

LIMITED-SCOPE AUDIT PROPOSAL

Kansas Casinos: Evaluating Whether Casinos Have Met Significant Contractual Obligations

SOURCE

This audit proposal was requested by Senator Rob Olson.

BACKGROUND

The 2007 Legislature enacted the Kansas Expanded Lottery Act, which authorized state-owned and operated gaming facilities. That act created four gaming zones in Kansas and allows for one casino to be built in each zone. The state's four casinos are managed by private contractors under contract with the Kansas Lottery and are regulated by the Kansas Gaming and Racing Commission (KGRC). Those casinos include:

- Boot Hill Casino in Dodge City (opened in 2009)
- Kansas Star Casino in Mulvane (opened in 2011)
- Hollywood Casino in Kansas City (opened in 2012)
- Kansas Crossing Casino in Pittsburg (opened in 2017)

In fiscal year 2016, the state's casinos generated about \$365 million dollars in revenue. Hollywood Casino (\$143 million) and Kansas Star Casino (\$182 million) accounted for the clear majority of those revenues. Kansas Crossing Casino opened on March 29, 2017 and has only recently begun to generate revenue.

As part of their contracts with the state, each of the private contractors that manage the casinos must meet a variety of contractual obligations. In addition, at least one casino—the Hollywood Casino in Kansas City—has established a contract with the Unified Government of Wyandotte County and Kansas City Kansas (Unified Government). According to KGRC officials, one of the obligations included in that contract was that Hollywood Casino build a hotel near its location at the Kansas Speedway. An April 2015 Kansas City Star news article reported that, at the time, Hollywood Casino had not built the hotel and owed the Unified Government an annual fee of \$1.4 million as a result.

AUDIT OBJECTIVES AND TENTATIVE METHODOLOGY

The audit objectives listed below represent the questions that we would answer through our audit work. The proposed steps for each objective are intended to convey the type of work we would do, but are subject to change as we learn more about the audit issues and are able to refine our methodology.

Objective 1: Have the Kansas Star and Hollywood Casinos met significant obligations included in their contracts with the state through the Kansas Lottery? Our tentative methodology would include the following:

- Work with Kansas Lottery and KGRC officials to obtain copies of the contracts (and any substantive amendments) between the Kansas Star and Hollywood Casinos and review those

contracts to identify a small sample of significant contractual obligations.

- For the significant obligations we identified, interview casino, Lottery, and KRGC officials and review relevant documents to determine whether those contractual obligations appear to have been met.
- For any significant contractual obligations that appear have not been met, interview officials from the casinos to determine the reasons why and Kansas Lottery and KRGC officials on what actions they intend to take, if any.

ESTIMATED RESOURCES

We estimate this audit would require **100 staff hours** to complete.