped chips on the floor and was staggering - this was only just after I went up to the Endeavour Room - staggering all over the place in front of the cage. So I got the exec hosts and my Oscar up there, my boss, and they spoke to him. We was expecting him to leave. They said, "No, leave him alone. He stays." And we were all dumbfounded. We thought, "You're joking me. This man couldn't stand up."*

*And so everyone left, and I stayed there. He walked around the other side of the tables and fell over a chair, and I complained again. He still stayed. And then after a while he just left after he finished playing, staggered out the room, so, and there was - there's been lots of people were intoxicated up there, abusing bar staff and getting away with blue murder you wouldn't get away with anywhere, and was allowed to stay because they had money.*

Another security officer gave evidence of seeing people gambling while intoxicated at least a couple of times through a shift. She told the Investigations Manager:

*Attempts have been made by VIP Hosts in the past to further supply alcohol to patrons when it is the consideration of both the Bar staff and Security that the patron should not be supplied further drinks due to his level of intoxication. Maybe a month or two ago, it was logged. Bar staff had stopped drinks to a patron and he wanted another drink, VIP staff intervened and he ended up with two drinks... Instances have occurred where the VIP hosts have permitted guests to remain on the gaming floor after they have been cut off. They are permitted to complete their game or meal, despite their behaviour which may not have modified slightly after the drinks were cut. These games or meals may continue for up to an hour. These individuals should have been asked to leave immediately. If this behaviour occurred on the MGF they would have been asked to leave immediately. The persons mainly involved in this are the guests and not the patron.*

A third security officer had this exchange with me:

*Q. Have you ever seen anyone drunk gambling at a table in the private gaming room?*

*A. Intoxicated, yes.*

*Q. What have you done about it?*

*A. Asked the host to - asked them to leave. Nine times out of 10, they will leave. Some do get stropky and refuse to leave and, unfortunately, they will abide by the wishes of the patron and they will stay. They say they don't want to leave, they're still gambling, so "I want to stay," and the host will let them stay, contrary to our wishes - a bust in and plea. We want them to leave, or would like them to leave, because of their behaviour or intoxication, but the hosts have overruled us and said, "No, look, we have cut their drinks but they can stay."*

This officer asks an average of 10 people on the main gaming floor per shift to leave because they are intoxicated.

A former casino staff member told me that in the Endeavour Room, intoxication while gambling has been common:

*"There wouldn't be a time when you could go into the Endeavour Room and not find somebody who was drunk while playing at the tables."*

A current Endeavour Room patron told me that he had been frequently intoxicated while gambling: *"It is a frequent occurrence. It is part of the culture to drink as much as you want."*

Another says he has been and has observed other patrons to be *"completely drunk"* while gambling in the Endeavour Room.

A food and beverage server told the Investigations Manager:

*There was an incident when I first started. There was a male who I thought should have been slowed down but higher management [VIP Operations Manager] felt that he should be allowed to have a drink because he had a lot of money and was gambling a lot like \$6,000 a hand.*

Another food and beverage server said:

*Yes, every time they trot them out to Randwick or Stadium Australia we are left to deal with the results of un-monitored drinking at social events. When they come back to the ER we are asked by VIP to serve but monitor. They tell us to give half nips. The hard part is we are not allowed to cut them off, VIP services can only do this. We will avoid confrontation. Let's face it; money talks and these patrons are the ones where VIP will encourage us to serve. If the patron kicks up occasionally they will encourage us to placate them... We were encouraged by VIP management from [VIP Operations Manager] down, to serve certain patrons.*

A former food and beverage server told me that *"it depends on who the patron is and how much they are winning or losing determines whether they get cut off or not."*

She continued:

*There was one incident where me and the pit boss were chatting about a player, and we were saying that he had probably had enough, and the pit boss said, "You should probably cut him down", and I said, "I think that is a good idea", or "slow him down", sorry. Slowed him down, and the guy lost nearly all his money and then he got back on the lucky streak and he was winning it all back, and then he won a huge amount of money. Then I got approached by the pit boss and I was told to serve the gentleman a drink, to get him a drink, and I said, "I thought we were slowing him down, and I think he has had enough. He is pretty out of it", and he goes, "He has got all our money and we want it back, so you go and get him another drink", and I said, "No, I won't go and get him another drink. You can go get him another drink", and he went and got him another drink.*

She said that this incident occurred at the temporary casino and therefore more than three years ago.

## **Management's Response**

The VIP Operations Manager gave evidence that if a person was intoxicated and gambling they were asked to leave or their drinks have been cut off. If a

person was becoming intoxicated the patron will have their drinks cut off or slowed down. He said that he and his executive hosts had the authority to permit a person to continue drinking or stop their access to alcohol.

By contrast, the VIP Services Vice President, to whom the Operations Manager reported, said that it is the role of food and beverage staff to detect intoxicated patrons and inform the host. The executive host's role is limited to advising the patron that their drinks will be stopped and, if appropriate, asking them to leave. The bar staff's opinion is final. The Vice President agreed that if his staff were interfering with bar staff's decisions on intoxication, it would indicate a breakdown in the responsible service of alcohol system.

The Table Games General Manager explained the policy was that the bar staff had the final decision as to whether a person was intoxicated and could not be overruled by hosts or executive hosts. He later said that the policy meant that if any person took the view that a patron was intoxicated, their view would prevail over a person who held a contrary view as to the patron's intoxication.

## **Disciplinary action**

In the period between 1 January 1998 and 30 June 2000, Government Inspectors submitted reports of 16 instances where they suspected that casino patrons may have gambled while intoxicated. In 13 of those cases, no further action was taken either because reasonable steps were taken by the casino, or that the available evidence was insufficient or inconclusive. Of the 16 matters, only two were instances of suspected intoxication in the Endeavour Room.

One of these matters was most serious. On the morning of 1 September 1998, an Inspector observed three men in an Inner Sanctum. Each was drinking brandy and an empty bottle of expensive brandy was also seen. He thought that two of the men were intoxicated. He observed both men playing in the presence of Star City staff. The Inspector's descriptions of their conduct are consistent with intoxication. After losing \$7,800 one of the players was helped by his friend and a VIP Host back to his hotel room. I am told that this incident was not the subject of a recommendation from the Director of Casino Surveillance that disciplinary action be taken against the casino although there is no satisfactory explanation as to why that did not occur.

In the remaining three cases, the Director of Casino Surveillance submitted reports to the Authority for consideration of disciplinary action for breaches of s.163 of the Act.

The first related to an incident, which occurred on 13 September 1997 when two patrons were observed, intoxicated on the main gaming floor. They were refused liquor at one bar and then served alcohol at another bar shortly thereafter. Ten minutes later one of them played roulette for a few minutes. They were then escorted from the premises some 15 minutes later. The Authority, after hearing submissions from Star City that there was some doubt as to whether the two patrons were in fact intoxicated, took no disciplinary action.

The second report concerned activities on 6 April 1998 in which two people were intoxicated and gambling. The Authority found there were grounds for disciplinary action and issued a letter of censure to Star City.

The third matter concerned incidents on 7 April 2000. On that date, a Government Inspector had recorded a female patron in the Endeavour Room consume six cocktails and one glass of wine within a one hour period. She was later recorded consuming a further two 30ml "shooter" drinks and some red wine. During this later period, she played blackjack for 20

minutes. The video records her as unsteady on her feet and kneeling on a bar stool and the stool at a gaming table.

This matter resulted in Star City being fined \$50,000 for permitting a person to become intoxicated and to gamble while intoxicated in the Endeavour Room.

## **Conclusion**

It is clear from the evidence before me that Star City has not effectively implemented a responsible service of alcohol policy, particularly in the Endeavour Room. Further, it has failed to provide staff with a culture which respects legal obligations over matters of revenue. Some patrons have been allowed to gamble notwithstanding staff believed they were intoxicated. The desire to please the patron, particularly the larger player, has outweighed the casino's and its staff's legal obligations to prevent gamblers playing under the influence of alcohol.

I am satisfied that some of the staff and management in the Endeavour Room were prepared to accept or deliberately ignore that patrons were intoxicated in order to maximise the revenue to be obtained from them. This reflects upon the management of the casino as a whole and indicates serious deficiencies in the culture.

The problem sought to be avoided by a strict regime in relation to alcohol is obvious. A person's capacity to bet sensibly must be impaired by the consumption of sufficient alcohol to become intoxicated.

In order to ensure that Star City effectively requires that its staff serve alcohol responsibly, I recommend that the Authority closely monitor the use of alcohol in the casino to ensure that staff appropriately satisfy their obligations under the Act concerning the presence of, and gambling by intoxicated persons.

## **SEXUAL HARASSMENT**

Sexual harassment occurs when there is unwanted or unwelcome behaviour. It includes suggestive behaviour, sexual jokes and propositions and sexual or physical contact. It is not and should not be permitted in the workplace.

It is clear from the interviews conducted by Star City's Investigations Manager that many staff working in the food and beverage area of the private gaming room have experienced sexual harassment from patrons and other staff members.

One male beverage server described the problem as being "*rank*" and "*the one problem we do have up there*" (in the private gaming room).

A former senior employee of Star City described sexual harassment as "*part of a bigger picture of the industry, punters are always hitting on female staff, particularly if they are pretty and bubbly personalities, it's always been the case*".

Many female staff in the food and beverage department complained of being touched or harassed verbally by patrons. There were complaints of sexual harassment by a beverage supervisor from an alarming number of staff. I understand that he resigned after being confronted by the allegations made in the interviews. This person's conduct appeared to be well known among staff and to have continued for some time prior to his resignation.

The evidence of the VIP Operations Manager was quite unsatisfactory in regard to matters of sexual harassment. He told me that on the few occasions that he had received complaints, he did not record the complaints or any warnings he subsequently issued to patrons.

Star City has now indicated that its policy on sexual harassment is currently being rewritten and issued as a 'separate' policy document. It had previously been included as part of a 'general' harassment document. It is proposed that the Human Resources Department will be responsible for receiving and investigating complaints. It will also maintain a database which will record all incidents and their outcome.

## **Conclusion**

Harassment is a serious issue in any workplace. However, in an industry which combines alcohol, the desire to please patrons and large amounts of money being won and lost, it is particularly important that the workplace is a safe environment. A culture in which such conduct is not accepted needs to be in place. Harassment is not acceptable in any workplace, including the private gaming rooms of Star City casino.

# **CHAPTER SIX**

## **EXCLUSIONS**

### **INTRODUCTION**

The power to exclude is one of the most significant mechanisms for ensuring that any casino is free from criminal influence or exploitation. In his 1991 report Sir Laurence Street recognised the importance of this power in ensuring that criminals did not have a presence in the casino. It is clear that this means that persons known or reasonably believed to be engaged in criminal activity or whose source of funds are reasonably believed to come from criminal ventures, should be excluded from the casino.

Section 79 of the Act provides that the Director of Casino Surveillance or the casino operator may exclude a person from the casino. Section 81 of the Act empowers the Commissioner of Police to direct the casino operator to exclude a person. Exclusion orders remain in force until revoked by the person who made the order. There is a right to seek review of an exclusion order made by the Director of Casino Surveillance or the casino operator, and the Authority conducts that review. There is no right of review from a decision of the Commissioner of Police.

There is also provision for a person to request that he or she be excluded from the casino commonly known as a self-exclusion order. This provision is designed to allow people who believe they have a problem with gambling to request that action be taken to prevent them from re-entering the casino.

## **SELF EXCLUSIONS**

Star City has excluded 587 patrons at their own request between the period 1 January 1998 to 30 June 2000.

Pamphlets advising patrons of the casino self-exclusion program are available throughout the casino and are in 13 community languages. Self-exclusions are for a minimum period of 12 months. The casino provides the patron with information on problem gambling counselling services.

The casino has revoked 88 self-exclusion orders in the period 1 January 1998 to 30 June 2000.

The Director of Casino Surveillance has issued two orders at the request of patrons in the relevant period.

## **STAR CITY**

In the period 1 January 1998 to 30 June 2000, Star City excluded 649 patrons. The main reasons for exclusions include theft, assault, abusive language, indecent behaviour, unattended children and seeking to place a bet after the completion of a game.

In 1998, Star City excluded 42 people for leaving children unattended on the premises. In 1999, 16 such exclusions were made and in the first six months of 2000, seven exclusions were made.

In my 1997 Report, I noted that 162 people had been excluded for leaving children unattended. I was then satisfied that appropriate action was being taken by Star City in dealing with these people. The reduced numbers of patrons excluded for this reason is a positive sign.

In the first six months of this year, one person was excluded for suspected substance abuse, with two in 1999 and two in 1998. Only one staff member was found to be gambling at the casino and was subsequently excluded.

Eleven card counters were excluded in 1998 although none has been excluded in subsequent years.

In June this year, the casino excluded nine patrons of the Endeavour Room for conduct unacceptable to senior management. No other patron has been excluded for this reason in

the history of the casino. Star City has advised that three of the nine patrons were excluded for soliciting for the purposes of prostitution and the remainder for money lending. These exclusions were made during the investigation by casino investigators, following the Four Corners program.

All of the VIP Hosts, security staff, table games staff and other VIP Services staff who have spoken to me said they did not know of the reasons for these exclusions. Some had asked but none had been told. Indeed, the Vice President of VIP Services gave evidence that he was told by the senior manager who made the exclusions that *"I didn't need to know"*. The Security Director did not know, nor did the VIP Services Operations Manager, the Table Games Vice President, or those supervising gaming in the room.

The senior manager who made the decision to exclude these people gave evidence to me that he had told a range of people including senior management and the Security Director of the reasons.

If Star City wishes to effectively monitor its premises for undesirable activity, the first step must be to convey to staff charged with such monitoring its views of the particular conduct which it finds unacceptable. Unless this is done, the system is almost certain to fail.

The relative haste with which Star City excluded the nine persons should not pass without remark. Those nine were selected from information obtained by the Investigations Manager. However, his investigation had only just begun, there were many more staff to interview. Further, there was information from staff from that process which indicated that two other patrons had engaged in conduct which was at least as unacceptable as those the subject of exclusion. Yet they were passed over on that occasion.

The consistent application of carefully formulated guidelines is essential in managing the exclusion process.

Star City has determined that exclusions will be permanent for activities such as unattended children, serious assault, the sale of illegal drugs, major premeditated theft, the use of electronic equipment or computers for the purpose of gaining an advantage and any dishonest scheme or collusion involving gaming staff. Conduct such as abusive behaviour, refusal to leave the premises or habitual drunkenness usually attracts an exclusion of between 3 and 12 months. Up to 24 months exclusion may apply for sexual harassment, vandalism, use of illegal drugs and continual late betting.

The casino has revoked 400 exclusion orders made in the relevant period, some of which related to exclusion orders made prior to 1998. The casino's policy in relation to revocation is

that all requests must be in writing and specify the grounds on which the application is made. An Exclusion Review Committee has been established to review all requests for revocation. It meets on a monthly basis.

Star City has undertaken a cull of the exclusion register on five occasions to revoke orders which have been in place for a period in excess of the recommended period of exclusion for that conduct. As a result of three culls in 1998, 178 exclusions were revoked. The cull in 1999 resulted in 25 revocations and in May 2000, the cull was followed by 43 revocations. In the relevant period 498 people who were subject to an exclusion order have been removed from the gaming floor. 415 of these persons were either excluded by the casino or by the Commissioner of Police. 83 persons were voluntarily excluded.

## **THE COMMISSIONER OF POLICE**

The Commissioner of Police has directed that 36 people be excluded from the casino between 1 January 1998 and 30 November 2000.

The NSW Police Service has informed me that it considers the following criteria in directing exclusions:

- the person's criminal history or other evidence/intelligence of their criminality suggests the person warrants exclusion;
- the person is suspected of using the facilities of a casino for an unlawful purpose, for example, money laundering, criminal association, supply or use of prohibited drugs, etc;
- the person has a gambling problem sufficient to warrant exclusion;
- the person is subject to a court order or other judicial process not to enter or attend licensed premises or a casino.

In considering whether a patron should be excluded, the Police Service prepares a profile of the individual based on information and intelligence held by it. In addition, it contacts other agencies such as the Australian Federal Police, National Crime Authority, New South Wales Crime Commission and the Joint Asian Crime Group to determine whether there are any other operational or intelligence issues to take into account.

Following exclusion, the Police forward the names and photographs of the individuals to casino operators in other States and Territories as well as relevant law enforcement agencies in those States and Territories. The NSW Police has a policy that where another jurisdiction

orders the exclusion of a person from a casino in that jurisdiction, and the NSW Police Service is advised, it excludes that person from Star City.

The persons excluded at the direction of the Police have been excluded for a range of activities including loan sharking, associations with known criminals, suspected supply of drugs at the casino, involvement in illegal gaming establishments, extortion, convictions for serious offences, involvement in standover tactics, organised prostitution, organising prostitutes at the Casino, suspect cash transactions, drug related matters, dealing in stolen property, fraud, money laundering, the use of the Casino to advance or complete criminal enterprises and organised importation of prostitutes from overseas.

The Commissioner of Police has not revoked any of the exclusion orders he has directed be made.

## **THE DIRECTOR OF CASINO SURVEILLANCE**

The Director of Casino Surveillance has advised that the following guidelines are used to determine whether a person should be excluded:

- offences of cheating, fraud or forgery in the casino;
- drug abuse, possession or supply in the casino;
- loan sharking, soliciting for prostitution or other undesirable behaviour;
- evidence of a reputation that would adversely affect public confidence and trust that the casino is free from criminal or corruptive influences;
- gambling addiction, begging, theft;
- leaving children unattended and at risk;
- voluntary application (minimum 12 months);
- repeated re-entry of the casino when subject to self-exclusion.

The Director of Casino Surveillance has not excluded any person in the relevant period, other than two persons at their own request.

The Director of Casino Surveillance has adopted the approach of referring the names of patrons he believes should be excluded to the Commissioner of Police for his consideration as to whether exclusion is appropriate. He gave evidence to me that he has done so because he did not want to exclude a person who was of interest to a law enforcement agency.

Consistent with this approach, in July 1998, the Director informed the NSW Police Service of 15 patrons who Government Inspectors believed may be involved in, among other activities, loan sharking in or around the casino, particularly in the Endeavour Room.

The Director advised the Police of further observations of these activities on 2 November 1998. In January 1999, the Commissioner excluded three of those persons. In February 1999, further activities involving loan sharking were observed in the Endeavour Room by Government Inspectors and this information was conveyed to the Police.

In November 1999, the Director was requested to provide the Police with information relating to a further nine patrons. Ten people were excluded at the direction of the Commissioner of Police in December 1999.

Following the Four Corners program, the Director provided a further 19 names to the Commissioner of Police on 19 May 2000. On 15 June 2000, the Commissioner directed that a further five people be excluded.

I understand the Director has provided some 40 names to the Police Commissioner since 1998. The Commissioner has directed that 26 of those persons be excluded.

The Director now provides the Police with the names of persons who are suspected of using illegally obtained funds, for the Police Service to profile.

## **CASINO CONTROL AUTHORITY**

While the Authority presently has no power to exclude, it can review a decision by the Director of Casino Surveillance or Star City to exclude if the excluded person makes the necessary application.

In the period from 1 January 1998 to 30 November 2000, the Authority received 263 requests from persons seeking to have their exclusion orders reviewed. Of this number, the Authority let 129 orders stand and overruled 39 orders. 64 applications for review were received out of time and nine requests related to voluntary exclusion orders in circumstances where the Authority was waiting for further information from the excluded persons.

Nineteen orders are awaiting decision by the Authority. The remainder concern orders which have already been revoked, were made by the Commissioner of Police or were not considered to be a request in accordance with the Act.

## **A NATIONAL APPROACH**

In my 1997 Report, I raised as a matter of concern that some patrons excluded by the NSW Commissioner of Police were visiting casinos in Queensland and Victoria. I noted advice to me that the Authority and the Commissioner of Police had written to casino regulators and Police Services in other States advising them of the names of patrons excluded at the direction of the NSW Commissioner of Police. No action had been taken in those jurisdictions to issue similar exclusion orders. I recommended that the issue be taken up with relevant Ministers in those States.

The need for a national approach to exclusion orders has since been recognised by the NSW Auditor General in his June 1998 report on the Casino Surveillance Division.

At the July 2000 meeting of the Australian Police Ministers Council, I am advised that the Council resolved that the NSW Minister for Police, in consultation with other jurisdictions, develop draft national protocols for casino exclusions by Police Commissioners. The protocols are to, among other matters, establish a system for the exchange of information between Australian Police Services concerning excluded persons, and to ensure that Police Commissioners retain full discretion in determining whether to exclude a person similarly excluded in another jurisdiction. The NSW Minister for Police made a progress report on the draft protocols to the Council meeting held on 13 December. I understand that this matter will be further considered at the next Council meeting in 2001.

As mentioned elsewhere in this Report, as part of this Inquiry I visited casinos and casino regulators in Victoria, Western Australia and Queensland. Although I have not spoken with any person from the Victoria Police Service, I understand from the Victorian casino regulator that the attitude of the Victorian Police Commissioner is to resist an approach whereby exclusion in one State automatically results in exclusion in another State. The casino regulator in Perth expressed a view that each State should make its own decision in respect of excluded patrons. Queensland Police appear to agree that a national approach is desirable.

I understand the desire to retain discretion, but in my view, it is a matter of fundamental importance that there be a national approach to exclusions from casinos. As I have said in public hearing, it must be obvious that unless all the States share a common approach, exclusion from one casino may lead to a concentration of criminal elements in another.

I understand that if a person working in the industry is warned off a racetrack in any State in Australia, that ban applies to every racetrack in Australia. I can see no reason why the same principle should not be applied to casinos.

I recommend that there be a national approach to the exclusion of patrons from casinos in Australia.

## **THE NEED FOR REFORM**

It is plain that the processes in place to enable undesirable patrons to be excluded have not been working adequately. The Director of Casino Surveillance has not exercised his power to exclude at all notwithstanding observations by his staff of undesirable activity including loan sharking. He gave evidence to me that he believed it is Star City's role to detect undesirable activity. The Commissioner of Police has been slow to act upon information provided to him.

Star City, at least prior to the recent controversy, has never excluded a patron for loan sharking, an activity which I believe has been occurring in the casino, although on one occasion it has requested the Police to direct exclusion. I am satisfied that there has been a lack of co-ordination of resources and information which has resulted in undesirable patrons remaining in the casino.

All of those involved in the regulation or operation of Star City must accept responsibility. This includes the NSW Police Service, the Director of Casino Surveillance, the Authority and Star City who must vigilantly monitor and seek out undesirable activity and then exclude those responsible for it.

In order for the casino to be kept free from criminal influence and exploitation, it is essential that the power to exclude be exercised promptly and appropriately by those entrusted with it.

In Chapter 9 of this Report, I describe the structural changes which, in my view are necessary for the appropriate regulation of the casino. Those changes include the creation of an offsite casino police squad, the presence of the police on a Committee of the Authority and associated legislative change. Further, the integration of the Director of Casino Surveillance's

functions and his Inspectorate within the Authority is recommended and is practically almost in place, although legislative change is also required.

I am satisfied from evidence and other information I have received from Star City that it is now conscious of the need for vigilance and has put in place sufficient procedures and appropriate management to ensure this power is exercised with the necessary vigour. There will be, of course, a commercial incentive on the part of the casino to maintain and increase patronage to the casino. Star City will need to ensure that it resolves any conflict between its commercial aims and the legislative requirement that the casino is kept free from criminal influence, in the favour of the latter. Only if that is done will the obligation which it has to the public as the licence holder, be fulfilled. Of course, it is also the role of the Authority to ensure that this outcome is achieved.

During the course of my Inquiry I have had discussions with a number of law enforcement agencies. One issue considered has been the extent to which current investigations by those agencies benefit from the presence of their targets in the casino. It is apparent that the surveillance available at the casino can permit law enforcement agencies to watch their targets with relative anonymity and view any associations those persons may have.

I am not persuaded that this benefit should outweigh the legitimate public interest in keeping casinos free from criminals. I accept that there may be occasions in which the operational imperative is such that it justifies keeping an undesirable person in the casino and under the gaze of law enforcement agencies. However, all relevant authorities should be vigilant to ensure that undesirable patrons are excluded from the casino in a timely fashion and that the public interest in the casino being free from criminals is maintained.

I am satisfied from my discussions that this view is one which is generally respected within law enforcement agencies. In fact, I understand that on only one occasion has the NSW Police Service not excluded a person for operational reasons.

The process of exclusion currently includes the power of review by the Authority in relation to exclusions by the casino operator and the Director of Casino Surveillance. With the assumption of the Director's functions and those of his staff by the Authority, the power to exclude will fall upon the Authority. In my view, there should be no appeal or review from a decision of the Authority to exclude any person.

The power to exclude is an important mechanism for achieving an environment in which criminal influence is diminished. Accordingly, it is appropriate for a decision by the Authority to exclude not be trammelled by the process of appeal. Of necessity, the grounds for exclusion include associations with criminals, and the holding by relevant law enforcement agencies of a reasonable belief that a person is engaged in serious criminal activity. To expose these beliefs to scrutiny in circumstances where the only consequence of exclusion is the removal of a person from one place of public entertainment would not be consistent with the objectives of the legislation.

I recommend that the Authority be given the power to exclude persons from the Casino. That power should not be the subject of appeal or review.

It is important to understand that the approach adopted by Sir Laurence Street to excluding criminals from the casino is not the view adopted in all other States. In some States, provided patrons' behaviour within the casino is acceptable, they will not be excluded, even if it is believed that they are gambling the proceeds of crime or known to be a criminal or an associate of criminals. I understand this to be the attitude in Victoria although Western Australia has adopted the Street approach.

It is obvious that a fundamental conflict exists. People prepared to gamble significant sums of money are attractive customers for a casino even if their money is sourced from criminal activity. Notwithstanding this conflict, the Sydney casino came into being after acceptance of the principles of the Street Report. This must mean that persons known or reasonably believed to be engaged in criminal activity or whose source of funds are reasonably believed to come from criminal ventures should be excluded from the casino.



# CHAPTER SEVEN

## SOCIAL IMPACT

The Terms of Reference for this Inquiry require me to consider the effect of the casino in the community, including the impact or potential impact of casino operations on individuals who attend, or who may attend, the casino and their families.

### LEVEL OF GAMING IN NEW SOUTH WALES

In the last decade, gambling expenditure has increased in all States, largely as a result of the legalisation of gaming machines and an increase in the number of casinos throughout Australia.

In 1998-99, real per capita expenditure on gambling in New South Wales was \$1067.57, an increase from \$627.98 in 1990-91. This is the highest per capita expenditure of any Australian State or Territory and represents an average annual increase of 6.25% pa over this period.

The major growth area has been expenditure on gaming machines and casino gambling.

In 1998-99, total gambling expenditure in New South Wales was \$5.076 billion, nearly 41% of total gambling expenditure in Australia.

The breakdown of expenditure was:

Gaming machines	68.7%
Casino gaming	9.4%
Lottery products	7.3%
Wagering	12.7%
Other	1.8%

New South Wales gambling expenditure in the period 1990-91 to 1998-99 has:

- increased real Government revenue from \$990.25 million in 1990-91 to \$1047.14 million in 1998-99, although the percentage of revenue earned has not changed significantly; and has

- increased gambling expenditure as a proportion of HDI from 2.80% in 1990-91 to 3.89% in 1998-1999, making New South Wales the State with the highest gambling expenditure as a proportion of HDI.

## **PROBLEM GAMBLING**

Casinos have the potential to cause great harm to those who gamble. Excessive gambling can have devastating effects on gamblers, their families and friends and the wider community.

There have been two major examinations of gambling, in the last three years. In November 1998, the Independent Pricing and Regulatory Tribunal released the *'Inquiry into Gaming in NSW'* report. In November 1999, the Commonwealth Productivity Commission published *'Australia's Gambling Industries'*, a report detailing its findings following a year-long national examination of Australia's gambling industries.

### **IPART Report**

The 1998 Independent Pricing and Regulatory Tribunal (IPART) Report, presented recommendations with far reaching implications for gaming operations and harm minimisation in NSW.

IPART's Terms of Reference were to investigate, among other matters, measures to foster a responsible gaming environment and the co-ordination of the problem gaming policies and support services.

IPART defined problem gaming as referring to "*the harm that may arise from a person's gaming that may impinge on the player, his or her family, and may extend into the community*".

Based on research done by others, IPART concluded that there was a prevalence of 'at risk' regular gamblers of 1.3% of the adult population in NSW, ie a total of 64,000.

IPART identified the major support services available in New South Wales for gamblers who experience problems with their gambling included voluntary groups such as Gamblers

Anonymous and Gamblers Helpline and religious, welfare groups such as the Wesley Mission, the Smith Family and St Vincent de Paul and other non-government agencies.

The measures IPART identified to foster responsible gaming were:

- Education
- Availability of professional counselling
- Codes of Conduct
- Research
- Licensing of gaming employees
- Support services for problem gambling
- Responsible Advertising
- Ban employees from gaming
- Labelling signage and brochures
- Family protection
- Enforcing the ban on credit betting
- Restrictions on access to automatic teller machines
- Improved consumer protection
- Improving the design of gaming venues
- Self exclusion programs
- Community consultation
- Responsible provision of complimentary inducements

As these matters relate to Star City, IPART noted suggestions that the Star City slogan "*Bet With Your Head, Not Over It*" was probably not effective and that a simpler slogan may have more effect. However, it did find that the level of consumer protection at Star City was generally higher than at hotels and clubs.

IPART expressed concern that the fine for re entry by self excluded persons was \$2,200 and sought consideration of amending the Act to give the courts discretion as to whether to fine or to require the person to spend the same funds on treatment. I understand that the legislation now empowers the Court to refer people to counselling.

IPART was also of the view that implementation of responsible gaming policies should be the prime responsibility of the gaming operators.

## **Productivity Commission Report**

The Productivity Commission reported on the economic and social impacts of the gambling industries and the effects of the different regulatory structures that surround those industries.

The Commission estimated that about 130,000 people in Australia, or about 1% of the adult population, have severe problems with their gambling. A further 163,000 were estimated to have moderate problems, which while not requiring 'treatment' warranted concern. In all 293,000 people or 2.1% of adults in Australia were estimated to be experiencing problems with their gambling.

According to the Commission, problem gambling varies by State with New South Wales having the highest rate, probably reflecting the greater availability of gaming machines. The prevalence of problem gambling varies by the mode of gambling, with a higher prevalence for regular players of gaming machines, racing and casino table games.

### **Other Initiatives**

In addition to the IPART and Productivity Commission reports, the Gambling Legislation Amendment (Responsible Gambling) Act 1999, (the Responsible Gambling Act) was passed with the object of introducing harm minimisation strategies in relation to gambling venues. The legislation has been described as "*the most interventionist and most comprehensive policy for responsible gambling in Australia and possibly the world*" by Professor Jan McMillan.

It reflects the need for gambling activities to be conducted and promoted in a responsible manner. One of the amendments had the effect of decriminalising the act of a self-excluded person re-entering the casino.

The regulations made pursuant to the Casino Control Act were amended as a result of the Responsible Gambling Act to further limit the advertising of gambling activities by Star City.

Clubs and hotels are also required under this new legislation to display counselling signage on automatic teller machines. This provision was not been imposed upon Star City however, it is an initiative that was adopted by

the casino which now provides G-line signage on all ATMs located within its premises.

Provision was also made under this legislation requiring the display of clocks in gaming machine areas, and the payment of gaming machine prize money of more than \$1000 by cheque. This is presently only required to be undertaken by clubs and hotels and not by the casino. I understand the Government and the Authority are presently considering whether these and other requirements should be imposed upon Star City.

In addition to legislative change, a number of committees and working parties have been established in New South Wales to address the issue of problem gambling. A reference group, chaired by the Department of Health, was set up in late 1998 to assist that Department to establish a government policy framework for the allocation of resources for gambling related counselling, treatment and rehabilitation services. The Department, I understand, is due to report by mid 2001.

A Gaming Issues Working Group has also been established, chaired by the Assistant Deputy Director-General of the Cabinet Office, with senior representatives from, among others, the Department of Community Services, the Department of Gaming and Racing and Treasury. One of its tasks is to recommend initiatives in the area of problem gambling. I understand a current focus of the group is the measures which should be undertaken following the cessation of the freeze imposed on gaming machines which may occur no earlier than March 2001.

A sub committee of this Working Group has been established to formulate policy guidelines for the allocations of moneys from the Casino Community Benefit Fund. That committee has representatives from the Cabinet Office, the Departments of Community Services, Gaming and Racing and Health and others.

In addition to the establishment of these committees, other measures have also been developed. I understand that the Wesley Mission has been funded by the Casino Community Benefit Fund to develop a training course for

workers in gambling related counselling agencies. Star City has also engaged Wesley Mission to develop such a course for staff at Star City. The responsible gambling training course aims to provide casino gaming staff with an overview of the nature of problem gambling, its causes and subsequent impact on individuals, their families and the broader community.

With funds from the Casino Community Benefit Fund, the Department of Gaming and Racing has developed consumer information pamphlets for distribution in casinos and other gambling outlets. The range of pamphlets include information on the house margin, which is the overall percentage of money wagered that is retained by the casino. For example, it informs readers that the house margin for Caribbean Stud Poker is about 5.5% while for Mini Baccarat it is 1.2%. Pamphlets specifically designed for the families of problem gamblers are also being developed.

I also understand that the Liquor Administration Board, which has the role of approving gaming machines in relation to clubs and hotels, is considering the technical standards of machines in light of a harm minimisation policy. I am told it is examining measures including whether the maximum bet limits on gaming machines should be reduced and whether the capacity of machines to accept large denomination notes should be altered.

Significant work is also being done at the national level in relation to responsible gambling. I understand that the Prime Minister, following correspondence from the New South Wales Premier, has established a ministerial council on gambling which is expected to address the issue of problem gambling.

## **G-Line**

G-Line, is a telephone crisis counselling and referral service for problem gamblers and anyone affected by their behaviour. It is funded by the Casino Community Benefit Fund. It represents a large investment towards the provision of counselling services for problem gamblers and their families. Over \$1 million was spent on the provision of this service between 1997 and 1999 and another \$3 million has been earmarked over the next three years.

In its 1999-2000 Annual Report, the provider of the G-line service, High Performance HealthCare, states that G-line has assisted over 10,000 target group calls. Gamblers comprise 69% of the calls while friends, relatives and

partners of gamblers comprise 28% of callers. Of the calls received, the overwhelming majority concerned gaming or poker machines. The casino was the subject of about 500 calls.

### **Star City's Strategies**

Star City acknowledges that a proportion of casino visitors will be problem gamblers and that it has a responsibility to try to assist in the treatment of problem gambling. Star City, in consultation with the Authority, has put in place measures to minimise the adverse impacts of problem gambling upon those casino patrons who may be affected. Some of these measures are required by legislation.

Specific action taken includes:

- 'Bet With Your Head, Not Over It' signage is displayed throughout the casino complex.
- The introduction of a Code of Practice or Responsible Gaming Policy.
- Wesley Gambling Counselling Services being engaged as permanent consultants to provide advice on problem gambling programs.
- A 24-hour crisis intervention provided by a Wesley gambling counsellor and funded by Star City.
- In February 2000 the minimum voluntary exclusion period was raised from 6 to 12-months after consultation with Wesley Gambling Counselling Services.
- Counselling service signage displaying G-Line 24-hour multi-lingual telephone counselling and referral services.
- Pamphlets in 13 community languages, providing information about problem gambling and the self-exclusion program.
- Sponsorship of seminars to ethnic community groups addressing the issue of problem gambling.
- Introduction to Responsible Gaming Program for all Star City employees.

- Employee assistance counsellor to provide gambling counselling, advice and referral to staff with gambling problems.
- ATM machines located away from the gaming areas.
- Signage on all 1,500 electronic gaming machines regarding assistance with problem gambling.
- A Responsible Gaming Committee comprising representatives from different areas of Star City which addresses the issue of problem gambling and responsible gaming on an on-going basis.
- Ticketek tickets to Star City theatres, the Lyric and the Showroom carry the 'Bet With Your Head, Not Over It' slogan.

### **Conclusion**

I am satisfied that the measures which have been put in place by Star City to address the potential negative impact of gambling upon its patrons are appropriate.

I agree with the view expressed by IPART that gaming providers, and in the context of this Inquiry, Star City should have the primary responsibility for implementing measures that protect their patrons from the potentially harmful effects of problem gambling. This should be monitored vigilantly with penalties imposed, where available, on the casino for non-compliance.

### **CASINO COMMUNITY BENEFIT FUND**

The Casino Community Benefit Fund is the principal source of funding for research, education, counselling, treatment and problem gambling rehabilitation services in New South Wales. The Fund provides financial support to organisations offering counselling services for problem gamblers and their families. Funding is also given to projects which address social issues which are considered to be causes or effects of problem gambling such as alcohol and drug abuse, child abuse, domestic violence, homelessness and unemployment. In addition, the Fund is used to benefit the community by promoting industry and community awareness of problem gambling and associated activities through education campaigns.

The Act requires Star City to pay a community benefit levy of 2% on casino gaming revenues into the Fund. I am advised by Star City that, to date it has paid more than \$40 million into the Fund.

The Fund is governed by a Trust Deed and administered by 11 trustees appointed by the Minister. The trustees are drawn from the Wesley Mission, the Uniting Church of Australia, the Society of St Vincent de Paul, the Salvation Army, the New South Wales Departments of Health, Education and Training, Gaming and Racing and Community Services and two are drawn from ethnic communities.

In its examination of gambling in New South Wales, IPART reported that in the years that the Fund had operated, some stakeholders have been dissatisfied with its results. Claims were made that *“there has been insufficient spending on support services for problem gamblers and their families, too much spending on general community programs, insufficient relevant research funded and lack of strategic planning and poor administration”*. IPART recommended that the Fund should only provide funding for support services for gambling related problems, responsible gaming practices and general research into gaming.

Since the IPART report, and in particular during 1998-1999, the Fund approved grants to 42 projects. These projects were connected with counselling and support services for problem gamblers, responsible gaming practices and general research into gaming.

The largest investment so far toward the provision of counselling services for problem gamblers is the funding of G-line.

Another significant investment by the Fund has been an examination of the socio-economic effects of gambling on individuals, families and the community, and included research into the costs of problem gambling in NSW. An original study was conducted on behalf of the Trustees in 1995 and an update was completed in June 1998. The research was prepared by the Australian Institute for Gambling Research, University of Western Sydney Macarthur.

The studies found a small increase from 56,250 to 64,1000 in total population of players who participate in weekly gambling or more who are 'at risk' of significant gambling problems. The study attributed this increase mainly to the increased reporting of problems among weekly players, and the increase in the proportion of the population who play gaming machines

weekly. The economic costs of the negative impact of gambling remained relatively stable at about \$50 million per annum.

During 1999-2000, funds were provided to assist with a range of services including:

- the development and implementation of an intergenerational addictive behavioural prevention program in regional New South Wales;
- the Baptist Church, to provide counselling and treatment services;
- the Anglican Church, to establish a centre based parent counselling support group and;
- a series of introductory problem gambling seminars for general practitioners in Sydney and regional areas.

Funds had been previously provided to the Ethnic Affairs Commission of New South Wales and the Multicultural Health Unit of Western Sydney Area Health Service, to assist with a culturally appropriate and skilled multicultural problem gambling counselling and treatment service. Similar funding has also been provided to other bi-lingual counselling services.

Local Courts, from time to time, deal with the prosecution of persons for breaches of exclusion orders and other gambling related matters. In some cases, the court will form the view that the offender could benefit from counselling for their gambling problems, however, language difficulties have limited the court's ability in this regard. To assist with offenders' access to appropriate services, \$10,000 has been made available for payment of interpreting services.

In addition, to assist those problem gamblers and their families from non-English speaking backgrounds, the Trustees fund a number of ethno-specific counselling programs. One of the programs of this nature is a counselling and treatment service for the Korean community.

## **EFFECT ON ILLEGAL GAMING**

The NSW Police Service has reported that *“recorded incidents of illegal gaming in the Pyrmont area have steadily decreased since May 1995.*

*Incidents have decreased from approximately eight to one per month since May 1995. There have been no recorded incidents of illegal gaming since June 1999 in Pyrmont”.*

During the 12 months period after the opening of Star City, 16 incidents of illegal gaming were recorded. This represents an 80% decrease over the 81 incidents recorded in the preceding 12 month period.

Checks were also undertaken on event and information reports for the period 1 June to 9 October 2000 on gaming within the City Central Local Area Command. This Command includes the Chinatown area. No illegal gaming incidents were recorded during the four month period. One residence within the command was suspected of being used for illegal gaming however, no further information was available in respect of these premises.

## **Conclusion**

It is possible that illegal gaming is occurring in other areas of Sydney, however, the information available to me suggests that it does not pose a serious concern for law enforcement in the State.

## **CRIME IN PYRMONT**

In 1997, I reported that I was satisfied that *“the impact of the casino on local crime is low”*.

The NSW Police Service has advised me that recorded crime in Pyrmont has shown an increase across a number of incident categories since January 1995. However, I understand that it is not possible to establish a causal link between these increases and the opening of Star City casino based solely on incident data.

Recent research has been conducted by the Urban Studies Research Centre of the University of Western Sydney into the impact of the Sydney Casino on the social composition and residential amenity of the residents of Pyrmont/ Ultimo.

Star City informs me that it concluded that although it is difficult to pinpoint a direct link between the casino and crime, the most recent data tends to confirm that the casino has not led to a major increase in criminal activity in the area. Very few respondents perceived that the casino had had a significant impact on crime levels.

I am satisfied that the impact of the casino on local crime is not significant.

## **CAR PARK INCIDENTS**

Star City has one of Sydney's largest and busiest car parks with a capacity of 2500 vehicles. The car park has 5 levels each with around 500 spaces.

Star City has stated that the number of thefts and 'break ins' is generally lower than the number of incidents in comparable car parks at shopping centres. This is probably due to the fact that the casino has some camera coverage in the car park and security patrols.

Star City has stated that only six cars were stolen from its car park in 1998 and seven in 1999. 1.7 million vehicles use the car park each year. A total of 104 cars were broken into during 1998 and 115 in 1999. To put 'break in' figures into perspective, there were 77,415 reported thefts from motor vehicles in NSW in 1995 – 115 of those were at Star City.

Star City has stated that it provides 24 hour a day patrols, security officers on entrance gates and plain-clothes security officers to reduce car theft and break-ins.

The NSW Police Service has provided me with statistics on comparable carparks located within the City Central Local Area Command. The information was collected from reports classified as 'steal from motor vehicles' and was for the period 1 June to 9 October 2000. These statistics indicated that the Star City has one of the lowest percentages of stealing offences in the City Central Command for the four month period outlined above.

I am satisfied that appropriate measures are being taken by Star City in relation to the management of its car park.

## **PASSIVE SMOKING**

Passive smoking has been a recurrent issue in entertainment venues including casinos for some time. On 6 September 2000, legislation came into effect in New South Wales, which prohibits smoking at gaming tables in casinos as well as within restaurants and cafes. The prohibition will apply to

hotels and registered clubs in 12 months time. Fines of up to \$5,500 can be imposed under the legislation.

Smoking is still permitted away from the gaming tables and, accordingly, the issue of passive smoking remains in the casino.

The health and safety of staff and patrons is of paramount importance and I understand that the Authority closely monitors strategies adopted by Star City to minimise the impact of environmental tobacco smoke in the casino with particular attention being paid to the design and functionality of the ventilation and air control systems.

The passive smoking issue was examined in the 1997 Inquiry and an annual air quality testing program has been implemented.

Star City's purpose built ventilation system utilises state of the art exhaust and air filtering technology capable of delivering conditioned, filtered and fresh air as opposed to recycled air, to the main gaming floor at a rate of 125,000 litres per second. Current standards are to deliver a full air change every hour.

In addition, Star City's smoking policy prohibits smoking in all back of house areas, with the exception of a designated staff smoking room. Smoking by patrons is restricted to specific areas in the casino.

Risk reduction strategies endorsed by WorkCover and commenced by Star City include:

- the revision and expansion of Star City's smoking policy;
- the designation of the total 160 gaming tables on the main gaming floor as non-smoking;
- the designation of some 70% of the total workplace area as non-smoking;

- the removal of ashtrays and matches from non-smoking areas and the placement of stand alone ashtrays at entrances to these areas to encourage patrons to extinguish cigarettes prior to entry;
- commissioning local area and directional signage indicating designated smoking/non-smoking areas;
- development of staff and patron education programs;
- provision of staff QUIT programs;
- evaluation of prototype gaming tables with under table ashtrays and local area directional ventilation or 'air curtains' for eliminating drifting smoke;
- installation of CO2 monitors on the main gaming floor;
- development of an air testing program;
- specification of main gaming floor ventilation and control procedures;
- development of a main gaming floor ventilation maintenance program including an early warning and emergency paging system;
- review of air quality in the staff smoking room; and
- examination of alternative 'open air' staff and patron smoking areas within the envelop of the main casino building.

## **AUTOMATIC TELLER MACHINES**

Section 74(3) of the Act provides that it is a condition of the casino licence that automatic teller machines or any like device are not installed within the boundaries of the casino. The boundaries of the casino are defined in the Act and include all of the gaming areas and a number of areas adjacent to the gaming areas.

The Authority requested that in the permanent casino automatic teller machines be located well away from the boundaries of the casino.

There are four banks of these machines with a total of approximately 16 machines located on the lobby and concourse level of the casino premises. The machines are located with at least a 20 metre visual distance and between a 25 to 30 metre walking distance from the main gaming floor. Patrons have to travel via escalators or stairs to access these machines.

As with the majority of automatic teller machines located throughout Sydney, the machines located in the casino premises do not have deposit facilities. This matter has been the subject of comment with a patron who gave evidence before me indicating that on occasion when he wished to deposit winnings, he was not able to do so.

I am satisfied that the locations in which the automatic teller machines are situated within the casino complex are appropriate. However, I recommend that Star City liaise with the banks that own these machines to explore permitting those machines to accept deposits. This would assist patrons to deposit and thus retain their winnings.

## **CHAPTER 8**

### **CULTURE AND CONCLUSIONS**

#### **THE “CULTURE” AT STAR CITY**

It is now common to refer to the “culture” of a corporation. When speaking of corporations the expression refers to the approach that a corporation has to the management of all of its affairs which will include internal matters, its dealings with customers and competitors and, where relevant, regulators. The culture underpins the outcomes which are believed to be desirable.

Star City began as an American owned organisation with some of its key personnel sourced from the gaming industry in the United States. The evidence before me suggests that the culture which came with the United States personnel has not been entirely appropriate in a Sydney casino. It is also clear that many aspects of that culture have been adopted by the casino industry in Australia and that Star City should not be seen as an exception because of its original owner. Now that Star City is Australian owned, most of the original personnel have gone.

The cultural problems which I have identified at Star City have been reflected in a lack of honesty in some casino personnel, a preparedness to accept or deliberately ignore unacceptable conduct or the presence of undesirable patrons in favour of the maximisation of revenue for the casino. Further, there has been a failure to put in place management systems which ensure that the various components of the management effectively communicate information concerning problem areas to each other and a tolerance of undesirable conduct by some casino managers reflecting inevitably in the attitude of employees to issues such as alcohol and money lending.

A number of managers who gave evidence before me denied ever seeing any unacceptable conduct of any person in the casino. Regrettably, I have formed

the view that in some cases the denial of any knowledge was not credible and the answer could not be believed. I am satisfied that the answers I was given were made necessary by the culture which has been in place at Star City. Those involved in the management of the enterprise must carry responsibility for this culture. The answers given by their employees are an inevitable consequence of a lack of effective leadership.

I have reported earlier on the structure of the gaming facilities at the casino. The Endeavour Room, although physically small compared with the main gaming floor, is nevertheless a significant source of casino revenue. It also has the players prepared to gamble relatively large sums necessary to retain membership of the Room. The marketing techniques used the casino to encourage the commercial success of the Room are not exceptional. They include the employment of a group of Hosts who are tasked with ensuring that the needs of individual players are met while coming to or from the casino and whilst actually playing. The Hosts administer a system of complimentaries which reward a player having regard to his or her level of play and theoretical win. The greater the level of gambling, the greater the level of free meals, accommodation or even airfares which will be made available to the player. It is also apparent that the longer a player spends in the Room the greater will be the likely level of play.

It follows that to be a suitable customer of the Endeavour Room a person must be prepared to regularly gamble relatively large sums of money. Unless appropriate guidelines informed by an adequate corporate culture are in place, those who provide services to the player will be unlikely, if the level of play is satisfactory, to question the source of the funds or take action when loan sharking, prostitution or intoxication of patrons occurs. Unless great care is taken it may not be long before such activities become an accepted part of activity in the Endeavour Room.

The Chief Executive Officer of Star City gave extensive evidence before me. He acknowledged that the culture of the enterprise or at least some of its managers may not always have been appropriate. He assured me that he is taking steps to change it. Although I accept his assurance it is plain from the

evidence given to me that recognition of the need for change has largely been generated by the ABC Four Corners program and this Inquiry. This is well illustrated by the fact that the initial and subsequent submissions made by Star City to this Inquiry fell well short of accepting any problems in the functioning of the casino, much less any deficiencies in its culture. The community is entitled to expect that if there are problems the management of Star City would be the first to identify them and that a response should not be dependent upon the investigative work of others.

### **THE FIRST SUBMISSION FROM STAR CITY**

Star City was required to provide the Inquiry with its knowledge of a range of activities within the casino, including soliciting for the purposes of prostitution, money lending, loan sharking and money laundering. The reply from Star City was made after most of the interviews with staff had been conducted by its investigators. The tone of the submission was indignant, suggesting that false and exaggerated claims had been made against the casino.

In the submission of 31 July 2000, Star City said *"...although more than 570,000 have stayed in the hotel, not one complaint relating to prostitution has been lodged...Those engaging in such activities are most unlikely to be blatant about their activities. Indeed, they are more likely to be discreet and even secretive...more difficult than ever before to be certain that someone is soliciting unless the person approached is willing to confirm they have been propositioned."*

Star City advised that reports from its internal investigators indicated only about 14 incidents which might relate to prostitution at Star City in the period under review: *"When the rare, isolated cases are detected, appropriation action is taken to deal with them."*

In respect of criminals gambling the proceeds of crime, the submission said: *"No complaint has ever been lodged."*

Generally it said that improper behaviour *“is subject to intense scrutiny”*.

On matters dealing with intoxication, Star City submitted: *“anyone suspected of becoming intoxicated will be asked to leave the casino for 24 hours”*. And further: *“Star City is aware from the gaming shift reports, of 80 incidents where it has been determined that patrons using the gaming facilities were approaching intoxication. In every case the patron was either asked to leave, escorted from the premises or physically removed.”*

With respect to loan sharking, Star City said: *“Reports surface from time to time that someone is suspected of loan sharking at Star City. However, this inevitably involved anecdotal information rather than any firm evidence...it is extraordinarily difficult to get anyone to come forward and complain about the practice.”*

In relation to the interviews conducted by its internal investigators, Star City said: *“Again most staff had heard stories of loan sharking but had no first-hand knowledge of such activities.”*

In relation to its exclusions of June 2000, Star City said: *“Again there was no solid evidence and these exclusions were based on the balance of probability. Star City has no knowledge of specific transactions.”*

## THE SECOND SUBMISSION FROM STAR CITY

A further submission was received on 16 October 2000, after evidence had been taken from many of the senior management, in the presence of Star City's legal representatives. This submission was said to address the measures taken to ensure the management and operation of the casino was free from criminal influence and exploitation, among other matters.

The submission was similar, indeed in some respects identical to its predecessor. In relation to its internal investigators, it states: *"They operate independently of management and are encouraged to review and report on any suspicious activity"*. By this date, it was clear from the staff interviews that there were no or at least inadequate reporting structures in place to require staff to report suspicious activities to the investigators.

In relation to policies and procedures, the submission said: *"Star City has in place policies and procedures covering every aspect of the company's gaming and non-gaming operations. Staff are expected to adhere to these procedures at all times and any discrepancies are quickly detected."* This statement is in direct contrast to the evidence I received, and the material collected by its own investigators, Star City being aware of both.

The submission continued: *"Star City's policies and procedures are inherently designed to ensure compliance. Without these, and without the inherent culture of compliance that the management of Star City espouses, Star City would have attracted the ire of the Casino Control Authority and failed to achieve its corporate goals. Although it is not obvious to the outsider, the combination of the right people and the right processes at Star City in fact works well."*

*Any employee who discovers a possible violation of any Star City policy or procedure is required to report it to their manager or supervisor.*

*The primary function of the surveillance department is to monitor the Star City complex and report any undesirable activity.”*

This statement is at odds with the evidence from the Director of Surveillance that his department could not detect loan sharking.

Star City describes its Security Department as “*extensive, highly organised, which is constantly on the lookout for criminal activity within the casino premises*”. Yet it was members of that Department who gave evidence to me of gross abuses of the responsible service of alcohol requirements, loan sharking and prostitution, and who had not reported those observations to their management.

Other than one reference to the exclusion of nine people in June 2000, the submission does not acknowledge any of the problems revealed by the evidence to me and the information Star City had obtained. Indeed, it is at odds with the evidence given by the author of the letter attaching the submission to me three days after the date of the submission.

## **STAR CITY’S FINAL SUBMISSION**

A final submission was received from Star City dated 17 November 2000. In this submission the casino finally acknowledges that its procedures and culture require change to prevent unacceptable conduct in the casino. It does not suggest that there is evidence to support a finding that the procedures for reporting patrons of undesirable character of patrons engaged in inappropriate or illegal behaviour were adequate. Further, it acknowledges that Star City’s processes had fallen down in respect of reporting to AUSTRAC. Star City said it was apparent that unacceptable conduct had been taking place in the Endeavour Room for some time prior to June 2000 which should have led to exclusions and yet action was not taken until that time.

In relation to intoxication, Star City accepts that there have been instances of patrons being permitted to continue gambling while intoxicated and to order more drinks. It accepts that there were a number of persons engaged in soliciting for quite a long time within the Endeavour Room and that loan sharking was carried out by a few individuals.

It accepts that there has been inadequate training and supervision of staff and that the management has been inadequate. It said that its managers of the Endeavour Room should have known about the unacceptable conduct.

### **THE JOHN LAWS EPISODE**

On 24 December 1997, Star City entered an agreement with John Laws whereby the latter undertook, among other matters, to promote the interests of Star City and not comment adversely on casino gambling. The agreement involved substantial annual payments to Mr Laws and was for a three year term. The agreement was terminated within two years, presumably as a result of the Inquiry conducted by the Australian Broadcasting Authority.

In its report of that Inquiry, the Australian Broadcasting Authority made a number of findings adverse to Mr Laws. It also found that in relation to his arrangements with Star City, Mr Laws made no mention on air of the incident which led to the death of Mr Dalamangas because of his contractual obligations to Star City.

There are many issues which arise in relation to arrangements between broadcasters and their sponsors. Although arrangements to promote the quality of a sponsor's product raise issues which can readily be resolved, the use of broadcasters to control or influence public opinion on sponsor-related but community based controversies is quite different. It is apparent that Star City believed it appropriate to contract with Mr Laws and require him to use airtime to promote Star City's perspective. The fact that the listener did not know that Mr Laws received money from Star City to expound those views

was found by the Broadcasting Tribunal to be misleading. It clearly was, and reflects adversely on Star City.

### **ACTION TAKEN BY STAR CITY**

Following the airing of allegations on ABC Four Corners program, there have been two Inquiries. The first was commissioned by Tabcorp and the Hon. J Cripps QC was appointed to conduct the investigation. He has recently completed his report and a copy has been made available to me. Mr Cripps' conclusions are similar to my own.

The second investigation was undertaken by the Investigation Manager of Star City and consisted of interviews with staff. The results of those interviews are also consistent with the conclusions I have reached.

In addition, Star City has initiated a review of its procedures and controls. The Committee appointed to conduct the review is considering a number of matters, including the following:

- improved controls for entry to the Endeavour Room;
- placing an obligation on Security and Surveillance to monitor and report undesirable conduct;
- reports of such conduct to be referred to the investigators;
- an education program as to staff's responsibilities;
- imposing a responsibility on all staff to report soliciting.

In relation to access to the Endeavour Room, the Committee is considering the possibility that new applications for membership should be approved by the Chief Executive Officer and General Manager of Table Games. The introduction of a photo Endeavour Room card and a Code of Conduct are also being considered.

### **THE CHANGES WHICH SHOULD BE MADE**

The changes which take place are, of course, a matter for Star City. However, unless the culture changes so that integrity of the operation is paramount, changes in procedures will prove inadequate. Specific changes must include the following, although others may be necessary:

- There must be a change in the relationship between the Authority and its personnel and employees of Star City. That relationship, although appropriate at some levels, has failed, particularly at the casino itself. Star City staff must be not only permitted but required to provide information to the officers of the surveillance arm of the Authority. This information must be freely given and understood to be provided to ensure the maintenance of appropriate conduct and practices within the casino. Furthermore, regulation will only be effective if the Inspectors appreciate that they should conduct their business without unnecessarily interfering with commercial activities.
- Star City must adopt the approach that patrons gambling the proceeds of crime are not wanted in the casino. This approach must inform its procedures for permitting membership of the Endeavour Room and the maintenance of that membership. It must work with the Authority and other law enforcement agencies to ensure that, so far as possible, monies which have been illegally obtained are not gambled at the casino.
- There must be a complete change in the attitude of all Star City management to the detection of undesirable practices in the casino. Although I have no doubt Star City is acute to detect practices which may impact adversely on the casino revenue, the detection of money lending/laundrying, loan sharking and soliciting for prostitution must be improved. At best, the past attitude of some of the management to these issues can be described as “wilfully blind” although in relation to

some I formed the view they had observed activity but chose not to report it.

- A further change is necessary with respect to undesirable and unacceptable practices. A belief appears to exist that unless, for example, loan sharking is actually witnessed by a Star City employee as opposed to reported by a patron, Star City is powerless to act. A report from a patron who was party to such a transaction was said not to be evidence which could be acted upon. This belief is completely misplaced. Star City is free to act to exclude patrons on report from others who have observed inappropriate behaviour, provided Star City believes, on reasonable grounds, that the reports are accurate.
- It is also important that in resolving the problems in the Endeavour Room the potential for difficulties elsewhere in the casino is not overlooked. In particular, it will be important to ensure that effective discipline in the Endeavour Room does not cause similar problems to emerge on the main gaming floor. I recommend that these matters must be closely monitored and effective action taken to eliminate any problems which are identified.

I have already identified the difficulties which have been created by the failure of management to communicate its requirements on various behavioural matters to staff. It begins with the failure to put in place procedures for its detection and create an expectation that staff will act to assist in eliminating potential problems. The difficulties have been reinforced by a failure to explain to staff the reasons why some exclusions have been implemented. This failure leads to uncertainty and consequently inaction by staff in eliminating the problem.

## **Other changes**

Beyond matters which derive from the management culture and practices of Star City, there are other matters raised throughout this Report which require attention. They relate generally to the issues raised in Chapter 5 and emanate from problems in the Endeavour Room.

My recommendations in relation to these matters are identified elsewhere in this Report.

## **CONCLUSION**

Because of the initial inability or reluctance of Star City to acknowledge any problems, I have some reservations about the corporate will of the casino to accept the need for change and to implement appropriate measures. However, my discussions with the management of Tabcorp leave me with no doubt that the owner of Star City is determined to see changes occur. These changes will extend to management values and practices and may include changes to the management structure and some personnel. It is not for me to dictate any changes but unless effective changes are made I am satisfied that the fitness of Star City to continue to hold the licence would need to be further considered.

I have come to the view that Star City is a suitable person to continue to give effect to the casino licence. However, because of the difficulties which have been confirmed by my Inquiry, I recommend that the Authority continue to monitor the progress of Star City towards achieving a satisfactory culture and the desired management outcome. It would be appropriate for the Authority to determine whether appropriate changes have been made and review the position, with the assistance of formal interviews at the end of 2001.

A real change in the corporate culture will only occur when the organisation adopts a belief that in the long term the changes will result in a better commercial outcome for the organisation. Just as many corporations have

come to realise that safe work practices, even if more costly in the short term, ultimately reflect in the long term commercial success of the enterprise, so Star City management must realise that without the appropriate culture the enterprise will suffer financially, quite apart from any question of continuing to hold the licence. I accept that in the short term, because not all casinos in Australia have adopted the same values, change in some practices may be thought to bring commercial disadvantages. However, in the long term I have no doubt all Australian casinos must come to the same position. Any which do not will ultimately fail either because of the regulators taking action or because their image will diminish to the point where only the few will choose to gamble at their premises.

## CHAPTER 9

### REGULATORY STRUCTURE

By letter dated 29 June 2000, I was requested by the Premier to advise him as to the what changes, if any, might be made to strengthen the legislation or its administration. In October, my views were sought on whether the Casino Control Authority should be subject to the jurisdiction of the Ombudsman.

Dealing first with the regulatory structure surrounding Star City casino, I advise as follows:

#### **Director of Casino Surveillance**

In my earlier Report, I recommended that consideration be given to changing the relationship between the Director of Casino Surveillance and the Authority. The reason for the separation of the two bodies is found in the Street Report. With the practical experience now available I have come to the view that control of the casino will be more effective if the Authority has responsibility for the Director of Casino Surveillance and his inspectors.

The Authority in discharging its obligations relies largely on the observations of and information from the Director of Casino Surveillance. Because of the present regulatory structure the Authority does not have effective control over the manner in which the Director of Casino Surveillance carries out its functions. I also note that duplication of effort by the Director of Casino Surveillance and the Authority was recognised as a problem with the present structure in the 1998 Audit report prepared by the NSW Audit Office.

In my view the activities undertaken by the Director of Casino Surveillance should be sourced from the Authority rather than the Department of Gaming and Racing as is the present case.

Further, under the integrated body, there is no longer any justification for a statutory officer performing the functions of the Director of Casino Surveillance. The Authority should perform those functions. The statutory office of the Director should be abolished.

The Premier announced on 31 August 2000, immediately following my public hearing, that the Director and his officers would become part of the Authority. I understand that the Director

and some of his officers are now physically located within the Authority. Legislation has not yet been put before Parliament to effect this and other related change.

### **Objects of the Act**

The Act confers a number of objects on the Authority, although the Act itself does not contain an objects clause. One of the objects of the Authority is to ensure that the management and operation of the casino remains free from criminal influence and exploitation. In my view, the Act should make plain that this object is to be applied by Star City and the Director of Casino Surveillance, for as long as that position remains, as well as the Authority. Thus the objects of the Authority should extend to the operation of the Act as a whole.

### **Police Presence**

I have found that loan sharking and soliciting for the purposes of prostitution have occurred at the casino. In addition, I have found that criminals have attended the casino and have gambled the proceeds of crime. Further, I have accepted that money laundering can and has occurred at the casino. Many of those engaged in these activities were permitted to remain in the casino long after Star City and others were aware of their presence. A number of measures are required to combat these problems and they are discussed in this Report.

At the public hearing held on 31 August 2000 I indicated that I had formed the view that it is essential that there be a police presence in the casino to perform several roles. First, to assist the casino and regulator in identifying undesirable patrons; secondly, to benefit from whatever intelligence can be gleaned from the conduct of some patrons and finally to investigate allegations of loan sharking and prostitution, where it is believed that a criminal offence may have been committed.

In order to determine whether patrons are known or suspected to be criminals and are likely to be gambling the proceeds of crime, police involvement is also required. This is the position in Victoria, Queensland and Western Australia and from my discussions in each of those States, a police presence performs a valuable service.

In response to my earlier suggestions made at the public hearing, I understand that the Minister for Police and the Commissioner have proposed that a specialist Casino Intelligence Unit be created within the Police Service. Although not based at the Casino they envisage that the Unit would attend the casino as operational and intelligence demands dictate and serve as a contact and liaison point between the Service, the Authority and casino management. Its role would be to focus on major and/or systemic criminal issues associated with the casino, identify and develop viable criminal targets, conduct high level intelligence investigations and manage the Commissioner's exclusion process.

I also earlier suggested that a police officer should be appointed to the Authority's board. However, I understand that the Minister and Commissioner are of the view that the appointment of a Police Officer on the Board of the Authority gives rise to a clear conflict of interest. While I do not agree that the appointment of a Police Officer would give rise to a conflict of interest, I have given consideration to the alternatives suggested.

The Police Minister and Commissioner propose that the Authority be given a statutory power to issue written references to the Commissioner of Police seeking advice on major and/or systemic criminal issues connected with the casino. The Commissioner would be required to formally report to the Authority on matters the subject of reference.

It is further proposed that representatives of the Police Service serve on committees of the Authority constituted under the Act. Clause 18 of Schedule 1 to the Act provides:

*(1) The Authority may appoint committees to enable it to exercise its functions.*

*(2) A committee need not include a member of the Authority.*

*(3) The procedure for the calling of meetings of a committee and for the conduct of business at those meetings is to be as determined by the Authority or (subject to any determination of the Authority) by the committee.*

My purpose in requiring police involvement with the Authority is to ensure that matters of a criminal nature are dealt with appropriately within the casino. After careful consideration, I am satisfied that the proposals put forward by the Commissioner and Minister for Police achieve the desired outcome.

In my view the establishment of the Casino Unit with the identified goals should greatly assist in resolving the problems I have identified with Star City. The Unit should result in the more timely flow of information between the police and the Authority, enable the prompt identification of criminals and other undesirables in the casino and obtain intelligence on the source of suspect funds being gambled. Furthermore, it should result in appropriate people being swiftly excluded.

Thus I recommend that a Casino Intelligence Unit be established within the Police Service to focus on major and/or systemic criminal issues with the casino, among other matters.

In addition, in my view it would be appropriate for the Authority to establish a standing committee under clause 18, to monitor the presence of criminals and other undesirables in the casino and matters of loan sharking and prostitution. A senior member of the Police Service representing the Commissioner should serve on that Committee, along with one or more members of the Authority. That Committee should also have a role in advising the Board on exclusions.

This measure should result in closer liaison between the police and the Authority, permitting regular communication concerning undesirable patrons and their timely exclusion. Evidence before me suggests that the flow of information between those responsible for the casino's regulation has been limited, particularly in relation to law enforcement activity. A senior officer nominated by the Commissioner on Committee of the Authority can only improve the understanding of the police and regulator to issues of criminality within the casino and the capacity to take swift and appropriate action.

Further, I recommend that the Authority be empowered to issue written references to the Commissioner of Police seeking advice on major and/or systemic criminal issues connected with the casino and to require the Commissioner to formally report to the Authority on matters the subject of reference.

## **Section 143 Inquiries**

Section 143 of the Act permits the Authority to appoint a person to hold an inquiry for the purpose of exercising the Authority's functions. An inquiry may be presided over by a member of the Authority's Board or by any person appointed by the Authority. Evidence to an inquiry may be given on oath or affirmation.

The Act requires those directly or indirectly associated with the casino operator to give evidence. However it does not empower the person presiding to require a person directly or indirectly associated with matters the subject of an inquiry to give evidence to the inquiry. In my Inquiry, the absence of this power posed no difficulties as people, in the main, were willing to give evidence. However, the capacity of a future inquiry to properly investigate matters could be hindered.

Accordingly, I recommend that the Act be amended to empower a person presiding over an inquiry held under s.143 to compel a person to give evidence before the inquiry and/or produce documents to the inquiry where the person is directly or indirectly associated with matters the subject of an inquiry.

I also recommend that the Act be amended to empower the person presiding to, if satisfied that a direction is necessary or desirable in the public interest, direct that the following must not be published or must not be published except as specified

- evidence given to the inquiry;
- the contents of a document or a description of a thing produced to the inquiry;
- information that might enable a person who has given evidence or is about to give evidence before the inquiry to be identified or located;
- or the fact that a person has given or may be about to give evidence at a hearing.

A precedent for this amendment exists in section 112 of the Independent Commission Against Corruption Act 1988. One of my reasons for sitting in private during this Inquiry was the absence of a power to prevent publication of, among other matters, the names of those giving evidence and the people identified by them in their evidence.

Accordingly, I recommend that the Act be amended to empower a person presiding over a s.143 inquiry to prevent the publication of evidence on public interest grounds where, in the reasonable opinion of the person presiding, publication may jeopardise the inquiry.

### **Access to casino information**

The Act safeguards casino information through the imposition of strict secrecy controls (s.148). The Act creates exceptions so that casino regulators may divulge casino information or produce casino documents to the NSW Crime Commission, the Independent Commission Against Corruption, the National Crime Authority and the Police Integrity Commission.

It is recommended that the Police Service be added to this list of named law enforcement agencies, as the absence of the Service means that information or documents may presently be provided to it only through case-by-case approvals on public interest grounds. The omission of the Service from the exceptions clause may impede effective information flow.

### **Internal controls in private gaming areas**

Under s.124 of the Act a casino operator can conduct gaming only in accordance with a set of internal controls and administrative and accounting procedures that have been approved by the Authority. It is customary for controls and procedures of this kind to detail precisely the manner in which gaming is to be conducted.

Section 125 describes many topics on which an internal control or an administrative and accounting procedure must be created. For example, game play procedures, prize recording procedures, money collection procedures, chip transfer and recording procedures, security procedures, and key control.

However there is no topic which envisages an internal control or administrative and accounting procedure that applies specifically to any part of the casino where special entry requirements apply, such as areas utilised for private gaming. This deficiency could impede the Authority from imposing strict obligations on aspects of the operation of the gaming area(s) at Star City in the areas of for example, membership privileges and access rights.

It is therefore recommended that the Act be amended to require the internal controls and administrative accounting procedures for a casino to provide specifically for procedures that apply in respect of any part of the casino utilised for private gaming.

### **Probity status of Authority's staff and consultants**

Section 136 requires a determination to be made that any person proposed for appointment as a staff member of or as a consultant to the Authority or as a casino inspector possesses

the highest standard of integrity. A determination must be preceded by probity inquiries into the appointee, which is to include consideration of a report from the Commissioner of Police.

There is no present statutory requirement or capacity for a person, once appointed to any of these positions, to undergo probity updates during the course of their tenure. This situation exposes the Authority to risk. It is recommended that the Authority be empowered to at any time require its staff members and consultants to submit to a probity review for the purposes of a fresh integrity determination.

### **Jurisdiction of the Ombudsman**

I have been advised that there is a proposal that clause 24 of Schedule 1 to the Ombudsman Act be repealed. This would have the effect of permitting the Ombudsman to review administrative conduct of the Authority with the exception of the conduct of the Authority relating to the carrying on and determining of an inquiry or any other proceedings and conduct relating to employment matters.

After consideration of the matter and a review of the report of Sir Laurence Street, I am of the view that it would be difficult to clearly delineate administrative matters from other functions of the Authority excluded by other clauses of Schedule 1. The Authority performs specialised functions requiring the consideration of many licensing issues. Of necessity this involves investigation and evaluation of material from a variety of sources including the Police. In these circumstances, it would not be appropriate to provide for review by the Ombudsman and the exemption in clause 24 of Schedule 1 to the Ombudsman Act should remain.

## **ACKNOWLEDGEMENTS**

Because of the issues which were addressed, the investigation required was more complex in many respects than the investigation in 1997. As in 1997, discussions were held with many organisations, government bodies and individuals. In particular, the NSW Crime Commission, National Crime Authority, AUSTRAC and the NSW Police Service, have given generously of their time. Their contribution has been particularly valuable in formulating recommendations for the future regulation of the Casino. I am grateful for their assistance.

My inquiries were assisted by specialist advisers in a number of areas. Mr David Barbuto of Pannell Kerr Foster reviewed the operation of the casino complex, the hotel and entertainment venues, and I have relied significantly on his advice. Mr Brian James of the same organisation reviewed the financial operation of Star City and Tabcorp. I am grateful for their timely and effective response to my requests.

Before I was engaged to assist this inquiry, the Authority had gathered a team to assist the process. It was originally comprised of Margaret Hannon, Orla Murray and Marc Duggan. After Marc Duggan left Anthony Krithinakis was seconded from Clayton Utz, Lawyers to assist. I thank them all for their various efforts.

The Authority and its staff provided complete support in carrying out the task. In particular, my thanks are due to Mr Neville Allen, for a time the Acting Chairman, Ms Jenny Calkin and Sir Nicholas Shehadie who was appointed Chairman in September 2000. Mr Brian Farrell, the Chief Executive of the Authority, deserves my special thanks for his efforts both in logistical support and in dealing with the many complex issues where his experience and ability proved invaluable.

Ms Gail Furness of counsel was appointed by the Authority to assist me in the inquiry. Her considerable experience in investigation and issues related to government regulation contributed greatly to the successful completion of this report. She carried many of the burdens of the inquiry, managing the process, conducting many informal discussions and has assisted significantly in formulating the recommendations. I express my personal gratitude for her efforts.

# **ANNEXURE 1**

## **LIST OF SUBMISSIONS RECEIVED BY THE INQUIRY**

1. NSW Taxi Council
2. Gamblers Help Line
3. Ultimo Primary School
4. Aristocrat Leisure Industries Pty Ltd
5. The Shepherd Centre
6. The World of Fruit
7. Graphic Overprint Pty Ltd
8. Hospitality Hire
9. Quasar Professionals
10. Argo Electric Pty Ltd
11. Independent Display Services
12. Tom & Franks Providores
13. Security Mailing Services Pty Ltd
14. Mercury Computer Systems Pty Ltd
15. Darling Harbour Business Association Inc.
16. Royale Limousines
17. Shiloh HIV/AIDS Support Services
18. NSW Council of Churches
19. Peak Events and Entertainment
20. Stephen Taylor
21. Harrah's Entertainment Inc
22. Leighton Properties Pty Ltd
23. Alexander Preston
24. GAME
25. Bysgil Pty Ltd & Hong Tai & Co.
26. The Tourism Task Force

27. Concept Amenities Pty Ltd
28. Sydney Harbour Foreshore Authority
29. Stowe Australia Pty Ltd
30. Clarke & Walker Pty Ltd
31. NSW Police Service, Crime Agencies
32. Brambles Security Services Limited
33. Consensus Research Pty Ltd
34. Clubs NSW
35. Thorn Australia Pty Ltd
36. Vertifix Australia Pty Ltd
37. Hong Australia Corporation Pty Ltd
38. Gaming Computer Systems
39. Harold Abrahams and Associates Pty Ltd
40. Michael Page International (Australia) Pty Ltd
41. Steve Zlatko Povlovic
42. E W H Food Services
43. Bar Code Data Systems Pty Ltd
44. Star City
45. IntoTech Recruitment
46. Tourism New South Wales
47. Sydney Fountains Waterforms Pty Ltd
48. IGT Australia Pty Limited
49. Wesley Gambling Counselling Services
50. Amada Pty Ltd
51. Preferred Produce Pty Ltd.
52. Moores Corporation Australia Pty Ltd.
53. Brett Lyons
54. Unsigned – letter received from Ministers office

55. Australian Institute of Gaming Research

56. John Williams

57. Graham Marsden

58. National Crime Authority

## ANNEXURE 2

### SECTION 32 NOTICE

Pursuant to s.32 Casino Control Act 1992, (the Act) you are required to prepare and to provide the Authority with the information specified below by 31 July 2000. Unless otherwise specified the information sought covers the period 1 January 1998 to 1 July 2000. Any reference to information that the casino has is a reference to the information of Star City Pty Ltd, information of its directors and its executives responsible for managing the operation of the casino.

1. The nature and extent of service provided to the casino by Harrah's Entertainment Inc including, but not limited to, Harrah's involvement in the operations of the Endeavour Room.
2. Whether the gaming equipment used in the casino is adequate for the purposes of the casino.
3. In relation to the power of the casino operator to exclude persons from the casino pursuant to s.79 of the Act:
  - a. The number of persons issued with a verbal or written order pursuant to s.79(1) and (2);
  - b. The reasons for the issue of each order referred to above;
  - c. Details of any guidelines or policies of the casino operator as to the circumstances in which the casino exercises its power under s.79;
  - d. Any procedure established by the casino operator by which the power under s.79(1) and (2) is to be exercised;
  - e. The number of persons issued with an order under s.79(3);
  - f. Any procedure followed by the casino operator by which the power under s.79(3) is to be exercised;
  - g. The number of exclusion orders revoked by the casino under s.82 and in relation to each, whether the order was made under s.79(1) or s.79(3);
  - h. The reason for each revocation referred to above;

- i. The procedure followed by the casino in relation to each application for revocation;
  - j. The number of persons the subject of an exclusion order who have been removed from the casino by the casino operator and, in relation to each, whether that person was the subject of an order under s.79(1) or s.79(3).
4. Whether the casino has information that the casino is or has been used for the purposes of money laundering, and if so, the names of the persons involved, the process by which money was laundered, the amount involved, the date(s) on which it occurred and the action taken by the casino in relation to each incident.
5. Whether the casino has information that drug dealing has occurred or is occurring in the casino, and if so, the names of the persons involved, the nature and amount of the drug involved, the date(s) on which it occurred, the location within the casino at which the incident(s) occurred, and the action taken by the casino in relation to each incident.
6. Whether the casino has information that persons with a criminal conviction have frequented or do frequent the casino, and if so, the names of the persons involved, the nature of the conviction, the date(s) on which they attended, the location within the casino at which they attended, and the action taken by the casino in relation to each attendance.
7. Whether the casino has information that persons with criminal associations have frequented or do frequent the casino, and if so, the names of the persons involved, the date(s) on which they attended, the location within the casino at which they attended, and the action taken by the casino in relation to each attendance.
8. Whether the casino has information that persons attending the casino have gambled or gamble with the proceeds of crime, and if so, the names of the persons involved, the date(s) on which they attended, the location

within the casino at which they gambled, and the action taken by the casino in relation to each incident.

9. Whether the casino has information that soliciting for the purposes of prostitution has occurred or is occurring at the casino, and if so, the names of the persons involved, the date(s) on which it occurred, the location within the casino at which the soliciting occurred and the action taken by the casino in relation to each incident.
10. Whether the casino is aware that money lending has occurred or is occurring at the casino, and if so, the names of the persons involved, the amount of money involved, the date(s) on which it occurred, the location within the casino at which the money lending occurred and the action taken by the casino in relation to each incident.
11. Whether the casino is aware that loan sharking has occurred or is occurring at the casino, and if so, the names of the persons involved, the amount of money involved, the date(s) on which it occurred, the location within the casino at which the loan sharking occurred and the action taken by the casino in relation to each incident.
12. Whether the casino is aware that break ins in the casino car park have occurred, and if so, the date(s) on which they occurred and the action taken by the casino in relation to each incident.
13. Whether the casino is aware of any criminal activity of its staff or allegations against staff of involvement in criminal activity and if so, the name of each staff member, the nature of the allegation or activity, the name of the person making the allegation, the date of the allegation or activity and the action taken by the casino in relation to each allegation or activity.
14. Whether the casino is aware that patrons at the casino have gambled while intoxicated, and if so, the names of the patrons involved, the date(s)

on which it occurred, the location within the casino at which it occurred and the action taken by the casino in relation to each incident.

15. The criteria by which patrons are admitted to the Endeavour Room.
16. The names and positions of staff permitted to admit patrons to the Endeavour Room.
17. The criteria by which patrons' admission to the Endeavour Room is revoked.
18. The names and positions of staff permitted to revoke the admission of patrons to the Endeavour Room.
19. Any procedure established by the casino to ensure that excluded persons do not receive inducements to gamble by the casino.
20. The number of complaints received by the casino operator by patrons and, in relation to each, the nature of the complaint, the date on which the complaint was made, the name of the complainant and any action taken by the casino in relation to the complaint.
21. The number of complaints received by the casino operator by staff of the casino and, in relation to each, the nature of the complaint, the date on which the complaint was made, the name of the complainant and any action taken by the casino in relation to the complaint.
22. The procedure by which complaints are dealt with by the casino.
23. The steps taken by the casino to prevent minors gaining access to the gaming and liquor facilities in the casino.
24. Any action taken by the casino to address the issue of problem gaming including the use of automated signage.

25. Describe the circumstances in which “winning” and “non-winning” cheques are issued by the casino and the criteria by which the casino forms the view that “it wishes to accommodate the request” of a patron for a cheque as referred to in Internal Control Procedure 5.5.13.

## **ANNEXURE 3**

### **SECTION 104 NOTICE**

Pursuant to s.104(1) Casino Control Act 1992, (the Act) you are required to prepare and furnish to the Authority a report concerning the information specified below by 31 July 2000. Unless otherwise specified the information sought covers the period 1 January 1998 to 1 July 2000 and seeks the opinion of the Director of Casino Surveillance (DCS).

- a. Whether the holder of the casino licence has obtained the services of persons who have sufficient experience in the management and operation of the casino.
- b. Whether the gaming equipment operated by the casino is sufficient and is an appropriate mix.
- c. The matters under review by DCS in 1997 and referred to in the 1997 section 31 investigation report to the Minister.
- d. In relation to the power of the DCS to exclude persons from the casino pursuant to s.79 of the Act:
  1. The number of persons issued with verbal or written order pursuant to s.79(1) and (2);
  2. The reasons for the issue of each order referred to above;
  3. Details of any guidelines or policies of the DCS as to the circumstances in which the DCS exercises its power under s.79;
  4. The names and positions of the persons to whom the DCS has delegated the power to exclude under s.79;
  5. Any procedure established by the DCS by which the power under s.79(1) and (2) is to be exercised;
  6. The number of persons issued with an order under s.79(3);
  7. Any procedure followed by the DCS by which the power under s.79(3) is to be exercised;
  8. The number of persons the subject of an exclusion order who have entered or remained in the casino, in relation to each, whether that person was the subject of an order under s.79(1) or s.79(3)

- e. Whether the DCS has knowledge that the casino is or has been used for the purposes of money laundering, and if so, the names of the persons involved, the process by which money was laundered, the amount involved, the date(s) on which it occurred and the action taken by the DCS in relation to each incident.
- f. Whether the DCS has knowledge that drug dealing has occurred or is occurring at the casino, and if so, the names of the persons involved, the nature and amount of the drug involved, the date(s) on which it occurred, the location within the casino at which the incident(s) occurred, and the action taken by the DCS in relation to each incident.
- g. Whether the DCS has knowledge that persons with a criminal conviction have frequented or do frequent the casino, and if so, the names of the persons involved, the nature of the conviction, the date(s) on which they attended, the location within the casino at which they attended, and the action taken by the DCS in relation to each attendance.
- h. Whether the DCS has knowledge that persons with criminal associations have frequented or do frequent the casino, and if so, the names of the persons involved, the date(s) on which they attended, the location within the casino at which they attended, and the action taken by the DCS in relation to each attendance.
- i. Whether the DCS has knowledge that persons attending the casino have gambled or gamble with the proceeds of crime, and if so, the names of the persons involved, the date(s) on which they attended, the location within the casino at which they gambled, and the action taken by the DCS in relation to each incident.
- j. Whether the DCS has knowledge that soliciting for the purposes of prostitution has occurred or is occurring at the casino, and if so, the

names of the persons involved, the date(s) on which it occurred, the location within the casino at which the soliciting occurred and the action taken by the DCS in relation to each incident.

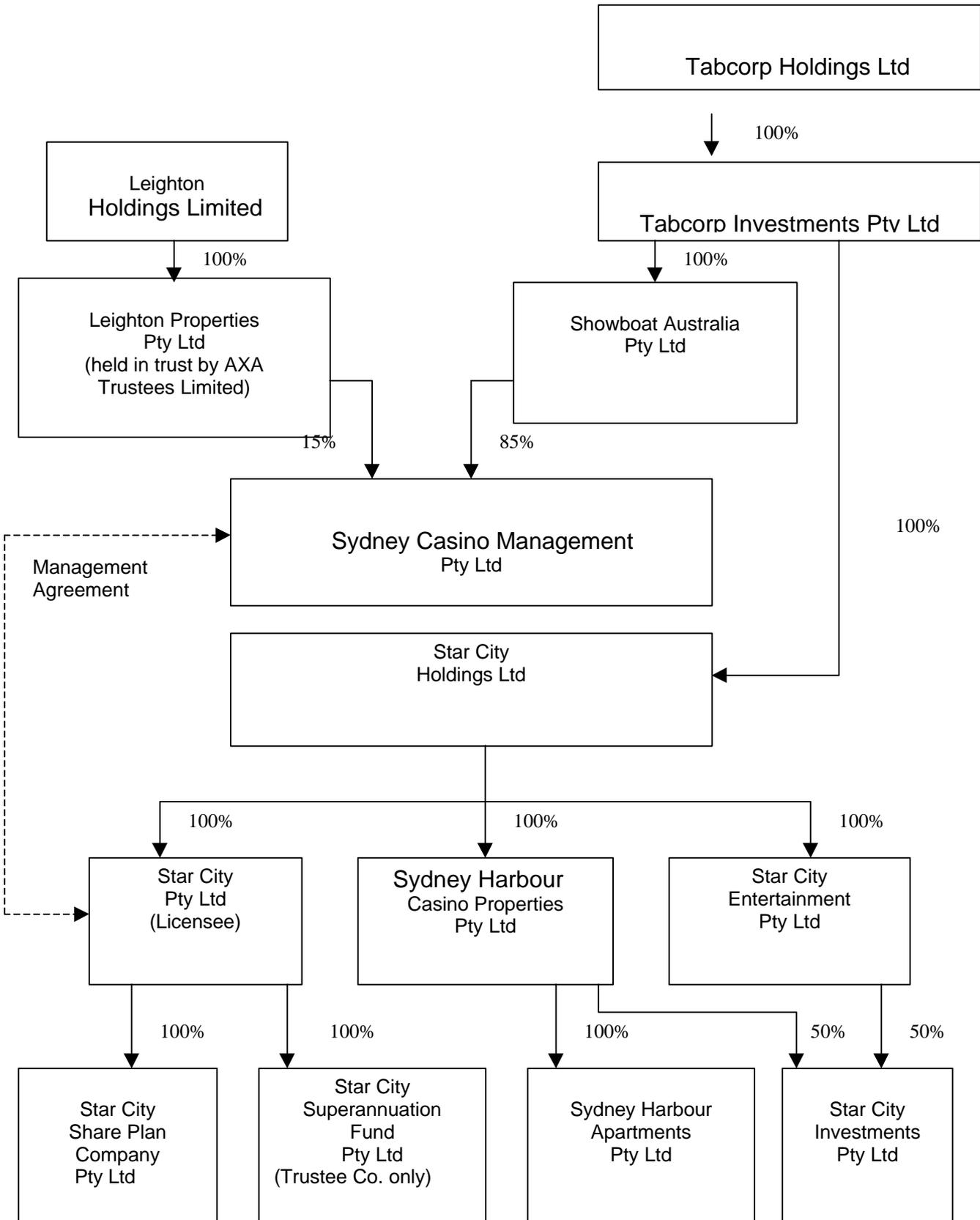
- k. Whether the DCS is aware that money lending has occurred or is occurring at the casino, and if so, the names of the persons involved, the amount of money involved, the date(s) on which it occurred, the location within the casino at which the money lending occurred and the action taken by the DCS in relation to each incident.
- l. Whether the DCS is aware that loan sharking has occurred or is occurring at the casino, and if so, the names of the persons involved, the amount of money involved, the date(s) on which it occurred, the location within the casino at which the loan sharking occurred and the action taken by the DCS in relation to each incident.
- m. Whether the DCS is aware of any allegations against staff of the casino of involvement in criminal activity and if so, the name of each staff member, the nature of the allegation, the name of the person making the allegation, the date of the allegation and the action taken by the DCS in relation to each allegation.
- n. Whether the DCS is aware that patrons at the casino have gambled while intoxicated, and if so, the names of the patrons involved, the date(s) on which it occurred, the location within the casino at which it occurred and the action taken by the DCS in relation to each incident.
- o. The number of complaints by patrons received by the DCS and, in relation to each, the nature of the complaint, the date on which the complaint was made, the name of the complainant and any action taken by the DCS in relation to the complaint.
- p. The number of complaints by staff of the casino, if any, received by the DCS by staff and, in relation to each, the nature of the complaint, the

date on which the complaint was made, the name of the complainant and any action taken by the DCS in relation to the complaint.

- q. Details of all offences detected under s.104(1)© of the Act.
- r. Details of all prosecutions commenced under s.104(1)© of the Act.
- s. Details of all offences committed against s.113 of the Act.
- t. Whether, and if so, the circumstances in which an inspector has exercised powers under s.111(1)(a) – (h) and s.112.
- u. A list of all persons for whom a Person Of Interest file has been created.

# ANNEXURE 4

## STAR CITY CORPORATE STRUCTURE



## **ANNEXURE 5**

### **MAJOR SHAREHOLDERS OF TABCORP**

- Westpac Custodian Nominees Limited
- Chase Manhattan Nominees Limited
- National Nominees Limited
- Citicorp Nominees Pty Ltd
- Perpetual Trustees Victoria Limited
- AMP Life Limited
- Perpetual Trustee Company Limited
- BT Custodial Services Pty Ltd
- Queensland Investment Corporation
- National Mutual Life Association of Australasia Limited

## **ANNEXURE 6**

### **KEY CLOSE ASSOCIATES**

- Tabcorp Holdings Limited
- Tabcorp Investments Pty Ltd
- Showboat Australia Pty Ltd
- Sydney Casino Management Pty Ltd
- Star City Holdings Pty Ltd
- Sydney Harbour Casino Properties Pty Ltd
- Michael Bennett Robinson
- Ian Ross Wilson
- Warren Victor Wilson
- Anthony George Hodgson
- David John Simpson
- Peter Harold Wade
- George Henry Bennett
- Richard Francis Egerton Warburton
- Philip Glen Satre
- Harrah's Entertainment Inc

# ANNEXURE 7

## SUMMARY OF AGREEMENTS

**Casino Complex Management Agreement** – This Agreement is between Star City and SCM. Under this agreement, Star City turns over to SCM control and discretion in the operation, management and supervision of the temporary and permanent casinos. SCM is responsible for all aspects of operation of the casino complexes and receives the following fees:-

- 1.5% of casino revenue for each financial year;
- 6% of casino gross operating profit (ie casino revenue less casino operating expenses) for each financial year;
- 3.5% of Non-Casino Revenue (ie revenue from operating the casino complex less casino revenue) for each financial year; and
- 10% of Non-Casino Gross Operating Profit (ie Non-Casino Revenue less operating expenses excluding casino operating expenses) for each financial year.

There is also provision for the charging against casino revenue and non-casino revenue of the following amounts for the purpose of creating a sinking fund to be called the capital expenditure reserve account:

- Commencing on the opening of the temporary casino, up to 3% of casino revenue and up to 1.75% of Non-Casino Revenue; and
- Commencing on the opening of the Sydney Casino, up to 6% of casino revenue and up to 3.5% of non-casino revenue.

**Casino Operations Agreement** – This agreement is between the Authority and Star City and other related companies and governs the relationship between the Authority and Star City during the operation of the casino. It imposes a non-competition warranty (only for the duration of exclusivity period) on Star City as well as obligations with respect to ownership, financial and reporting obligations.

In relation to the operation and management of the Casino, Star City:

- Is required to use its best endeavours to conduct and manage the casino at a first-class international standard on a best practice basis;
- Undertakes to operate the casino in accordance with Star City's application for the casino licence and provide all features, facilities and attractions and services described in the licence application;
- Provides certain undertakings in respect of the provision of gaming equipment and to play only the games permitted in accordance with the provisions of the Act; and
- Is obliged to advertise, market and promote the casino.

**Casino Exclusivity Agreement** – Under this agreement the Authority granted Star City exclusive licence to conduct certain table games on the temporary casino site and Sydney casino site for a period of 12 years from completion of construction of the temporary casino. If, during this exclusivity period, another licensed casino opens in New South Wales on any other site or sites other than the temporary casino site or the permanent casino site, then the Authority will pay to Star City an amount equal to all damages, costs and expenses suffered or incurred by Star City as a result of such occurrence (including loss of profits).

The agreement also provides protection to Star City against the Parliament of the State of New South Wales enacting subsequent legislation prohibiting casinos, either in New South Wales generally, or on the Sydney casino site or temporary casino site, during the period of

30 years from completion of construction of the temporary casino. If this occurs, or if the relevant Minister gives a direction requiring the reduction of table games and gaming machines below a certain number, or requires the casino to operate for less than 7 days a week, 24 hours per day, then subject to termination of relevant leases, the Authority shall pay to Star City an amount equal to all damages, costs and expenses suffered or incurred by Star City as a result of that action (including loss of profits).

**Tabcorp Deed** – This Deed sets out the terms and conditions on which the Authority gives its approval to Tabcorp and other entities entering into Agreements with Star City and others.

**Casino Licence** – This licence grants the right to conduct and play table games and use gaming machines at the temporary casino site and the permanent casino site subject to provisions of the Act and the conditions set out in the casino licence.

The licence lasts for a period of 99 years from the date of issue unless cancelled by the Authority or surrendered by Star City. The licence confers no right of property on the holder and is incapable of being assigned or mortgaged, charged or otherwise encumbered.

Under the Act no right of compensation arises against the Authority or the Crown for the cancellation, suspension or variation of the terms and conditions of the licence, although the provisions of the Casino Exclusivity Agreement give rise to compensation in certain instances.

**Casino Duty and Community Benefit Levy Agreement** – This agreement is between the Treasurer of the State of New South Wales and Star City, as licence holder.

This agreement sets out the obligations of Star City to pay various duties and levies to the Authority. In particular, s.114(1) of the Act specifies that a casino duty is to be paid to the Authority in respect of each casino licence. Further, s.115(1) provides that a community benefit levy is to be paid to the Authority in respect of each casino licence. This agreement sets out the amount and method of payment of the payments to the Government.

The obligations of Star City under this deed are secured by the Casino Control Authority Charge.

**Casino Taxes Agreement** – This agreement is complimentary to the Casino Duty Benefit Levy Agreement which contains the primary obligations of Star City regarding the payment of duty. This Agreement:

- Requires Star City to effect and maintain a policy of insurance in respect of the loss of anticipated Casino tax and community benefit levy;
- Provides that Star City agrees to indemnify the Authority in respect of any shortfall of any moneys required to be paid under the Casino Duty and Community Benefit Levy Agreement; and
- Provides that the Authority Charge shall secure Star City's obligations under the Act, the Casino Duty and Community Benefit Levy Agreement and this agreement.

**Casino Control Authority Charge** – The charge gives the Authority a fixed and floating charge over all the assets and undertakings wheresoever, both present and future, of each of Star City's assets.

The Charge secures a payment of all monies and the performance of all obligations which Star City has to the Authority and secures the punctual performance, observance and fulfilment of the obligations to the Authority.

The Charge is a second ranking charge to the charge given by Star City to the Commonwealth Bank of Australia (CBA) to secure their obligations under the CBA Facility Agreement.

**Casino Control Authority Cross Guarantee** – Under the terms of this guarantee, Star City agrees to irrevocably and unconditionally guarantee to the Authority the performance under the project documents and security of each of the other SHCH Group companies.

In addition, Star City has agreed to indemnify the Authority against any loss or damage suffered by it and arising out of a breach of any of the obligations by any of the SHCH Group of companies.

**Continuity and Co-operation Agreement** – This agreement is between the Authority, Star City and CBA.

As the casino licence confers no proprietary right in Star City, there is therefore no right which can be assigned or mortgaged to the CBA. Without the casino licence, the value of the casino complex is substantially reduced. Therefore, CBA has entered into this agreement with the Authority to provide an enforcement regime which will apply in the event that Star City breaches any term or condition of the casino licence which may result in the licence being suspended or cancelled.

The second purpose of this agreement is to set out a regime which will apply in the event that any member of the Star City Group causes an event of default to occur under the Facility Agreement, and CBA wishes to take action under that agreement and its security as a consequence of that default. In particular, CBA has security over the Sydney casino site and the casino complex by way of a mortgage of the leasehold interests, charges and mortgages of contractual rights. This agreement sets out the mechanism under which CBA may enforce those securities while ensuring the continuity of the casino licence.

**Casino Control Authority Letter of Comfort** – This letter of comfort was provided by the Authority to CBA and Star City.

In the letter of comfort, the Authority sets out certain factors to be taken into account and procedures to be followed by the Authority when:

- Amending the conditions of the licence;
- Cancelling or suspending the licence;
- Issuing a rectification order under the Act; and
- Regulating the operation of the casino generally.

These guidelines in no way give rise to any legal, equitable or enforceable obligation on the Authority, and merely serve to enforce the provisions of the Continuity and Co-operation Agreement.

**Minister's Letter of Comfort** – This letter of comfort was provided by the then Minister for Administrative Services, the Honourable Anne Margaret Cohen, MP, in favour of Star City.

This letter of comfort complements the Authority Letter of Comfort, the Continuity and Co-operation Agreement and the Casino Exclusivity Agreement. Having regard to the above, the Minister states that if the Authority acts outside the rectification regime set out in the Continuity and Co-operation Agreement or in disregard of the procedures set out in the Authority's Letter of Comfort, she is prepared to recommend the removal from office of the Authority members, and take whatever action is necessary to ensure that Star City is afforded due process.