

LGCB - Board of Directors' Meeting 1-19-17, (Pages 1:1 to 96:24)

1:1 LOUISIANA GAMING LOUISIANA CONTROL BOARD

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4 BOARD OF DIRECTORS' MEETING

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9 THURSDAY, JANUARY 19, 2017

10

11 House Committee Room 1

12 Louisiana State Capitol

13 900 North Third Street

14 Baton Rouge, Louisiana

15

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18 TIME: 10:00 A.M.

19

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2

1 APPEARANCES

2

RONNIE JONES

3 Chairman (At Large)

Third Congressional District

4 June 30, 2019

5

6 FRANKLIN AYRES BRADFORD

(Economic Planner)

7 Fifth Congressional District

June 30, 2019

8

9 MARK STIPE

Seventh Congressional District

10 June 30, 2020

11 JAMES SINGLETON

(Public/Business Administration)

12 Second Congressional District

June 30, 2020

13

14 CLAUDE D. JACKSON

(At large)

15 Fourth Congressional District

June 30, 2018

16

17 ROBERT W. GASTON, III

(At Large)

18 Sixth Congressional District

June 30, 2021

19

20 JULIE BERRY

(CPA)

21 Third Congressional District

June 30, 2018

22

23 WANDA THERIOT

(At large)

24 First Congressional District

June 30, 2021

25

3

1 APPEARANCES CONTINUED

2

3 MAJOR MARK NOEL

Ex-Officio Board Member

4 Louisiana State Police

5

6 KIMBERLY ROBINSON

Department of Revenue

7 Secretary

8

9 LANA TRAMONTE

Executive Assistant

10

11 TRUDY SMITH

Confidential Assistant

12

13 REPORTED BY:

14 SHELLEY G. PAROLA, CSR, RPR

Baton Rouge Court Reporters

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1		PAGE
2	I. CALL TO ORDER	6
3	II. PUBLIC COMMENTS	7
4	III. APPROVAL OF THE MINUTES	9
5	IV. REVENUE REPORTS	9
6	V. VIDEO GAMING ISSUES	
7	A. Consideration of the following	
8	truckstop application:	
9	1. Webster P II, LLC, d/b/a Two	
10	Jacks Casino - No. 6000517415	
11	(new application)	15
12	VI. CASINO GAMING ISSUES	
13	A. Consideration of Certificate of	
14	Compliance for the Alternate	
15	Riverboat Inspection of the gaming	
16	vessel of Golden Nugget Lake Charles,	
17	LLC - No. R016502995	19

18 VII. CONSIDERATION OF PROPOSED SETTLEMENTS

19 IN THE FOLLOWING:

20 1. In Re: Caro's, LLC, d/b/a  
21 Shakey's - No. 2403117333 23

22 2. In Re: Allen J. LeJeune d/b/a  
23 L & L Package Liquor -  
24 No. 1000100341 25

25 3. In Re: Louisiana 1 Gaming, L.P.  
5

1 PAGE

2 d/b/a Boomtown New Orleans - No.  
3 R012600196, SAR:16-2-22-025-0637 29

4 4. In Re: Hill City Oil Company,  
5 Inc., of Mississippi d/b/a  
6 Jubilee Truckstop Casino -  
7 No. 4700512626 26

8 VIII. ADJOURNMENT 93

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1 I. CALL TO ORDER

2 CHAIRMAN JONES: Good morning, and  
3 welcome to the January meeting of the  
4 Louisiana Gaming Control Board. I'd ask  
5 that you silence your phones, if you  
6 could. If you need to take a call, step  
7 outside.

8 Miss Tramonte, would you call the  
9 roll.

10 THE CLERK: Chairman Jones?

11 CHAIRMAN JONES: Here.

12 THE CLERK: Mr. Bradford?

13 MR. BRADFORD: Here.

14 THE CLERK: Mr. Stipe?

15 MR. STIPE: Here.

16 THE CLERK: Mr. Singleton?

17 MR. SINGLETON: Here.

18 THE CLERK: Mr. Jackson?

19 MR. JACKSON: Here.

20 THE CLERK: Mr. Gaston?

21 MR. GASTON: Here.

22 THE CLERK: Miss Berry?

23 MS. BERRY: Here.

24 THE CLERK: Miss Theriot?

25 MS. THERIOT: Here.

7

1 THE CLERK: Colonel Edmonson?

2 MAJOR NOEL: Major Noel for Colonel

3 Edmonson.

4 THE CLERK: Secretary Robinson?

5 MR. ROBINSON: Here.

6 II. PUBIC COMMENTS

7 CHAIRMAN JONES: We have a quorum,

8 and we may conduct business. Does

9 anyone in the audience wish to make any

10 public comment on any matter on the

11 agenda this morning?

12 Then I will. For those of you are

13 unaware, we had another Riverboat Gaming

14 Task Force Meeting this past Tuesday.

15 Geoff Freeman from the -- Executive

16 Director of the American Gaming

17 Association, came in and made a

18 presentation, and we have posted those

19 comments on our website. The link to

20 the Gaming Control Board, top right-hand

21 corner says, Riverboat Gaming Task

22 Force. We've posted a transcript of his

23 comments.

24 Anthony Sanfilippo with Pinnacle was

25 also there with us, spent about an hour

8

1 and fifteen minutes, talked about  
2 Pinnacle's relationship in Louisiana's  
3 business holdings, the footprint it has  
4 in gaming and had some -- several of the  
5 general managers there and some of the  
6 staff. I think it was a great meeting.

7 It was probably one of the best meetings  
8 that we've had.

9 We may have to forgo a previously  
10 scheduled February meeting because the  
11 Governor, when he gets back from Rome,  
12 may announce the dates for a special  
13 legislative session, and if he does do  
14 that, we'll likely fall between the  
15 Washington Mardi Gras and the  
16 traditional Mardi Gras celebration at  
17 the end of February, which would mean  
18 that they would be in session when we  
19 would ordinarily meet. So we will move  
20 that meeting probably, I guess, to  
21 another meeting. I think Tony Rodio was  
22 scheduled to come in in February.

23 So everything is posted on the  
24 website. The video is archived there,  
25 and if you have an interest in it and

9

1 haven't seen it, I invite you to do so.

## 2 III. APPROVAL OF THE MINUTES

3 CHAIRMAN JONES: Do I have a motion



4 to waive reading an the minutes?

5 MR. GASTON: Move.

6 MS. BERRY: Second.

7 CHAIRMAN JONES: By Dr. Gaston and a  
8 second by Miss Berry.

9 Any objection? Without objection,  
10 the minutes are approved.

11 IV. REVENUE REPORTS

12 CHAIRMAN JONES: We'll now move to  
13 Revenue Reports, State Police. Good  
14 morning. The chairs stuck together?  
15 It's the rain.

16 MS. JACKSON: Good morning --

17 CHAIRMAN JONES: Morning.

18 MS. JACKSON: -- Chairman Jones,  
19 Board Members. My name is Donna Jackson  
20 with Louisiana State Police Gaming  
21 Enforcement Division.

22 The 15 operating riverboats  
23 generated Adjusted Gross Receipts of  
24 \$172,205,860 in December. This total  
25 represents an increase of \$20.7 million,

10

1 or 13.7 percent from last month, and an  
2 increase of \$7.2 million or 4.4 percent  
3 from last December.

4 Adjusted Gross Receipts for fiscal  
5 year 2016-2017 to date are \$964.5  
6 million, a decrease of \$7 million or

7 1 percent from fiscal year 2015-2016.

8 During December, the State collected  
9 fees totaling \$37,024,260. As of  
10 December 31st, 2016, the State collected  
11 over \$207 million in fees for fiscal  
12 year 2016-2017, a decrease of \$1.5  
13 million from last fiscal year.

14 Next is a summary of the  
15 December 2016 gaming activity for  
16 Harrah's New Orleans found on page  
17 three. During December, Harrah's  
18 generated \$24,348,790 in gross gaming  
19 revenue, an increase of \$1.5 million or  
20 6.6 percent from last month, and an  
21 increase of \$2.3 million or 10.4 percent  
22 from last December.

23 Fiscal year-to-date gaming revenues  
24 for 2016-2017 to date are over  
25 \$133 million, down \$21 million or

11

1 14 percent from fiscal year 2015-2016.

2 During December, the State received  
3 \$5,095,890 in minimum daily payments.  
4 As of December 31st, 2016, the State has  
5 collected \$30 million in fees for fiscal  
6 year 2016-2017.

7 Next I will present the revenue for  
8 Slots at the Racetracks. During  
9 December, the four racetrack facilities

10 combined generated Adjusted Gross  
11 Receipts of \$29,142,475, an increase of  
12 \$2.4 million or 9 percent from November,  
13 but a decrease from December 2015 of  
14 almost \$1 million or 3.2 percent.

15 Adjusted Gross Receipts for fiscal  
16 year 2016-2017 to date are \$166.6  
17 million, a decrease of \$9 million or  
18 5 percent from fiscal year 2015-2016.

19 During December, the State collected  
20 \$4,420,913 in fees. As of  
21 December 31st, 2016, the State has  
22 collected over \$25 million in fees for  
23 fiscal year 2016-2017.

24 Overall in December, Riverboats,  
25 Landbased and Slots at the Racetracks

12

1 generated almost \$226 million in AGR,  
2 and \$46.5 million in state fees. These  
3 revenues represent an increase from  
4 December 2015 of about 4 percent.

5 Are there any questions before I  
6 present the Harrah's employee  
7 information?

8 CHAIRMAN JONES: Board Members, any  
9 questions on the figures? The Board is  
10 clear.

11 MS. JACKSON: Harrah's New Orleans  
12 is required to maintain at least 2,400

13 employees and a bi-weekly payroll of  
14 \$1,750,835. This report covers pay  
15 periods in December 2016.

16 For the first pay period, the  
17 Division verified 2,684 employees with a  
18 payroll of \$2,163,00. For the second  
19 pay period, the Division verified 2,667  
20 employees with a payroll of \$2,131,000.  
21 For the third pay period, the Division  
22 verified 2,660 employees with a payroll  
23 of \$2,126,000. Therefore, Harrah's met  
24 the employment criteria during December.

25 CHAIRMAN JONES: Questions, Board

13

1 Members? There are no questions.

2 MS. JACKSON: Thank you.

3 CHAIRMAN JONES: Video poker.

4 MR. BOSSIER: Good morning.

5 CHAIRMAN JONES: Morning.

6 MR. BOSSIER: Good morning, Chairman  
7 Jones and Board Members. My name is Jim  
8 Bossier with the Louisiana State Police  
9 Gaming Enforcement Division here to  
10 report video gaming statistics for  
11 December 2016 as shown on page one of  
12 your handout.

13 Twelve new video gaming licenses  
14 were issued during December: Ten bars  
15 and two restaurants. Nine new

16 applications were received by the Gaming  
17 Enforcement Division during December and  
18 are currently pending the field: Five  
19 bars and four restaurants.

20 The Gaming Enforcement Division  
21 assessed \$1,000 and collected \$2,000 in  
22 fines during December, and there are  
23 currently \$1,250 in outstanding fines.

24 Please refer to page two of your  
25 handout.

14

1 There are presently 13,069 video  
2 gaming devices activated at 1,777  
3 locations. Net device revenue for  
4 December 2016 was \$50.1 million, a  
5 \$3.8 million increase, or 8.3 percent,  
6 when compared to November 2016, and a  
7 \$100,000 decrease, or two-tenths of  
8 1 percent when compared to  
9 December 2015.

10 Net device revenue so far for fiscal  
11 year 2016 is \$280.7 million, a  
12 \$4.4 million decrease, or 1.5 percent,  
13 when compared to fiscal year 2015. Page  
14 three of your handout shows a comparison  
15 of net device revenue.

16 Total franchise fees collected  
17 during December 2016 were \$15 million, a  
18 \$1.1 million increase when compared to

19 November 2016, and no change when  
20 compared to December 2015.

21 Total franchise fees collected for  
22 fiscal year 2016 are \$84.1 million, a  
23 \$1.2 million decrease, or 1.4 percent,  
24 when compared to fiscal year 2015. Page  
25 four of your handout shows a comparison

15

1 of franchise fees.

2 Does anybody have any questions?

3 CHAIRMAN JONES: Questions, Board  
4 Members? There are no questions. Thank  
5 you, Jim.

#### 6 V. VIDEO GAMING ISSUES

7 A. Consideration of the following truckstop  
8 application:

9 1. Webster P II, LLC, d/b/a Two Jacks Casino  
10 – No. 6000517415 (new application)

11 CHAIRMAN JONES: We'll now move to  
12 Video Gaming Issues. First up is the  
13 consideration of the following truckstop  
14 application. That's for Webster P II,  
15 LLC, doing business as Two Jacks Casino,  
16 No. 6000517415. This is a new  
17 application.

18 Good morning, gentlemen.

19 MR. MEEK: Good morning, Chairman  
20 Jones and Members of the Board. I'm  
21 Matthew Meek, Assistant Attorney

22 General, present before the Board in the  
23 matter of the original application of  
24 Webster P II, LLC, doing business as Two  
25 Jacks Casino, applying for approval of a

16

1 Type 5 Video Draw Poker Gaming License.

2 The truckstop facility is located in  
3 Webster Parish.

4 On June 17th, 2016, the following  
5 transactions occurred: Webster P II  
6 purchased the licensed establishment,  
7 the goodwill, the name and all of the  
8 assets from Miletello's Pitstop, LLC,  
9 leased the restaurant, convenience store  
10 and fuel facility businesses located on  
11 the truckstop to Wally's Short Stop,  
12 LLC, and entered into a Video Draw Poker  
13 Device Placement Agreement with LSM  
14 Gaming, Incorporated.

15 James E. Worthey is the sole member  
16 of Webster P II and LSM Gaming.

17 Criminal Investigator Glenn Verrett  
18 inspected the truckstop facility and  
19 conducted the suitability investigations  
20 of the associated persons. He is  
21 present this morning to report his  
22 findings to the Board.

23 TROOPER VERRETT: Good morning,  
24 Mr. Chairman, Board Members. I'm

25 Investigator Glenn Verrett, Louisiana

17

1 State Police. I conducted suitability  
2 investigations and updated background  
3 checks on all relevant persons  
4 associated with the application. James  
5 E. Worthey and his wife, Kelley F.  
6 Worthey, previously submitted to  
7 suitability investigations in connection  
8 with other video poker licenses.

9 An on-site inspection was conducted,  
10 and it was determined that the  
11 establishment meets all criteria set  
12 forth in video gaming law as a qualified  
13 truckstop facility.

14 All required licenses and permits  
15 were posted and valid at the time of  
16 inspection.

17 The establishment consists of at  
18 least five contiguous acres,  
19 specifically 21-and-a-half acres. As  
20 the applicant purchased the licensed  
21 establishment from Miletello's Pitstop,  
22 LLC, they are not subject to the rule  
23 that they must be one mile from a  
24 school, church, playground, synagogue,  
25 public library, residences and buildings

18

1 on the National Historic Registry.



2 I found no information to preclude  
3 the issuance of a Type 5 Video Draw  
4 Poker Gaming License to Webster P II,  
5 LLC, doing business as Two Jacks Casino,  
6 or to preclude James E. Worthey and  
7 Kelley F. Worthey from continuing to  
8 participate in the gaming industry.

9 MR. MEEK: The Office of the  
10 Attorney General has the file prepared  
11 by the Office of State Police, and the  
12 information contained therein would not  
13 preclude the issuance of a Type 5  
14 license.

15 CHAIRMAN JONES: Board Members, do  
16 we have any questions with respect to  
17 this application?

18 MR. STIPE: Just a quick one. The  
19 occupational license has been renewed, I  
20 assume?

21 TROOPER VERRETT: Yes, sir.

22 MR. STIPE: Is there anything within  
23 a mile? I realize it's exempt, but is  
24 there anything within a mile of this  
25 facility?

19

1 TROOPER VERRETT: Not that I'm aware  
2 of, sir. We checked. You know, we  
3 checked around the area, and I haven't  
4 seen anything. It's pretty desolate

5 here.

6 MR. STIPE: Thank you. I appreciate  
7 it.

8 CHAIRMAN JONES: Any other  
9 questions, Board Members? [No  
10 response.]

11 Do I have a motion to approve the  
12 application, issue a license?

13 By Mr. Bradford, second by  
14 Dr. Gaston.

15 Any objection? Without objection,  
16 the license is authorized and issued.

17 VI. CASINO GAMING ISSUES

18 A. Consideration of Certificate of Compliance  
19 for the Alternate Riverboat Inspection of  
20 the gaming vessel of Golden Nugget Lake  
21 Charles, LLC – No. R016502995

22 CHAIRMAN JONES: We'll move to  
23 Casino Gaming Issues. This is sort of a  
24 holdover from the last meeting, as you  
25 may recall. It's Consideration of

20

1 Certificate of Compliance for the  
2 Alternate Riverboat Inspection of Gaming  
3 Vessel Golden Nugget Lake Charles, LLC,  
4 No. R016502995.

5 Good morning, gentlemen.

6 MR. LEWIS: Good morning.

7 MR. FRANCIC: Morning.

8 MR. LEWIS: Chairman Jones, Board  
9 Members, I'm Assistant Attorney General  
10 Kanick Lewis, Jr. With me is Mr. John  
11 Francic of ABSC. We're here in the  
12 matter of the issuance of the renewal of  
13 Certificate of Compliance for Golden  
14 Nugget Lake Charles, LLC.

15 ABSC began the inspection process  
16 for the renewal of Golden Nugget's  
17 Certificate of Compliance, and there was  
18 some unresolved deficiencies. For more  
19 on this, I now turn it over to  
20 Mr. Francic.

21 MR. FRANCIC: Morning, Chairman and  
22 Board Members. I'm John Francic with  
23 ABS Consulting. I thought I'd bring you  
24 some rain from Houston since we had  
25 enough of it yesterday.

21

1 CHAIRMAN JONES: You always seem to  
2 do that. We appreciate it.

3 MR. FRANCIC: I'm here to report the  
4 deficiency follow-up for Golden Nugget  
5 Casino. The third party reports  
6 provided by SimplexGrinnell stating the  
7 clean agent fire suppression system in  
8 the east IT room have been failed, and  
9 they're now operational. And the yellow  
10 tags for the sprinkler system in low

11 rise, in which the casino patrons egress  
12 through, have been corrected.

13 The 2016 annual survey as required  
14 by Louisiana Gaming Control Board is now  
15 complete and presents no immediate  
16 safety concerns to its patrons or  
17 employees onboard of the riverboat. It  
18 is the recommendation of ABS Consulting  
19 that Golden Nugget be issued the  
20 Certificate of Compliance.

21 MR. LEWIS: We now present these  
22 findings to the Board and request that  
23 upon the Board's accepting the report  
24 submitted by ABSC, the Board will move  
25 for the renewal of Golden Nugget's

22

1 Certificate of Compliance.

2 CHAIRMAN JONES: Board Members, do  
3 we have any questions?

4 MR. GASTON: I move, Mr. Chairman.

5 CHAIRMAN JONES: We have a motion to  
6 approve the Certificate --

7 MS. BERRY: Second.

8 CHAIRMAN JONES: -- and a second by  
9 Miss Berry.

10 Any objection? Without objection,  
11 the Certificate of Compliance is issued.

12 MR. GASTON: Mr. Chairman, if I may  
13 say, the tremendous Golden Nugget and

14 L'Auberge over there have really created  
15 a wonderful economic development in the  
16 western part of the state. The way that  
17 they're working together is very  
18 meritorious. I just want to commend all  
19 of them for that.

20 CHAIRMAN JONES: Thank you, Doctor.  
21 That actually came up at our task force  
22 meeting this past Tuesday. We talked  
23 about it so we appreciate those  
24 comments.

25 VII. CONSIDERATION OF PROPOSED SETTLEMENTS IN THE

23

1 FOLLOWING:

2 1. In Re: Caro's, LLC, d/b/a Shakey's –  
3 No. 2403117333

4 CHAIRMAN JONES: We'll now move to  
5 Consideration of Proposed Settlements in  
6 the following matter. I remind you that  
7 no evidence may be submitted.

8 First up is in regards to Caro's,  
9 LLC, doing business as Shakey's. That's  
10 No. 2403117333.

11 Good morning.

12 MS. HOOD: Morning.

13 MR. BENNETT: Morning.

14 MS. HOOD: Good morning, Chairman  
15 Jones, Board Members.

16 CHAIRMAN JONES: Morning.

17 MS. HOOD: I'm Assistant Attorney  
18 General Heather Hood.

19 MR. BENNETT: Carey Bennett, owner  
20 of Caro's.

21 MS. HOOD: We're here in the matter  
22 of the settlement of Caro's, LLC, doing  
23 business as Shakey's. The settlement  
24 addresses the late submission of annual  
25 forms and fees that are required to be

24

1 submitted by July 1st of each year.  
2 These forms and fees were submitted on  
3 November 14, 2016, which gave rise to a  
4 violation.

5 The civil penalty contained in the  
6 settlement is \$750, which is an amount  
7 that's well established for violations  
8 of this type, and the settlement has  
9 been signed by the hearing officer and  
10 is now before the Board for final  
11 approval.

12 I'd be happy to answer any  
13 questions, and I believe Mr. -- do you  
14 want to make a statement?

15 MR. BENNETT: I do. I don't know  
16 how we did not pay the original fee. It  
17 was misplaced on the wrong desk. Our  
18 first time being in it to a station, and  
19 it went to the wrong person, sat on the

20 wrong desk, or it would have been paid  
21 on time; and I apologize for that.

22 CHAIRMAN JONES: We appreciate you  
23 making the effort to be here and  
24 explaining what happened, and we  
25 understand that. And you're good with

25

1 the terms of this agreement?

2 MR. BENNETT: Absolutely.

3 CHAIRMAN JONES: Board Members, do  
4 you have any questions? There would not  
5 appear to be any questions.

6 I have a motion by Mr. Bradford, a  
7 second by Mr. Singleton.

8 Any objection? Without objection,  
9 the settlement's approved. Thank you  
10 both.

11 MR. BENNETT: Thank you very much.

12 MS. HOOD: Thank you.

13 2. In Re: Allen J. LeJeune d/b/a L & L Package  
14 Liquor – No. 1000100341

15 CHAIRMAN JONES: Next up, a  
16 settlement for Allen LeJeune doing  
17 business as L & L Package Liquor, No.  
18 1000100341, a settlement.

19 Good morning.

20 MR. LEWIS: Good morning. Assistant  
21 Attorney General Kanick Lewis, Jr., here  
22 in the matter of Allen J. LeJeune doing

23 business as L & L Package Liquor, with  
24 the license number of 1000100341.

25 The settlement addresses the late

26

1 submission of the annual form and fees  
2 that are required to be submitted no  
3 later than January 1st of each year.

4 This Type 1 licensee did not submit  
5 until October 18, 2016, which gave rise  
6 to a violation of gaming law.

7 The civil penalty contained in this  
8 settlement is \$750, which is an amount  
9 that is well established for violations  
10 of this type. The settlement has been  
11 signed by the hearing officer and is now  
12 before the Board for final approval.

13 And at this time, I'd be happy to  
14 answer any questions you may have.

15 CHAIRMAN JONES: Board Members, do  
16 we have any questions? The Board  
17 appears to be clear.

18 MR. JACKSON: Motion to approve.

19 CHAIRMAN JONES: We have a motion by  
20 Mr. Jackson, a second by Miss Theriot.

21 Any objection? Without objection,  
22 the motion carries. The settlement's  
23 approved. Thank you.

24 MR. LEWIS: Thank you.

25 4. In Re: Hill City Oil Company, Inc., of



1 Mississippi d/b/a Jubilee Truckstop

2 Casino - No. 4700512626

3 CHAIRMAN JONES: We're going to take  
4 up next Hill City Oil Company before  
5 taking up the Pinnacle matter. That's  
6 number four on my agenda. I'm not sure  
7 if the official agenda was changed or  
8 not. Unless there is objection? There  
9 is no objection in regard to Hill City  
10 Oil Company Inc., of Mississippi doing  
11 business as Jubilee Truckstop Casino,  
12 No. 4700512626.

13 Good morning.

14 MS. BROWN: Good morning, Chairman  
15 Jones, Board Members. I'm Mesa Brown,  
16 Assistant Attorney General, appearing on  
17 behalf of the Division in the matter of  
18 In Re: Hill City Oil Company, Inc., of  
19 Mississippi d/b/a Jubilee Truckstop &  
20 Casino. Here with me is Trooper Vincent  
21 Lenguyen representing the Division.

22 Counsel for the licensee, Allison  
23 Rovira, had planned to be here today and  
24 wasn't able to come due to an extended  
25 court appearance.

1 Here the licensee did not meet  
2 criteria for an on-site restaurant. It

3 failed to have a designated  
4 representative available and present at  
5 all times at the establishment. It  
6 failed to notify the Division of  
7 restaurant relocation and changes in  
8 hours of operation, and it failed to  
9 maintain current occupational licenses  
10 and food service establishment permits.

11 Both parties have agreed to settle  
12 this matter for a penalty of \$20,000.  
13 The settlement has been approved by the  
14 hearing officer and is now before you  
15 for final approval.

16 CHAIRMAN JONES: Are there any  
17 questions, Board Members? There appear  
18 to be no questions.

19 Do I have a motion to approve the  
20 settlement? By Mr. Bradford, second by  
21 Mr. Stipe.

22 Any objection? Without objection,  
23 the settlement is approved. Thank you.

24 MS. BROWN: Thank you.

25 CHAIRMAN JONES: I have one final

29

1 comment. Lenguyen is leaving us, and he  
2 wanted to bring his daughter's Girl  
3 Scout cookies this morning, and I told  
4 him he couldn't do that. But I just  
5 wanted to thank you for your work.

6 You've always represented State Police  
7 well. You've done good work. We  
8 appreciate that. We hate to see good  
9 people go, but we never want to hold  
10 anybody back from moving on with their  
11 career, so we wish you the best. Thank  
12 you.

13 TROOPER LENGUYEN: Thank you,  
14 Chairman, Members of the Board.

15 3. In Re: Louisiana 1 Gaming L.P. d/b/a Boomtown  
16 New Orleans - No. R012600196,  
17 SAR: 16-2-22-025-0637

18 CHAIRMAN JONES: And finally up on  
19 the agenda is in regard to Louisiana 1,  
20 L.P. doing business as Boomtown New  
21 Orleans, No. R012600196. This also is a  
22 settlement.

23 Good morning.

24 MS. BOGRAN: Chairman Jones, Board  
25 Members, good morning again. I'm Olga

30

1 Bogran, Assistant Attorney General in  
2 the Gaming Division, here to present the  
3 settlement that's related to SAR:  
4 16-22-025-0637.

5 The Division discovered  
6 discrepancies and inaccuracies and  
7 mistakes in the Minimum Internal Control  
8 Standards report, which is also known by

9 the acronym MICS Report, submitted by  
10 Ernst & Young to Boomtown. The  
11 discovery of these problems and the  
12 attempt to prevent any such future  
13 issues gave rise to the settlement  
14 agreement before you.

15 There is no monetary civil penalty  
16 associated with this settlement  
17 agreement, but there are conditions and  
18 terms to be met; and these require that  
19 certain procedures and practices be  
20 implemented going forward.

21 The settlement has been signed by  
22 the hearing officer and is here before  
23 the Board for final approval.

24 With me today are representatives of  
25 State Police that can give you some

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1 further background on the circumstances  
2 of this case, as well as representatives  
3 of Boomtown and Ernst & Young that are  
4 here to answer any questions you may  
5 have.

6 CHAIRMAN JONES: Thank you. Let's  
7 first hear from State Police. If you  
8 would introduce yourself to the rest of  
9 the Board and sort of walk us through  
10 what should have happened and then what  
11 happened.

12 MS. DANNER-BULL: Okay. I'm  
13 Michelle Danner-Bull with the New  
14 Orleans Gaming Enforcement Division.

15 MR. TRAYLOR: Jeff Trainor, I'm the  
16 Audit Director for the Gaming Division.

17 What we have, we have a MICS Report.  
18 It's a report that's required by the  
19 regs. We essentially -- we have a list  
20 of standards that we require. It's an  
21 agreed upon procedure, for those with  
22 background in audit.

23 The CPA firm has a list of criteria  
24 that we require that they perform, and  
25 they can perform some of it in

32

1 conjunction with internal audit; but  
2 they go through your standard  
3 spreadsheet that we have set up with all  
4 your questions and following the regs  
5 and additional questions just to make  
6 sure that we really understand and  
7 follow how the casino operates and that  
8 it meets standards.

9 So they will go through that report.  
10 Internal audit will do some of the work.  
11 They'll review internal audit's work.  
12 They'll do some of their own work. We  
13 do require certain things be performed  
14 by the CPA firm itself because if

15 there's ever been counts and drops at  
16 the casinos.

17 After they complete that report,  
18 they submit it to the casino, but it's  
19 really just a flow through where it goes  
20 to the casino and comes straight to us.  
21 We go through -- and I'll actually let  
22 Michelle explain that part of it, but, I  
23 mean, that's the background on what the  
24 report is; and before she explains or  
25 after, however y'all want to do it, we

33

1 can answer any questions you have on  
2 that.

3 MS. DANNER-BULL: So as part of our  
4 audit procedures, we review this report  
5 as it comes in to us on a yearly basis.  
6 It's actually due to us 150 days after  
7 the end of the calendar year so we  
8 receive it in May, and we do a full  
9 audit on it in July.

10 When we receive this report, part of  
11 what we do is -- because you have to  
12 observe a drop and count observation, it  
13 requires you to have restricted area  
14 access, which we approve through the  
15 field offices. So as part of our audit,  
16 we make sure that they had the proper  
17 approval. On this particular report,

18 the dates that were listed in the  
19 report -- the dates of observation -- we  
20 had no authorization for restricted  
21 access.

22 So we went back to the casino and  
23 looked at source documentation, access  
24 logs, surveillance logs and discovered  
25 that they were not there on the dates

34

1 that they -- were listed in the report.  
2 So that's what kind of started this  
3 whole snowball effect on, you know, what  
4 they actually did and what they did not  
5 do for this inspection.

6 CHAIRMAN JONES: And who did you  
7 contact?

8 MS. DANNER-BULL: Originally, we  
9 contacted Pinnacle's internal audit  
10 department and notified them of the  
11 errors. They actually received the  
12 report from Ernst & Young the day it was  
13 due to us, so they really had no  
14 opportunity to really even look at the  
15 report. It just kind of flowed through.  
16 So when we let them know, that was the  
17 first indication that there was  
18 something wrong. So, of course, we went  
19 through our chain of command, and then  
20 Pinnacle internal audit was notified

21 first.

22 CHAIRMAN JONES: So it would be your  
23 opinion they really didn't have an  
24 opportunity to review the report to  
25 determine whether or not it was --

35

1 MS. DANNER-BULL: No, they had  
2 received it a little earlier that day,  
3 and they had found, like, name errors  
4 like where they would have someone in  
5 Boomtown New Orleans listed on Lake  
6 Charles' report. They found those kinds  
7 of errors, but because it's independent,  
8 Ernst & Young does not notify internal  
9 audit of when they're on property.  
10 That's the purpose of it being  
11 independent so they have no reason --  
12 way of knowing when they're there and  
13 when they're not there.

14 CHAIRMAN JONES: And in your  
15 collective experience, have we had any  
16 similar issues with this accounting  
17 firm?

18 MS. DANNER-BULL: No.

19 CHAIRMAN JONES: Okay. Has an  
20 accurate audit of MICS been performed?

21 MS. DANNER-BULL: Since then?

22 CHAIRMAN JONES: Yes.

23 MS. DANNER-BULL: Yes.



24 CHAIRMAN JONES: I notice one of  
25 the -- and I'm not sure if this is Olga

36

1 or State Police, but one of the terms of  
2 the settlement is that the Division  
3 audit manager contact -- be in contact  
4 for restricted access. Is Ernst & Young  
5 bound by that agreement? If so, how?

6 MS. DANNER-BULL: Well, usually the  
7 Division is notified independently  
8 anyway. The only reason we put that in  
9 there is because it can go to anybody in  
10 the Division, and we wanted it to go to  
11 someone at a higher level, somebody  
12 that's going to know that they're  
13 satisfying this requirement, so that's  
14 not something unusual. They notify the  
15 Division anyway. We just wanted it to  
16 certain people.

17 CHAIRMAN JONES: Olga, were you  
18 going to talk about the terms or just --

19 MS. BOGRAN: We can, if you'd like.

20 CHAIRMAN JONES: No. No. I just  
21 didn't know -- I had a question about  
22 one, and I didn't want to get ahead of  
23 you there.

24 What's the purpose of having them  
25 submit the training documents?

37

1 MR. TRAYLOR: Really, it's so that  
2 we're aware of the people that are  
3 coming in, and I know that in  
4 conversations earlier, that gaming is  
5 the same in every state; poker is the  
6 same; slot machines and everything is  
7 the same. But every state regulates and  
8 operate differently, and so a lot of it  
9 is to ensure that the staff they have  
10 coming in not only is familiar with  
11 gaming, but is aware of the change --  
12 the differences in Louisiana compared to  
13 some -- Nevada, in particular, and that  
14 we operate a little differently and just  
15 so that we're confident that those  
16 people are aware of those differences.

17 CHAIRMAN JONES: Board Members, do  
18 you have any questions of State Police  
19 or the Attorney General?

20 Yes, ma'am, Miss Theriot.

21 MS. THERIOT: I have a few  
22 questions, and I don't know if you're  
23 going to know this.

24 CHAIRMAN JONES: Pull your  
25 microphone down, please, ma'am.

38

1 MS. THERIOT: Is anyone from the  
2 organization here?

3 MS. DANNER-BULL: From Pinnacle or

4 Ernst & Young?

5 MS. THERIOT: Pinnacle.

6 MS. DANNER-BULL: Yes.

7 CHAIRMAN JONES: We're going to hear  
8 from Pinnacle next, and then we'll hear  
9 from the accounting firm.

10 MS. THERIOT: Okay. I can hold  
11 until then because it's really about  
12 that.

13 CHAIRMAN JONES: I should have said  
14 that upfront, the sequence of who was  
15 coming to the table.

16 Are there any more questions of  
17 State Police or the Attorney General at  
18 this point? [No response.]

19 Just -- and I probably should have  
20 asked this as a very first question.  
21 Gaming is a highly regulated industry.  
22 We're talking about a lot of cash.  
23 We're talking about a lot of moving  
24 pieces, and it's the responsibility of  
25 this Board to ensure and instill public

39

1 confidence in gaming in this state.  
2 That's the only reason it's been  
3 approved, for economic development  
4 purposes.

5 How important is the auditing and  
6 accounting piece to maintaining that

7 public confidence in gaming operations?

8 MR. TRAYLOR: It's important in  
9 that, I guess, in theory we wouldn't do  
10 it. We wouldn't require it if we didn't  
11 think it was important. We do, as the  
12 Division, we look at everything that is  
13 on that list through the year because it  
14 comes directly from the regs. It's just  
15 an important piece to have that  
16 independent because, you know, we may  
17 miss something, and then you've got  
18 another person looking; and that just  
19 adds to the -- to the depth of the  
20 reviews that are being performed on the  
21 industry.

22 CHAIRMAN JONES: I'd like to hear  
23 from Pinnacle. Good morning.

24 MS. NEGROTTO: Mr. Chairman, Board  
25 Members, I'm Donna Negrotto. I'm the

40

1 Executive Vice-President and General  
2 Counsel of Pinnacle. I have with me  
3 today Miss Cheryl Kondra, who is head of  
4 our internal audit and compliance  
5 groups.

6 So I'm happy to field any questions.  
7 Obviously, we understand the severity of  
8 this matter and appreciate all the time  
9 and effort that's gone in it. I know

10 that the audit group and Cheryl and her  
11 group has spent a lot of time trying to  
12 work through this and try to understand  
13 what we as the licensee could do  
14 differently about this. To the  
15 Chairman's point, you know, we didn't  
16 have a lot of time, and this is an  
17 independent audit so I think the terms  
18 and conditions in the settlement go a  
19 long way in helping us have some more  
20 visibility to some of those things and  
21 help us to assist, as we can, to make  
22 sure that the accounting firm does what  
23 they're required to do.

24 CHAIRMAN JONES: What was  
25 Pinnacle -- I understand that

41

1 Mr. Godfrey was there when all this  
2 happened, but --

3 MS. NEGROTTO: Yeah.

4 CHAIRMAN JONES: -- to the extent  
5 that you know, what was Pinnacle's  
6 response to this once they were notified  
7 of what had happened?

8 MS. NEGROTTO: Cheryl, you probably  
9 have a better sense of that.

10 MS. KONDRA: Yeah, I think  
11 immediately we were, you know,  
12 attempting to figure out what had

13 happened. What knowledge did internal  
14 audit have? Where were we in this?

15 Prior to this past year, this MICS  
16 checklist was completed by EMY. My  
17 prior world and what I'm used to, we  
18 complete it as internal audit, get this  
19 checklist together, and then hand it  
20 over to EMY, and so that is one thing  
21 that we changed.

22 But internally we went through a lot  
23 of discussions, a lot of discussions of  
24 whether this is the right firm to  
25 continue to do business with. They were

42

1 compensated to perform this observation,  
2 and it was not done.

3 That went all the way up to our  
4 board. There was a lot of discussions  
5 on that, and we felt that being able to  
6 put these processes in place and seeing  
7 the work that was done this past year,  
8 we felt very comfortable that this could  
9 not happen again because of the  
10 safeguards. And, you know, the concept  
11 of changing auditors and what that  
12 takes, you know, at a consolidated  
13 financial statement level, this is a  
14 piece of their work, and so we felt  
15 comfortable keeping them in this current

16 role based on putting these  
17 stipulations. Our audit committee chair  
18 has been actively involved with myself  
19 on a monthly basis talking about how  
20 we're going to make this happen, put  
21 this in our minutes and bring to each  
22 audit committee to discuss the  
23 performance of EMY as it relates to the  
24 MICS checklist process.

25 CHAIRMAN JONES: In addition to the

43

1 conditions that were set forth in the  
2 agreement, is there anything else that  
3 Pinnacle has done to ensure, protect the  
4 company moving forward so this sort of  
5 thing doesn't happen again?

6 MS. KONDRA: You know, I would say  
7 having visibility to their work and, you  
8 know, not waiting until April, May comes  
9 around, and we get it the last day.

10 And, you know, we're getting things  
11 earlier. We're having more visibility  
12 earlier. I know my compliance folks are  
13 reporting up to me when they do come  
14 visit to let me know that they were  
15 there. Obviously, it has to be  
16 unannounced so I hear it after the fact.

17 But, yeah, I think we're definitely  
18 keeping an eye on this. We're doing our

19 independent observations, as well,  
20 making sure those are not on the same  
21 days, and, you know -- so I feel like we  
22 have this under control going forward,  
23 and it would be pretty tough to get this  
24 through again in a report that would be  
25 inaccurate for Michelle and her team.

44

1 CHAIRMAN JONES: I'm assuming that  
2 you've engaged their services for all  
3 four properties that Pinnacle has in  
4 Louisiana?

5 MS. KONDRA: That is correct.

6 CHAIRMAN JONES: Do they also serve  
7 properties outside of the State of  
8 Louisiana?

9 MS. KONDRA: They do. There's a  
10 Missouri reporting requirement that they  
11 go through and also in Nevada, so we  
12 oversee those functions and those  
13 reports to review, as well, by our team.

14 CHAIRMAN JONES: Do you know if the  
15 regulators in those states are aware of  
16 what happened here?

17 MS. KONDRA: I'm not aware directly.  
18 I have heard indirectly that they have  
19 been notified and questions have been  
20 asked. I know our Nevada report last  
21 year got a bit more scrutiny so I'm



22 assuming that may have come from this,  
23 but I'm not positive on the  
24 notification. EMY might be able to  
25 better answer that.

45

1 CHAIRMAN JONES: Mr. Stipe.

2 MR. STIPE: With respect to your  
3 internal audit department in this  
4 facility, has your internal audit  
5 department ever detected any  
6 irregularities in the operations of this  
7 facility?

8 MS. KONDRA: Yeah, I would say  
9 through our slot and table game drops we  
10 find irregularities. Somebody didn't  
11 maybe show a box to surveillance. You  
12 know, it's usually the one off, but to  
13 say that there's been a complete  
14 breakdown in any process, absolutely  
15 not. We do find smaller errors of just  
16 human error, movement, you know, on the  
17 floor of dropping boxes but never  
18 anything of significance that even gets  
19 audit committee attention. It's usually  
20 small infractions.

21 MR. STIPE: And, I guess, that's  
22 what I want to make sure I'm clear on,  
23 is there's the auditing firm conduct --  
24 and we'll talk about that in a little

25 bit, I suppose, but on the -- kind of on

46

1 the merits as to this facility in terms  
2 of the operation of this facility, are  
3 you confident that the revenues,  
4 expenses, the cash flows all those  
5 things are being accurately recorded,  
6 tracked and memorialized?

7 MS. KONDRA: Absolutely. Through  
8 our 2,000 hours of auditing that we do  
9 at that property every year through  
10 internal audit, we have full coverage  
11 and visibility. I feel very comfortable  
12 that their processes are working.

13 MR. STIPE: Are there members of  
14 your staff that are stationed -- that  
15 work out of this particular facility or  
16 in this geographic area?

17 MS. KONDRA: There is. We have an  
18 audit manager and two audit staff that  
19 are here in Baton Rouge that travel to  
20 New Orleans. They usually team audit.  
21 They'll go for a week or two and work  
22 through an audit slots cage and then  
23 come back and report it through the  
24 manager here and to the director and  
25 myself in Las Vegas.

47

1 MR. STIPE: Other than this

2 particular issue, are there any -- any  
3 reports that are made that have been  
4 forwarded to your Board with respect to  
5 the internal audits and the controls at  
6 this facility?

7 MS. KONDRA: No, not in my two years  
8 with Pinnacle.

9 MR. STIPE: This is the one  
10 instance?

11 MS. KONDRA: This is the one  
12 instance due to the error on the EMY  
13 front versus operations, yes.

14 CHAIRMAN JONES: Miss Theriot, did  
15 you have something, or are you waiting  
16 for the firm?

17 MS. THERIOT: I did for the company.  
18 Okay. In your engagement letter with  
19 Ernst & Young to provide the audit, did  
20 you have a deadline date for them to  
21 submit the report to you? Because I  
22 understand in some of this it's that  
23 they turned this report in to you the  
24 date it was due to be filed with  
25 Louisiana. Did you have a deadline to

48

1 meet to give you adequate time to review  
2 it?

3 MS. KONDRA: We do not. We go off  
4 of the due date of the regulatory body,

5 and this was probably one of the latest  
6 we've received ever; but we do not have  
7 a due date in our engagement letter for  
8 these people.

9 MS. THERIOT: Do you now have a due  
10 date in your engagement letter, or are  
11 you still -- I mean, obviously, you  
12 didn't at that time, per your response.  
13 Do you now have a deadline date for them  
14 to respond that gives you, maybe, five,  
15 ten days to review it before you  
16 resubmit it?

17 MS. KONDRA: We have not put a due  
18 date in there. We have verbally agreed  
19 that we will get something by the end of  
20 March, and because now my internal audit  
21 team is actually doing the checklist for  
22 them, we are turning that over in  
23 January versus them doing the checklist.  
24 That's a majority of the work, probably  
25 90 percent. So they are getting that

49

1 earlier and we're seeing, through  
2 reports back to us, in March.

3 But I would like to clarify: Our  
4 review of that report does not go back  
5 to all their detailed work papers.  
6 We -- and I would assume that the audit  
7 staff here at the Louisiana State Police

8 is relying on their work papers for that  
9 observation. We don't go test that.

10 MS. THERIOT: And the one last  
11 question, and this isn't on the  
12 allegations in number one and two. I'm  
13 going to save that for when, I believe,  
14 we have someone from Ernst & Young here.  
15 But do you happen to know if the  
16 auditors who stated that they had  
17 conversations with staff that didn't --  
18 that no longer work for you are still on  
19 your project, are still assigned to you?  
20 I know you don't know when they come.  
21 Do you know if they're still staffing  
22 your audit?

23 MS. KONDRA: They are not, is my  
24 understanding, and that was where the  
25 breakdown -- and EMY can go through

50

1 that. That individual left at the end  
2 of the year in December, and so they --  
3 the communication gap there, they're no  
4 longer -- they're working for another  
5 firm.

6 MS. THERIOT: And was it only one  
7 person?

8 MS. KONDRA: I would have to defer  
9 to EMY.

10 MS. THERIOT: Thank you.

11 CHAIRMAN JONES: Miss Berry.

12 MS. BERRY: I just have a couple  
13 comments and questions. I haven't  
14 audited in a while, but it seems to me  
15 that it appears that your internal audit  
16 group is doing their job. It appears to  
17 me, from what I'm hearing, the issue is  
18 with the external auditors, correct?

19 MS. KONDRA: That is correct.

20 MS. BERRY: Yeah, so I'm like  
21 Miss Theriot. I'd be anxious to hear  
22 what EMY has to say. I know that as an  
23 auditor, you're required to form an  
24 opinion based on policies, procedures  
25 and work that you certify that you do,

51

1 and when they turn that audit in to you  
2 and you pay for it, you're assuming that  
3 you've gotten what you paid for. And  
4 it's kind of hard to -- in the audit  
5 field or as a CPA, it's kind of hard to  
6 blame the internal audit when the  
7 external audit is the one that dropped  
8 the ball.

9 So I appreciate all y'all's work,  
10 and I'm anxious to hear from the  
11 external auditors; and, also, I'm  
12 anxious to -- as you commented, you did  
13 a lot of work to engage them again.

14 MS. KONDRA: Correct.

15 MS. BERRY: So you still feel  
16 comfortable. So I'm anxious to hear  
17 what the real issue was because, I mean,  
18 this is a major thing, I think,  
19 especially, like you say, as -- and as  
20 the Chairman mentioned, we're dealing  
21 with dollars and the people's  
22 confidence; and this is a major casino,  
23 and I think this is a pretty big issue.

24 MS. NEGROTTO: We wholeheartedly  
25 agree.

52

1 MS. KONDRA: We agree.

2 MS. BERRY: Thank you.

3 CHAIRMAN JONES: I will say, as a  
4 follow-up to that, Miss Berry, that when  
5 we were notified of this by State  
6 Police, Major Noel and I had occasion to  
7 be in Las Vegas shortly thereafter and  
8 reached out to the licensee at their  
9 corporate office, and they were anxious  
10 to meet with us. And there was no doubt  
11 in my mind, and I think the Major would  
12 agree, they understood how big a deal  
13 this was, and they laid out for us where  
14 they were going with their process at  
15 that point. And so I'm -- I do have  
16 confidence in that.

17 MS. BERRY: In Pinnacle's  
18 management, correct?

19 CHAIRMAN JONES: And I'm putting  
20 confidence in what y'all have done that  
21 we don't have to revisit an issue like  
22 this again.

23 MS. NEGROTTO: Totally understand  
24 and agree.

25 MS. KONDRA: We agree.

53

1 CHAIRMAN JONES: Are there any  
2 questions for our Pinnacle  
3 representatives? Thank you.

4 MS. NEGROTTO: Thank you,  
5 Mr. Chairman.

6 CHAIRMAN JONES: I'd like for Ernst  
7 & Young representatives to step forward,  
8 please, and if you would remain  
9 standing, I'd like Miss Parola to swear  
10 you in.

11 COURT REPORTER: Gentlemen, raise  
12 your right hands. Do you solemnly swear  
13 the testimony you will give in the cause  
14 now in hearing will be the truth, the  
15 whole truth, and nothing but the truth,  
16 so help you God?

17 MR. WEST: I do.

18 MR. CORMIER: I do.

19 MR. BRUNING: I do.



20 CHAIRMAN JONES: Please have a seat,  
21 welcome. Thank you for coming.

22 If you would, introduce yourselves  
23 and spell your name for our reporter so  
24 that she can get it right. Sometimes  
25 when we have out of town people, we

54

1 don't get the name quite right.

2 So, Paul, if you'd like to do that.

3 MR. WEST: Paul West, W-E-S-T, with  
4 Baker Donelson. I'm local counsel for  
5 Ernst & Young.

6 MR. BRUNING: Robert Bruning, I'm  
7 the Coordinating Partner on Pinnacle  
8 Entertainment.

9 CHAIRMAN JONES: Spell your last  
10 name for us, please.

11 MR. BRUNING: B-R-U-N-I-N-G.

12 CHAIRMAN JONES: Thank you.

13 MS. BERRY: Excuse me. What was  
14 your job title again?

15 MR. BRUNING: Coordinating Partner  
16 on Pinnacle Entertainment with Ernst &  
17 Young.

18 MS. BERRY: Thank you.

19 MR. CORMIER: And my name is Bruce  
20 Cormier. I'm Associate General Counsel  
21 for Ernst & Young. My last name, which  
22 may be familiar in these parts, is

23 C-O-R-M-I-E-R.

24 CHAIRMAN JONES: Thank you. Please  
25 proceed.

55

1 MR. WEST: Mr. Chairman and Board  
2 Members, with your permission, what we  
3 would like to do is have Bruce  
4 introduce two more members of the  
5 Ernst & Young team who were involved in  
6 the transaction and the remediation of  
7 the transaction, and then, again, with  
8 your permission, Mr. Cormier would like  
9 to make just a short statement and  
10 receive your comments and, obviously,  
11 answer any questions anybody has.

12 So, Bruce.

13 MR. CORMIER: If that is agreeable,  
14 Chairman Jones and Members of the Board,  
15 I have behind me two gentlemen who have  
16 been involved in this matter. To my  
17 immediate right, Glenn Burr. He is a  
18 Professional Practice Director for  
19 Ernst & Young. That is an important  
20 position in the firm. People who are  
21 Professional Practice Directors provide  
22 accounting and auditing advice to our  
23 professionals in matters where there are  
24 difficulties, and he has been at my side  
25 since this matter first landed on my

1 desk some 18 months ago.

2 To his left is Ryan Coopersmith.

3 Ryan is an Engagement Partner and is

4 going to be directly and primarily

5 responsible for performing the

6 undertakings that are reflected in the

7 proposed settlement agreement.

8 It is our goal here today to answer

9 any and all questions that you may have

10 and to have the benefit of your thoughts

11 on this so that we can move forward

12 together in a cooperative and

13 constructive way.

14 As I indicated, this came to my

15 attention about 18 months ago, and it's

16 clear to me that the reason that we are

17 all here today is because of errors of

18 judgment and execution that were made by

19 the EY audit team in connection with the

20 2014 MICS report for this property.

21 There will be no dispute about that.

22 Those errors are very disappointing, and

23 I would like to apologize to the Board

24 this morning on behalf of the firm for

25 those errors.

1 Now, I have had the great privilege

2 of representing this firm and its

3 professionals for 25 years. I can tell  
4 you that those errors are aberrational  
5 and not at all consistent with the high  
6 level of professional service that this  
7 firm and all of its professionals  
8 provide on a daily basis.

9 Three things of note, I think, have  
10 happened since this problem came to our  
11 attention. First and most importantly,  
12 EY has engaged closely with its client,  
13 Pinnacle, and through Pinnacle with the  
14 State Police to adopt measures on a  
15 going forward basis to do the most that  
16 we can to ensure that nothing like this  
17 happens again. Now, those steps, not  
18 all of them but the most important ones,  
19 are set forth in the terms and  
20 conditions one through four of the  
21 proposed settlement agreement.

22 I don't want to be presumptuous, but  
23 it is my understanding that the report  
24 that was completed on all four  
25 properties for the 2015 year and the

58

1 procedures that have been undertaken to  
2 date for 2016 have been received quite  
3 well by the client and the State Police.

4 I would like to thank the client and  
5 thank Major Noel and Michelle

6 Danner-Bull of the State Police for  
7 working cooperatively with us to move  
8 ahead in a constructive way. It's my  
9 judgment that these are working well and  
10 provide confidence to all of us on a  
11 going forward basis.

12 The second thing of note that has  
13 happened is that the firm's training has  
14 been bolstered, not only for people who  
15 do work in this state and not only for  
16 people who do work for Pinnacle, but for  
17 all professionals who are serving the  
18 gaming industry clients nationwide, and  
19 there is a particular focus on drop and  
20 count observations and completion of the  
21 questionnaire, the two areas that led to  
22 problems here.

23 Finally, the professionals involved  
24 in this matter on the 2014 report have  
25 been held to account. One of the

59

1 individuals is no longer with the firm,  
2 would not be eligible to be rehired.  
3 Everyone in the firm is reviewed on an  
4 annual basis. All of the folks who were  
5 involved in preparing these reports had  
6 the most important rating, their quality  
7 rating, reduced by a full measure, and  
8 there were significant financial

9 associations -- financial ramifications  
10 from this. To put it bluntly, everyone  
11 involved took very significant hits to  
12 their compensation. Because of the way  
13 that people are compensated in the firm,  
14 that will have ramifications that will  
15 last as long as they are -- have careers  
16 at Ernst & Young.

17 So that is what we have done, and at  
18 this point, we -- all of us collectively  
19 would like to entertain any questions,  
20 hear any criticisms that any of you  
21 have. Thank you very much for hearing  
22 me.

23 CHAIRMAN JONES: Thank you. We're  
24 not here to criticize you. We're here  
25 to try to figure out what happened and

60

1 gain some assurance that this is never  
2 going to happen again. This is huge for  
3 us.

4 First of all, tell me how this  
5 report was generated and -- this was an  
6 intentionally generated report so there  
7 were internal errors in this report. It  
8 didn't just happen as a mistake; is that  
9 correct?

10 MR. CORMIER: I think that is  
11 correct in the sense that the report

12 didn't write itself, right. The main  
13 problem here is that the individual who  
14 was at the firm who was a senior  
15 manager, who was responsible for  
16 scheduling the observations of the drop  
17 and counts, had left the firm, and there  
18 was a fumbled handover. So those  
19 observations were not able to be  
20 scheduled in a timely fashion.

21 Now, I alluded to errors of  
22 judgment. The first and most critical  
23 error of judgment in my view -- and my  
24 colleagues can expand on this -- is that  
25 at that moment, once it was recognized

61

1 that timely observations could not be  
2 made, somebody from EY should have  
3 picked up the phone, called Michelle or  
4 somebody else at the State Police and  
5 said, we have missed these observations.  
6 What do we do about it?

7 Human nature being what it is,  
8 that -- sometimes that did not happen,  
9 and that set off a series of errors that  
10 compounded each other. And in addition  
11 to that, one of the individuals, the  
12 person who is no longer with the firm,  
13 was unfortunately in the driver's seat  
14 in terms of putting the report together,

15 and he drafted a report. It was based  
16 on a prior year's report that recounted  
17 conversations with individuals who were  
18 there in 2013 but, frankly, were not  
19 there in 2014, and that was not  
20 evaluated and reviewed as carefully as  
21 it should have been by people who are in  
22 the chain of command.

23 I do not in any way wish to blame  
24 that individual, who was sort of on --  
25 the lowest person on the totem pole for

62

1 this. He was the generator of the  
2 error, but frankly, it should have been  
3 caught; and I dearly wish it would have  
4 been caught by individuals who were  
5 senior to him and should have recognized  
6 that something was not quite right.

7 So those are the two -- when I talk  
8 about errors in judgment and execution,  
9 those are the two big ones that stand  
10 out in my mind.

11 CHAIRMAN JONES: And I, having been  
12 in State Police for many years and been  
13 a troop commander and supervising young  
14 troopers, I mean, people at the lowest  
15 level make mistakes, and they do things  
16 that are wrong. And that's why you have  
17 got supervisors, and my concern here is,



18 you have people in supervisory positions  
19 who should have done something. And,  
20 apparently, the person who generated the  
21 report's no longer with you.

22 I have to assume that those who are  
23 supervisors are still with the firm; is  
24 that correct?

25 MR. CORMIER: That is correct, but

63

1 they -- as I indicated previously,  
2 they've been held to account for this  
3 internally for what I regard as  
4 deficient performance.

5 CHAIRMAN JONES: Did you have any  
6 reporting obligations with respect to  
7 professional licensing boards?

8 MR. CORMIER: No, we did not.

9 CHAIRMAN JONES: Was the person who  
10 generated this report a CPA licensed in  
11 Louisiana?

12 MR. CORMIER: Ultimately, in my  
13 view, the report is the responsibility  
14 of the partner, and the partner's  
15 here -- I would have to ask them  
16 individually. I do not believe that  
17 they were licensed in the State of  
18 Louisiana, but I wish to confirm that.

19 MR. BRUNING: I don't know the  
20 answer. I was not the partner who

21 signed the report, but I would guess --  
22 but I don't want to guess -- that that  
23 partner is not licensed in Louisiana.

24 MR. CORMIER: And Ryan indicates  
25 that he is not licensed in the State of

64

1 Louisiana.

2 CHAIRMAN JONES: Was he licensed in  
3 any state?

4 MR. CORMIER: Yes.

5 CHAIRMAN JONES: Did you report that  
6 to that state?

7 SPEAKER: No.

8 CHAIRMAN JONES: You have no  
9 obligation to do that? He was working  
10 on your behalf.

11 MR. CORMIER: I would have to  
12 look -- the state reporting obligations  
13 are very specific and typically are the  
14 result of findings -- they flow from  
15 federal regulatory agencies or  
16 adjudicated matters; and I was not  
17 charged with looking into this  
18 particular instance, but that's my  
19 general familiarity with it. That has  
20 not been reported to the State of  
21 Nevada, to my knowledge, but I will  
22 certainly go back and take a look at  
23 that; and if, in fact, that is

24 warranted, we will make a report.

25 CHAIRMAN JONES: Does your firm

65

1 represent gaming clients in other states

2 other than with respect to Pinnacle?

3 MR. CORMIER: Yes.

4 CHAIRMAN JONES: Have you had any

5 discussions with those boards about this

6 incident?

7 MR. BRUNING: We have not had any

8 discussions. Our professional standards

9 will prohibit us from having those

10 discussions.

11 CHAIRMAN JONES: I'm struggling.

12 Okay. I'm struggling with this incident

13 because we represent the interest of the

14 citizens of the state. You know, I just

15 did a -- you know, I don't know a lot

16 about your firm. I know who you are,

17 right, so I just did a quick Google

18 search yesterday combining your firm's

19 name and fraud, and I got an awful lot

20 of hits. So what I need to know is:

21 Why should we continue to rely on your

22 work in this state based on what we've

23 seen?

24 MR. CORMIER: Because as I think in

25 my view, this was an aberration, that

66

1 we've been serving this client for some  
2 time and have done a lot of good work  
3 for this client, and this was the only  
4 instance that I'm -- certainly I'm aware  
5 of in which problems came up; and that  
6 we have acted responsibly to cure those  
7 problems.

8 If you run through Google the name  
9 of any national or worldwide accounting  
10 firm -- and there are about four of  
11 them -- I dare say that you will run  
12 into lots of hits of the sort that you  
13 describe because of -- because of the  
14 nature of the litigation environment in  
15 which we live and because of human  
16 nature and the fact that these people  
17 work for thousands of clients worldwide.  
18 As I said, this, in my own experience,  
19 is a rare instance of professional  
20 deficiency, and for the most part, our  
21 people are out there, thousands of them,  
22 working very hard every day and serving  
23 their clients well.

24 So it's a matter of perspective,  
25 Mr. Chairman. I can certainly

67

1 understand the obligations of all these  
2 Board Members and why this would cause  
3 you particular concern and raise

4 questions. I can only tell you from my  
5 experience and my perspective, the vast  
6 majority of people, including the people  
7 in this room, do their work at a very  
8 high level on a daily basis.

9 CHAIRMAN JONES: I'll defer. I'll  
10 come back.

11 Miss Berry first.

12 MS. BERRY: I am licensed in the  
13 State of Louisiana, and we have to  
14 report everything, every deficiency,  
15 every charge, every inefficiency that we  
16 do. And I'm on a much lower level than  
17 Ernst & Young, I can promise you that,  
18 and so I have a real problem with the  
19 auditors in charge.

20 First of all, I understand mistakes  
21 can happen at lower level employees, but  
22 second of all, I have a problem with it  
23 not being reported to any regulatory  
24 agency, whether it's Louisiana or Nevada  
25 or wherever. The work was done in

68

1 Louisiana for a Louisiana client, so you  
2 have to be accountable to somebody, I  
3 feel, even though it is, like you say, a  
4 lower level employee, but I'm sure the  
5 fee for this audit was not a lower level  
6 fee. So -- and as Chairman Jones says,

7 we're responsible to the State, to the  
8 people of Louisiana in this matter, and  
9 if work was not done by this firm, what  
10 kind of credibility can we give without  
11 some type of accountability?

12 MR. CORMIER: I hear you. I hear  
13 you, Miss Berry.

14 MS. BERRY: Well, and one more  
15 thing, I just -- the terms and the  
16 conditions of this settlement, I think  
17 maybe we need to look at it maybe a  
18 little bit more. That's it.

19 CHAIRMAN JONES: Miss Theriot?

20 MS. THERIOT: I agree with  
21 Miss Berry. I'm also a licensed CPA in  
22 this state, and she and I just made our  
23 representations as of December 31st,  
24 that I'm really shocked that anyone on  
25 this audit didn't have to make or be

69

1 responsible for any fraudulent or legal  
2 under investigation for any mishaps  
3 relating to our work.

4 The facts in this are a little  
5 lacking, but I'm assuming that the  
6 problem was someone was supposed to be  
7 on the ground at Boomtown doing this  
8 audit at the location in New Orleans.  
9 They're not really specific, but what

10 branch was handling this audit? Were  
11 you coming out of New Orleans or sending  
12 someone out of where you're located in  
13 Nevada?

14 MR. BRUNING: We've historically --  
15 on this particular engagement, all the  
16 engagement team was out of Nevada --  
17 primarily out of Nevada.

18 MS. THERIOT: And so a supervisor  
19 who picked up this work -- and I'm  
20 asking this having been in a situation  
21 not as high but similar where you're  
22 charged with picking up the work that  
23 somebody departs a firm and you're  
24 trying to finish it, so I'm going temper  
25 it with that. No one would have noticed

70

1 that this person was probably in your  
2 office at that time that it said he was  
3 having conversations with someone in the  
4 State of Louisiana? I assume he would  
5 not have been -- had he actually been  
6 on-site conducting the interviews with  
7 people who no longer work there that he  
8 would have not been in your office.

9 MR. BRUNING: So is the question --

10 MS. THERIOT: I mean, do you know  
11 the supervisor picking this up wouldn't  
12 have noticed that the party was at work

13 or wouldn't have -- that never occurred  
14 to him?

15 MR. BRUNING: Well, I think the  
16 rigor of the review would have entailed  
17 conversations internally with the team  
18 members to go through the report and --

19 MS. THERIOT: Okay.

20 MR. BRUNING: -- I believe what  
21 happened here is the rigor that our firm  
22 and the quality standards that we have,  
23 it just did not go through the rigor of  
24 the review -- detailed review that is  
25 required by our firm policies.

71

1 MS. THERIOT: And I want to talk  
2 about the terms and conditions, and I  
3 agree with Miss Berry that I find them a  
4 little lacking. I'm looking at one that  
5 the term is that we're going to require  
6 them to submit -- to go through a  
7 training process. You're going to  
8 submit training documents for all  
9 personnel assigned to the audit.

10 Does it really take training? I  
11 mean, I have a problem with that. I  
12 don't think it's training not to say we  
13 had a conversation with someone that no  
14 longer worked, you know, at the client's  
15 premises. And I do understand that this



16 is serious because it's -- besides it's  
17 serious to the people of Louisiana that  
18 you did an audit on our gaming  
19 establishment, but for the client, it is  
20 a big undertaking for them to switch  
21 firms; and I recognize that. It's very  
22 costly to get a new firm up to speed,  
23 and so it's a difficult decision with  
24 them.

25 But, I mean, I'm on the precipice

72

1 there. It's a very grievous incident  
2 that happened, and for them to continue  
3 with the same firm gives me heartburn;  
4 and I don't find the terms and  
5 conditions to be very -- to make me feel  
6 very secure that this wouldn't happen  
7 again. I mean, I don't find them --  
8 anything except, we're going to train  
9 them now. I don't think they really  
10 need training, not to say that we had a  
11 conversation that never occurred, or I  
12 went to New Orleans to have a  
13 conversation, and he was never there. I  
14 don't think training does that. That is  
15 an extremely poor judgment.

16 MR. BRUNING: That was -- if you  
17 read the report, that was one of the two  
18 items that were misleading where the

19 individual that had the conversations  
20 and those individuals were not at the  
21 property, and we acknowledge that.

22 MS. THERIOT: I mean, I guess  
23 it's -- what do you do to protect  
24 against that? Because I don't think  
25 these stipulations do that on an ongoing

73

1 basis.

2 MR. BRUNING: I think one of the  
3 items that's not in the stipulation that  
4 we have worked with the company on, we  
5 committed to having more senior people  
6 on the ground here in Louisiana in the  
7 drop and counts, so as two CPAs, you  
8 likely know that that work is probably  
9 performed or historically performed by  
10 staff -- junior staff to the term  
11 Chairman Jones used. We've now  
12 committed that that's going to be more  
13 senior people. In fact, at one of the  
14 properties in this last cycle, a partner  
15 was actually at the drop and count  
16 procedure, so that's one of the steps or  
17 action items that the firm is  
18 undertaking.

19 MS. THERIOT: Well, the only thing I  
20 have to say is that in light of this,  
21 the one thing that I do agree with you

22 on is taking the blame that the buck  
23 stops here, but it should have been  
24 reported that -- I mean, it almost  
25 verges on fraud, that one of your CPAs

74

1 committed this, at least to his own  
2 state board.

3 Thank you, Mr. Chairman.

4 CHAIRMAN JONES: Miss Berry.

5 MS. BERRY: I just have to agree,  
6 again, two CPAs here. It just seems to  
7 me that an audit procedure -- I mean,  
8 we're -- our ethics are very high, too.  
9 I mean, as a CPA, in addition to being  
10 on the Gaming Control Board, if I say  
11 that I did something that I did not do  
12 and I got caught at it, I need to report  
13 that to somebody, and I have a problem,  
14 as I mentioned before, that it wasn't  
15 reported to anybody. And you mentioned  
16 that the remaining employees that were  
17 involved in this that are still  
18 remaining at your firm, you know, took  
19 hits to their compensation and on and  
20 on, but -- and now it just kind of made  
21 me chuckle that you're sending a partner  
22 to do an audit procedure.

23 Are you going to charge them the  
24 partner's rate to do an basis audit

25 procedure now?

75

1 MR. BRUNING: No, that --

2 MS. BERRY: I was hoping not.

3 MR. BRUNING: If I could step back,  
4 as well, you know, I think my colleague  
5 Bruce here articulated how we got here  
6 and the schedule being missed. I think  
7 one of the key learning lessons is we  
8 made an interpretation of the rules. We  
9 missed the drop and count, and we  
10 believed we could rely on internal audit  
11 and their drop and counts. So when we  
12 made that assessment, the conversations  
13 to fill the checklist these names of the  
14 folks that weren't here, those should  
15 have been articulated from the internal  
16 audit reports with that conclusion. As  
17 Bruce had indicated, I think when the  
18 report was drafted, the names from the  
19 prior year, the '13 report, just got  
20 lifted in there.

21 So I'm comfortable that there was no  
22 intent to lie or commit any sort of  
23 fraud as it relates to that report. It  
24 was simply a lack of rigor and the  
25 detailed review of those reports, and

76

1 we -- we've failed to detect that

2 because of a lack of rigor in the review  
3 process.

4 CHAIRMAN JONES: Mr. Singleton.

5 MR. SINGLETON: Mr. Chairman, I  
6 guess my problem or concern is: First  
7 of all, one low level employee, as I  
8 understand it, was fired, and that was  
9 the end of it. So when you talk about  
10 the trust and what's going on, then you  
11 trust everybody else on an upper level,  
12 but that one person had to take the  
13 blame for everything that's going on.  
14 And then I find that being something --  
15 for me to want to trust the company to  
16 do what you supposed to do and how  
17 seriously you take this. That nobody on  
18 an upper echelon or upper level, you  
19 punished them, I guess, by taking some  
20 money away from them, as I understand  
21 what you're telling me at this point.

22 And I just find -- I think the  
23 Chairman asked the question: Why should  
24 we trust you to do work in the state in  
25 the future, and I raise that question.

77

1 Why should we trust you in the future  
2 from the way you've handled this  
3 situation?

4 MR. CORMIER: Mr. Singleton, I guess

5 I would have a couple of responses to  
6 that. The individual that separated  
7 from the firm was not scapegoated in any  
8 way. He was -- he left the firm because  
9 of issues concerning his performance  
10 generally and not simply because of what  
11 happened on this engagement, so I don't  
12 want to get into the details of his  
13 particular HR situation, but having been  
14 involved in this I can say that he was  
15 separated and is not eligible for rehire  
16 because of those general problems.

17 With regard to other people on the  
18 team, as I said, you know, they have  
19 been held to account. One way of doing  
20 that is to reduce the rating of people,  
21 the performance evaluation of people to  
22 take this into account with all of the  
23 other work that they have done through  
24 the year and to punish them financially.  
25 People respond to financial incentives.

78

1 The dropping of the ball, in this  
2 instance, was not deemed to rise to a  
3 level that would warrant their  
4 separation from the firm based upon all  
5 the other good work that they did.

6 In terms of why you should trust the  
7 firm on a going forward basis, as I

8 indicated, we have taken steps that I  
9 think should be confidence building. I  
10 think that before this incident there  
11 were no complaints, that I'm aware of,  
12 about the quality of the work that the  
13 firm had done. I believe that since  
14 then the client and, I believe, the  
15 State Police have been satisfied, at  
16 least with the quality of our reports,  
17 and sometimes you find that when a firm  
18 or individuals go through a period of  
19 difficulty like this, they are even more  
20 vigilant because they've been burned and  
21 because they've suffered circumstances  
22 and because the client relationship has  
23 been strained; and they have to deal  
24 with the circumstances with that. That  
25 you find that those individuals may be

79

1 even more vigilant and attentive than  
2 they otherwise would have been because  
3 they've already stumbled and fell.

4 So that's my response to your  
5 question, Mr. Singleton. Do you have  
6 any follow-up?

7 CHAIRMAN JONES: Mr. Stipe.

8 MR. STIPE: There are instances when  
9 you have an independent obligation to  
10 notify regulatory agencies that you've

11 discharged if you find irregularities.

12 Would you agree with that?

13 MR. CORMIER: Yeah, I believe that  
14 each of the State Boards of Accountancy  
15 in the 50 states, and also the PCAOB and  
16 the SEC, have disclosure checklists, and  
17 I think that if you -- I don't have them  
18 before me right now or committed to  
19 memory, but I think that, in general,  
20 the disclosure obligations are of the  
21 nature of: Have you been committed --  
22 have you committed any crime? Have you  
23 been found to been adjudicated of any  
24 crime? In the course of your audit  
25 work, have you been adjudicated in a

80

1 civil context of having committed fraud  
2 or negligence or something like that, or  
3 have you entered into a settlement in  
4 which you have admitted to the same.

5 And then there's a third category of  
6 reporting obligations, which is in the  
7 nature of: Have you been disciplined by  
8 another state board or by a federal  
9 regulatory agency? And it's my general  
10 sense that when you answer yes to those  
11 questions, you are required to report  
12 that to the board.

13 Now, significantly in all of them



14 there's an element to finality that  
15 triggers the reporting obligation. A  
16 mere accusation does not typically  
17 trigger a reporting obligation, you  
18 know, even if the accusation is very,  
19 very serious.

20 So I think it's fair to say that the  
21 reason that nobody reported any of this  
22 is it doesn't fall into any of those  
23 categories, but perhaps more  
24 importantly, there's been no finality  
25 here. It's not as if there was an

81

1 investigation of the firm or any of the  
2 professionals and that X, Y and Z have  
3 been found to have occurred. In a  
4 sense, any report would be premature  
5 until there were a final resolution of  
6 the facts.

7 And so I think in a nutshell -- so,  
8 A, I agree that there are reporting  
9 obligations, but B, off the top of my  
10 head, those are the sorts of things that  
11 trigger them. And finally, because  
12 we're still working through this and  
13 because there's no element of finality  
14 to it, there haven't been any reports.

15 I can tell you that the firm takes  
16 reporting obligations very seriously,

17 and if anything had happened to date  
18 that would have triggered that, then the  
19 firm would have reported what it needed  
20 to report, and the individuals who are  
21 licensed in the individual states would  
22 have reported what they needed to  
23 report.

24 And this is to follow up on, I  
25 believe, a remark that was made by

82

1 either Miss Theriot or Miss Berry over  
2 there, but, yeah, when you renew your  
3 license every year, there are a series  
4 of questions that you have to address,  
5 and this generally falls into one of  
6 them.

7 MR. STIPE: And, I guess, I'm trying  
8 to separate out a couple three things.  
9 The docket is, the licensee and the  
10 Division which want to resolve this --

11 MR. CORMIER: Right.

12 MR. STIPE: -- and the licensee, it  
13 seems to me, has been hurt, you know,  
14 been inflicted enough pain on them. And  
15 so that's the docket that we're in front  
16 of -- that's in front of us.

17 Separately, I mean, the Chairman said  
18 it, and I'll echo it. I mean, I rely on  
19 the fact that there are third party

20 auditing firms that are looking over  
21 these records. For me personally,  
22 that's kind of an important thing that I  
23 rely on.

24 But my question again to reporting,  
25 let me ask it a little better. I mean,

83

1 there are instances in our gaming  
2 regulations where as a CPA firm you have  
3 an obligation -- if you're discharged,  
4 you have an independent obligation,  
5 don't you, to notify the Division?

6 MR. CORMIER: If we are discharged?

7 MR. STIPE: Yeah, if you can't sign  
8 the opinion.

9 MR. GASTON: Yes or no?

10 MR. CORMIER: I'm sorry. I am not a  
11 gaming lawyer so I'm not familiar with  
12 the regulations that may exist in this  
13 state or any other state, for that  
14 matter, that would warrant a report by a  
15 CPA firm to this Board or to any other  
16 gaming commission of another state, so  
17 my answer to your question is, I don't  
18 know.

19 MR. STIPE: Again, it's the -- you  
20 know, the licensee -- it's the licensee  
21 -- I'll just say, it's the licensee and  
22 the Division that have this settlement,

23 that brought this settlement in front of  
24 us. You know, they want to resolve it.  
25 It's what they drafted in terms of the

84

1 conditions. There's a separate  
2 engagement between this licensee and  
3 this particular firm that they,  
4 apparently, need to do a lot of work on.

5 In terms of that, you know, I  
6 certainly understand other people may  
7 have questions. At some point, I'm  
8 going to move to approve the settlement,  
9 but I will say this while you're up  
10 there. You know, we talked about two,  
11 three and four. Number six is a stock  
12 provision in these things that provides,  
13 [As read]: "The Division reserves the  
14 right to take into consideration these  
15 stipulations, these violations in  
16 connection with any future  
17 investigation, violation, assessment,  
18 penalty or in connection with any future  
19 assessment of the licensee's  
20 suitability."

21 I can promise you from my  
22 perspective that that applies not only  
23 to Pinnacle, but to your firm. I mean,  
24 and don't think we're just reserving the  
25 right. I can tell you from my

1 perspective, I will absolutely take that  
2 into account if this ever comes up  
3 again, and there won't be -- we'll find  
4 a different way than stipulations  
5 concerning the contours of an audit.

6 MR. CORMIER: Mr. Stipe, I hear you  
7 loudly and clearly and a couple of  
8 reactions to that. You know, your  
9 concerns, I understand them well, and it  
10 just reinforces with me sort of how  
11 disappointing this all has been. And we  
12 are -- we have a tremendous incentive to  
13 make this right. I mean, as well as  
14 being disappointing on a personal level,  
15 frankly, it's embarrassing; and like any  
16 other firm, EY has a brand, and we are  
17 proud of it and wish to protect it.

18 The other thing that I will add to  
19 that is I think it reflects extremely  
20 well and generously on Pinnacle's part  
21 because, you know, they are certainly  
22 subject to your regulatory authority,  
23 and you have reserved the right to take  
24 this into account should they have any  
25 missteps in the future. And I won't

1 pretend to speak for them, but I can  
2 simply say that we're very grateful for

3 their vote of confidence in us; and  
4 we're very happy that they have decided  
5 to move forward with us, notwithstanding  
6 the fact that the ball was dropped badly  
7 on that. And given the fact that  
8 they're an extraordinarily well run  
9 company and a very well respected  
10 company, I think one can take  
11 confidence -- some degree of confidence  
12 in their willingness to go forward with  
13 EY as a service provider as a reflection  
14 of the fact that the firm gets it and is  
15 determined to make it right. Because  
16 otherwise, Pinnacle probably would not  
17 take that risk.

18 CHAIRMAN JONES: What I would say  
19 about that is this: If I heard Pinnacle  
20 correctly and what was related to me  
21 when we met with corporate officials in  
22 Vegas was it's incredibly difficult to  
23 disengage, so I take that into account.

24 MR. CORMIER: Yes, sir.

25 CHAIRMAN JONES: Were it not so

87

1 difficult, you might be working  
2 somewhere else rather than for these  
3 people on other projects because I don't  
4 know. All right. They put their  
5 license at risk by putting trust in you

6 and your firm, and you failed in that  
7 responsibility.

8 MR. GASTON: Yes.

9 CHAIRMAN JONES: We don't regulate  
10 you, and I guess that's the good news  
11 here because we can't do anything with  
12 respect to your firm; but I don't think  
13 it would be helpful to your firm if this  
14 Board took a vote of no confidence in  
15 you and set forth in the future to  
16 restrict your use by our licensees.

17 I don't want to hurt Pinnacle. I  
18 see them mostly as the victim here, and  
19 I agree with Mr. Stipe that, perhaps,  
20 the best path forward is to approve the  
21 settlement. But -- and I don't know  
22 what the pleasure of this Board is.

23 They may send it back to the hearing  
24 officer for further negotiations and  
25 further hearing. I don't know, but I

88

1 don't want you and your colleagues to  
2 leave here today with any  
3 misunderstanding about your  
4 responsibility to this client in this  
5 state, okay?

6 MR. CORMIER: Yes, Chairman, I  
7 think -- I totally agree with your  
8 characterization of what led us here,

9 and I can tell you that the  
10 responsibility is taken very seriously.  
11 That for everyone in this room, this has  
12 been a searing experience. This is a  
13 very significant mess up from my  
14 perspective, and it's the sort of thing  
15 that if you live through it and you  
16 commit to getting it right, you're  
17 probably better than you would have been  
18 otherwise as a result of that.

19 So, you know, I hear -- on behalf of  
20 the firm, I hear you loudly and clearly.

21 MR. BRUNING: And if I may, Chairman  
22 Jones, I've had a lot of dialogue with  
23 the CEO, the CFO and the audit committee  
24 chair over this matter, and I can tell  
25 you that I care to get this right. I'm

89

1 embarrassed on behalf of the firm and  
2 our brand, and since being on the  
3 account and serving the account in  
4 August, about, 2015, I'm going to make  
5 this right. I've discussed this with  
6 Anthony and Carlos, the GC and the  
7 corporate board.

8 CHAIRMAN JONES: Mr. Bradford.

9 MR. BRADFORD: Yes, sir. I also  
10 feel like this is not really a day to be  
11 criticizing Pinnacle at all; however, I



12 do believe that I can understand and  
13 probably agree with Pinnacle's decision  
14 to continue with Ernst & Young. There's  
15 probably nobody on the planet that's  
16 going to do a better job from this point  
17 forward than Ernst & Young having had  
18 this problem and redoubling your efforts  
19 to make sure it never happens again.

20 My only comment to you: I  
21 understand the importance of the brand.  
22 You-guys have an excellent national  
23 reputation. I'm somewhat familiar with  
24 the CPA business, and I'm not a CPA but  
25 in my family. I just hope that this is

90

1 not damage control here today. I hope  
2 that this is a transformational  
3 opportunity within the firm nationwide,  
4 and if you're not using it to your  
5 benefit and to your advantage in that  
6 regard, you're missing a huge  
7 opportunity.

8 We're here to guard the citizens of  
9 Louisiana. They trust us, and when  
10 you're building a brand, whether it's a  
11 hundred years old or one year old,  
12 integrity is everything.

13 Accountability, you do what you say  
14 you're going to do, and people trust

15 that and you build your brand; and so  
16 you do have damage control there, but if  
17 it's not transformational within your  
18 firm to correct that, you're missing a  
19 real opportunity.

20 Having said that, Mr. Chairman, I  
21 move approval of this agreement.

22 CHAIRMAN JONES: We have a motion.  
23 Do we have a second?

24 MS. THERIOT: I have a substitute  
25 motion, Mr. Chairman.

91

1 CHAIRMAN JONES: I'm sorry?

2 MS. THERIOT: I have a substitute  
3 motion.

4 CHAIRMAN JONES: Absolutely. May I  
5 explain that we only have two choices  
6 here, though. We can send it back to  
7 the hearing officer, and they can go  
8 from there; or we can approve the  
9 settlement.

10 So your substitute motion is to?

11 MS. THERIOT: Send it back to the  
12 hearing officer for renegotiation of the  
13 settlement agreement.

14 CHAIRMAN JONES: All right. So we  
15 have a motion to return the matter to  
16 the hearing officer by Miss Theriot. Is  
17 there a second?

18 MS. BERRY: Right here.

19 CHAIRMAN JONES: By Miss Berry.

20 So the motion will be to remand the  
21 matter back to the hearing officer, and  
22 we'll take our roll call vote on that,  
23 Miss Tramonte.

24 THE CLERK: Mr. Bradford?

25 MR. BRADFORD: No.

92

1 THE CLERK: Mr. Stipe.

2 MR. STIPE: No.

3 THE CLERK: Mr. Singleton?

4 MR. SINGLETON: No.

5 THE CLERK: Mr. Jackson?

6 MR. JACKSON: No.

7 THE CLERK: Mr. Gaston?

8 MR. GASTON: Yes.

9 THE CLERK: Miss Berry?

10 MS. BERRY: Yes.

11 THE CLERK: Miss Theriot?

12 MS. THERIOT: Yes.

13 THE CLERK: Chairman Jones?

14 CHAIRMAN JONES: No. The motion  
15 fails.

16 We'll return to the original motion  
17 to approve the settlement. We have a  
18 motion on the floor. Is there a second?  
19 By Mr. Stipe.

20 Take a roll call vote on that,

21 Miss Tramonte, to approve the  
22 settlement.

23 THE CLERK: Mr. Bradford?

24 MR. BRADFORD: Yes.

25 THE CLERK: Mr. Stipe?

93

1 MR. STIPE: Yes.

2 THE CLERK: Mr. Singleton?

3 MR. SINGLETON: Yes.

4 THE CLERK: Mr. Jackson?

5 MR. JACKSON: Yes.

6 THE CLERK: Mr. Gaston?

7 MR. GASTON: Yes.

8 THE CLERK: Miss Berry?

9 MS. BERRY: No.

10 THE CLERK: Miss Theriot?

11 MS. THERIOT: No.

12 THE CLERK: Chairman Jones?

13 CHAIRMAN JONES: Yes. So the  
14 settlement is thereby approved.

15 I thank you for coming today,  
16 gentlemen. I know this has been  
17 difficult for you. It's just as  
18 difficult for us to face the issue and  
19 deal with it but thank you for coming.

20 MR. CORMIER: Thank you,  
21 Mr. Chairman. Thank you, Board Members.

22 VIII. ADJOURNMENT

23 CHAIRMAN JONES: There being no

24 further business on the agenda, do I  
25 have a motion to adjourn? By Miss Berry

94

1 and a second by Dr. Gaston.

2 Any objection? No objection. We're  
3 adjourned. See you next month.

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4 Reporter, in and for the State of Louisiana, the

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3 I, Shelley G. Parola, Certified Court  
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12 I further certify that I am not an  
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17 action.

18 Baton Rouge, Louisiana, this 13th day of  
19 February, 2017.

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SHELLEY G. PAROLA, CCR, RPR

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