

The background of the cover is a grayscale, slightly blurred image of several US dollar bills. The bills are oriented diagonally, with the top-left corner of the bills pointing towards the top-left of the frame. Visible text on the bills includes "100 DOLLARS", "1260881", and "U.S. Treasury".

Casino Accounting

AND

Financial Management

E. MALCOLM GREENLEES

SECOND EDITION

Casino Accounting and Financial Management

*Casino Accounting and
Financial Management*

SECOND EDITION

E. MALCOLM GREENLEES



University of Nevada Press RENO & LAS VEGAS

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*To my wonderful wife, Suzie, my family, and
my many friends in the casino industry.*

*Without all of their help and support,
this book would not have been possible.*

Contents

<i>List of Illustrations and Tables</i>	ix
<i>Preface to the Second Edition</i>	xiii

PART I: BACKGROUND AND ENVIRONMENT OF CASINO GAMING

1	Casino History and Operating Environment	3
2	Casino Licensing and Regulation	35
3	Revenue Taxation of Casino Operations	68

PART II: ACCOUNTING FOR CASINO OPERATION

4	Casino Revenue Flows	97
5	Slot Machines and Gaming Devices	122
6	Slot Machine Accounting	157
7	Games Accounting	201
8	Keno Accounting	236
9	Bingo, Poker, Race and Sports Book	256
10	Central Cashiering	271
11	Casino Credit Accounting	298

PART III: AUDITING, TAXATION, AND FINANCIAL MANAGEMENT ISSUES

12	Casino Auditing, Minimum Internal Control Standards, and Financial Reporting	319
13	Gaming Income Taxation	369
14	Managerial Accounting in Casinos	386
15	Currency Transaction Reporting, Suspicious Activity Reporting, and Title 31	412

viii *Contents*

<i>Appendix 1</i>	<i>States with Casinos</i>	433
<i>Appendix 2</i>	<i>Gross Annual Wager of the United States</i>	435
<i>Appendix 3</i>	<i>State-by-State Gaming Profiles</i>	436
<i>Appendix 4</i>	<i>Summary of State Laws</i>	439
<i>Appendix 5</i>	<i>State Gaming Control Board</i>	441
<i>Appendix 6</i>	<i>Instructions to Applicants for Licensing</i>	443
<i>Appendix 7</i>	<i>Sample Local Government Gaming Taxes in Nevada</i>	445
<i>Appendix 8</i>	<i>Summary of State-by-State Gaming Taxes</i>	447
<i>Appendix 9</i>	<i>Distribution or Earmarking of State Gaming Taxes</i>	455
<i>Appendix 10</i>	<i>Slot Machines in North America</i>	458
	<i>Notes</i>	461
	<i>Gaming Glossary</i>	471
	<i>Selected Bibliography</i>	487
	<i>Index</i>	493

Illustrations and Tables

FIGURES

1-1	Map of U.S. Gaming Jurisdictions	5
1-2	Nevada Casino Organization	30
1-3	New Jersey Casino Organization	30
1-4	Casino Manager Responsibilities	31
1-5	Controller Responsibility	32
2-1	Organization of Nevada Gaming Control Agencies and Staff	47
2-2	Nevada State Gaming Control Board Organization	50
2-3	State of New Jersey Division of Gaming Enforcement	52
2-4	State of New Jersey Casino Control Commission	53
2-5	Tribal Gaming Structure	55
3-1	Total Nevada Gaming Revenue	74
4-1	Casino Financial Organization Structure	98
4-2	Principal Revenue Flows in the Casino	100
4-3	Cashiering Transactions	101
4-4	Revenue Drop and Count Flow	105
4-5	Slot Machine Revenue Flow	118
4-6	Table Games Revenue Flow	119
4-7	Keno Revenue Flow	119
4-8	Poker Revenue Flow	120
4-9	Bingo Revenue Flow	120
4-10	Sports and Race Book Revenue Flow	121
5-1	Top Slot Machine Operators	127
5-2	Slot Win as Percentage of Total Win—Atlantic City	130
5-3	Slot Win as Percentage of Total Win—Las Vegas Strip	130
5-4	Slot Machine Revenue as a Percentage of Total Revenue, Various Locations	132
5-5	Traditional Slot Machine	134
5-6	Video Poker Machine	134
5-7	Electronic Slot Machine	135
5-8	Slot Machine Payout Slip	136
5-9	Slot Payout Ticket	136
5-10	Slot Pay Analysis	152

5-11	Poker Payoff Analysis	153
6-1	Slot Revenue Calculation Example	159
6-2	Slot Performance Report	161
6-3	Slot Machine Accounting Flow	163
6-4	Slot Coin Count Room Layout	170
6-5	Slot Count Summary Sheet	171
6-6	Slot Participation Pricing Model	186
6-7	Online Slot System Configuration	196
7-1	Table Game Layouts	207
7-2	Table Chip Tray	209
7-3	Craps Chip Tray	209
7-4	Roulette Chip Stack	210
7-5	Drop Box	214
7-6	Table Inventory Form	219
7-7A	Fill Slip	222
7-7B	Credit Slip	222
7-8	Fill Credit System	224
7-9	Count Room Layout	228
7-10	Game Count Summary Sheet	230
7-11	Revenue Clearing Flow Chart	232
8-1	Nevada Statewide Keno Win	238
8-2	Keno Layout	239
8-3	Inside Ticket	240
8-4	Outside Ticket	240
8-5A	Keno Payoff Schedule	242
8-5B	Keno Payoff Schedule	242
8-6	Keno Video/Microfilm Recording Sequence	245
8-7	Keno Blower System	246
8-8	Keno Display	246
8-9	Request for Fill/Credit	250
8-10	Keno Way Ticket	254
9-1	Bingo Revenue, 1992-2001	258
9-2	Bingo (Class II) Machine	263
9-3	Poker Room Layout	264
9-4	Poker Table Drop Rack	265
10-1	Casino Central Cashier Layout	272
10-2	Count Room Layout	274
10-3	Vault Cashier and Count Accounting Flow	276
10-4	Cashier Accountability	278
10-5	Chip/Token Notice	282
10-6	Cashier Checkout Sheet	288
10-7	Stiff Sheet	290

10-8	Fill/Credit Log	291
10-9	Vault Transfer Form	292
10-10	Revenue Report	296
11-1	Credit Application and Credit Conditions	302
11-2	Sample Marker	304
11-3	Marker Accounting System	309
12-1	Internal Control System Evaluation	336
12-2	Casino Bankroll Requirements	346
12-3	Bankroll Verification Worksheet	347
12-4	Gaming Activity Cash Requirement Detail	348
15-1	Multiple Transaction Log	416
15-2	Monetary Instrument Log	417
15-3A	FinCEN Form 103 Page 1	419
15-3B	FinCEN Form 103 Page 2	420
15-4	CTR Customer Information Card	421
15-5A	FinCEN Form 102 Page 1	428
15-5B	FinCEN Form 102 Page 2	429
15-5C	FinCEN Form 102 Page 3	430

T A B L E S

1-1	States with Gaming	4
1-2	Gross Gambling Revenue, by Industry	7
1-3	Top 25 Geographic Casino Gaming Markets, 2004	12
1-4	Gross Gaming Revenue by State, 2002	12
1-5	National Indian Gaming Commission	14
1-6	Percentage of Total Gaming Revenue Generated by Publicly Traded Companies	16
1-7	Mix of Games to Slots—Selected States	26
1-8	Game Mix Preferences, by Demographic Factors	26
1-9	Selected Slot and Table Win	28
1-10	Slot Win per Unit, for Specific Casinos	28
1-11	Analysis of Source of Revenue	29
2-1	Gaming Licensing Documents	60
3-1	Gaming Tax Summary, by State	70
3-2	Nevada Monthly Percentage Fees on Gross Gaming Revenue	75
3-3	Former and New Illinois Tax Structure	76
3-4	Comparison of State Gross Revenue Taxes	77
3-5	Nevada Annual License Fee	81
3-6	Games Quarterly License Fee	83
3-7	Typical County Quarterly License Fees in Nevada	86
3-8	Washoe County Gaming Tax Rates	87

3-9	Example of Cash Flow—Gaming Taxes Due	91
5-1	Significant Developments of Modern Slot Machines	123
5-2	Top 25 Nonnative American Slot Locations	127
5-3	Largest U.S. Native American Tribal Facilities	129
5-4	Number of Slot Machines by Type of Facility	129
5-5	Typical Slot Machine Hopper Loads	137
5-6	Slot Win per Unit—Multiple Jurisdictions, 1998–2002	142
5-7	Nevada Median Slot Machine Daily Win per Unit	144
5-8	Illinois Slot Win per Unit	144
5-9	Indiana Slot Win per Unit	144
5-10	Median Win per Unit by Denomination—Nevada Statewide	146
5-11	Win per Unit by Casino Size—Nevada	147
5-12	Slot Machines—Nevada Statewide	149
5-13	Slot Machine Distribution Percentage, by Casino Size	150
5-14	Slot Hold Percentages—Nationally	154
6-1	Slot Jackpot Approval Schedule	175
7-1	Relative Importance of Tables to Slots Revenue—National	203
7-2	Percentage of Revenue from Table Games	204
7-3	Game Win per Unit	204
7-4	Table Inventory Amounts	210
7-5	Count Timing Sequence	216
8-1	Keno, Bingo, Poker, and Miscellaneous Games Revenue	237
8-2	Keno Win Per Unit Data—Nevada Locations	237
8-3	Keno Payoff Odds Calculation	243
8-4	Microfilm Sequence	244
9-1	Game Other Revenue Sources in Nevada	257
9-2	Commercial Bingo and Tribal Class II Revenues 1992–2001	257
13-1	Depreciation Guideline Lives	377
13-2	IRS Reporting Guidelines	380
15-1	Compilation SARC and CTR Filings	431

Preface to the Second Edition

The second edition of *Casino Accounting and Financial Management* represents both an updating and an expansion of the original text published first in 1988. In the intervening years, the casino industry has experienced both unprecedented growth and change. The industry has spread geographically—from what was a commercial industry spanning just two states—to an industry which is nationwide in the United States, with significant international gaming activity as well. The industry has evolved to include traditional commercial interests as well as including state governments and Native American tribal casino operations.

Another major change in the industry involves the additional forms of casino gaming which have occurred since the publication of the first edition. The industry now comprises riverboats, floating casinos, racinos (racetracks with a casino-type operation), and governmentally operated video lottery terminals which closely resemble traditional slot machines.

The most significant change, however, has been the growing dominance of slot machines as the major revenue generating sources in most casinos, regardless of their type, ownership, or geographic location. Coincident with the growth of the number of slot machines and their revenue dominance has been the continued evolution of various slot machine games. This electronic revolution has changed the types of slot machines, the way they operate, and the way they are accounted for and controlled.

The spread of legalized gaming has also led to increased regulatory oversight. This oversight is exercised by states, by tribal gaming authorities, and by the casino operators themselves. A major addition to the text includes discussions of the role of currency transaction reporting and increasing information reporting to various agencies.

In a departure from the earlier edition of the book, many of the statistical tables were removed, and only where the data tells an important story about the nature and the structure of the industry were they still included. There had been some concern that the tables used in the first edition were very quickly out-of-date. Of course, in any industry, particularly one as dynamic as the casino industry, changes occur very quickly, and as much as possible I have tried to keep the examples general and the data relevant and up-to-date.

In assessing the impact of the industry changes on the detail organization and content of the book, the following major points seem to stand out. The book has been enlarged from thirteen to fifteen chapters. Also included for the first time is a gaming glossary to help readers understand the operating environment of a casino.

Chapters 1 and 2 have been substantially enlarged and updated to reflect the changes in the industry outlined above. The spread of gaming to other state jurisdictions has resulted in a much broader discussion of the gaming regulations, rules, and practices in states other than Nevada and New Jersey.

Chapter 3 has been updated and rewritten to clarify the role of gross revenue taxation in casino operations. It was expanded to include discussion of the taxation models used in other states. In the absence of revenue taxation in tribal gaming, there is little need for the discussion of taxation in the tribal environment.

Chapters 4 through 9 have been extensively changed. Although the procedures for the basic accounting and finance transactions have not changed significantly since the first edition, there have been many evolutionary steps involving slot machines in particular.

The expansion of slot machines and gaming devices has resulted in the old chapter on slot machine accounting being expanded into two chapters. Chapter 5 describes the nature, type, and general operation of slot machines and other gaming devices. Chapter 6 discusses the accounting for slot machine transactions, and covers the new forms of play including ticket-in–ticket-out technology, as well as the accounting and control over bill acceptors or bill validators. The control over and use of electronic and computerized control procedures has also been expanded.

The chapter on keno, bingo, and poker has been split into two chapters, and the increasing importance of poker gaming is discussed in the new chapter 9.

The chapters on central cashing and casino credit have been modestly updated to reflect current practice.

Chapter 12 now encompasses casino accounting, auditing, and financial reporting, which has continued to evolve over the years. The material also incorporates the latest changes proposed by the American Institute of Certified Public Accountants for changes and alterations to the Gaming Industry Audit Guide.

The chapters on income taxation and managerial accounting have been updated. Income tax topics now include tip reporting responsibilities and customer reporting requirements. Managerial accounting has also been upgraded and broadened to include discussion of new techniques to allow casino personnel to do a better job of internal financial management.

The topic of currency transaction reporting and suspicious activity report-

ing, both of which represent new regulatory responsibilities for casinos, is discussed extensively in the new chapter 15.

While the responsibility for the contents of the text must be mine alone, I am deeply indebted to many people for their assistance and advice as I have prepared this second edition. I particularly wish to thank Sherri Winkler for her help in preparing and proofreading the manuscript. I also wish to thank Tom Doyle for his encouragement and support and to Steve Hixon and Frank Streshley of the Nevada Gaming Control Board for help with gaming regulations and various statistics. Special thanks go to my former students Michelle Lanourette and Dan Davison for their help in scanning and preparing early drafts of the text and to Michael Harrison for his help with games chapters and the gaming glossary. Finally, I want to thank Cindy White for her excellent editorial suggestions and her positive contribution to the finished product.

PART I

Background and Environment of Casino Gaming

Casino History and Operating Environment

In the last dozen years a limited and localized industry has exploded into the newest and most exciting national industry. The gaming business has experienced unprecedented growth—both in existing as well as new jurisdictions. Gaming also has become the economic salvation of many Native American Indian tribes. The last twelve years have seen quantum leaps in gaming technology, innovative games, and significant new casino accounting and finance issues.

To understand the details of casino accounting, it is necessary to understand the overall operating environment in which the accounting and finance takes place. It is also necessary to understand the historical development and structure of the casino industry, as well as the typical organization and operation of an individual casino.

THE HISTORY OF GAMBLING

In examining the history of casino gaming, one must first secure an understanding of gambling of all types. Gambling is as old as man himself.¹ Ancient Egyptian artifacts have indicated gambling as a sport or pastime as early as 2000 BC. Gambling was practiced in India and Greece long before the birth of Christ. American Indians were enthusiastic gamblers for centuries before the discovery of the New World.²

Gambling of various forms was popular in western European civilizations, and card games were extremely popular in Europe during the thirteenth century. Around 1360, the French contributed the style of cards which has become the world standard.³

The modern word *gambling* has its roots in the Anglo-Saxon word *gam-*

nian, which means to sport or play. The term *gaming* is both a corruption of the word *gambling* and a deliberate attempt to differentiate legalized casino gambling from its illegal predecessor activities. The word *gaming* also focuses on the air of sport and minimizes the negative emotional aspects of excessive risk taking sometimes associated with gambling.⁴

ATTITUDES TOWARD GAMBLING

The history of gambling is also the history of public acceptance of the various games of chance that form the basis of gambling. Gambling has been accepted, encouraged, and banned. The first recorded banning of card games was in 1387, when John I, the king of Castile, prohibited card playing because of heavy financial losses by members of his court.⁵ Europe and America have had alternative periods of encouragement and repression of various forms of gambling. In the United States there were frequent lotteries as the new country was struggling for survival, and economic needs for government funds were acute. It has been a rule that economic pressure for government revenues has often brought increased tolerance toward gambling, as illustrated in the practices in many states, both in the past and at present.⁶

THE GAMING INDUSTRY IN THE UNITED STATES

Today only two states, Hawaii and Utah, do not have any form of legalized gambling. Even the state of Hawaii periodically considers adding gaming casinos as a solution to limited state funding sources.⁷ Other states are contemplating additional forms of gaming, or increasing the taxes on gaming to help fund a variety of state projects.

Out of fifty-three domestic jurisdictions (District of Columbia, Puerto Rico, and the Virgin Islands are added to the states), some form of legal gaming activity exists or is approved in the states indicated in table 1-1. Appendix 1 lists the types of gaming activities on a state-by-state basis in detail. Figure 1-1 graphically indicates the status of gaming in the United States. Future growth of approved gaming is expected to continue. The only thing constant in the gaming industry seems to be change. Legalization of new types of gaming is continuing and undoubtedly the next decade will bring a number of new jurisdictions and new types of gaming activity.

TABLE 1-1 States with Gaming

Form or Type of Gaming	States
Bingo	48
Casinos	
Commercial casinos	11
Indian casinos	28
Lotteries	41
Pari-mutuels & off-track betting	43

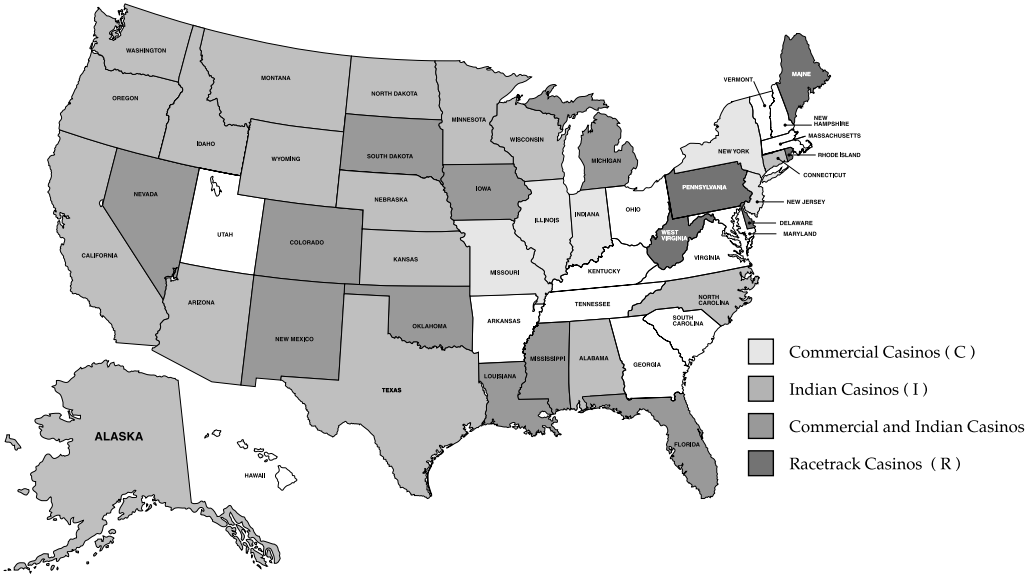


Fig. 1-1. Map of U.S. Gaming Jurisdictions

Gambling today is a business, a very big business. In 1976, the report entitled “Gambling in America” estimated that \$17.7 billion was wagered legally every year and that some 14 million people gambled annually in casinos.⁸ Less than twenty years later, in 1996, the total amount wagered in the gaming industry was \$34 billion. By 1997, an industry trade group studying the impact of gaming as an entertainment activity indicated that the gaming industry had more attendees than movies! By 2004, the gross annual amount wagered was estimated to be \$78.6 billion. Appendix 2 indicates the growth of gross annual wager from 2002 through 2006, a period of just five years. The overall growth rate of the gaming industry routinely averages in excess of 6% per year, with certain segments growing as much as 15% per year.

In 1997, the federal government approved the establishment of the National Gaming Impact Study Commission.⁹ The study commission appointed research staff, held widely publicized hearings, and took over two years to study and report on all aspects of gambling across the nation. The final report of the commission made a number of positive recommendations about the nature of, regulatory control over, and economic importance of the casino industry. They also pointed out some of the problems with compulsive gaming behavior and other adverse impacts on some casino-related business. However, the report’s conclusion was clearly that gaming is a part of American society today, much as it was one hundred years ago.

Tribal Gaming

Following the 1988 passage of the Indian Gaming Regulatory Act (IGRA), there has been tremendous growth in the number of Native American or tribal casinos.¹⁰ There were tribal casinos in virtually every region of the United States within ten years of the passage of this law. The spread of tribal casinos first occurred in the upper Midwest, spread throughout the Northwest, and has culminated with the establishment of more than 300 tribal casinos across the nation.

GAMING ACROSS THE WORLD

In addition to domestic gaming, various forms of casino gaming exist throughout the world—ranging from Bangkok to Berlin and New Zealand to Norway. Casino gambling is legal in more than thirty-five countries around the world. It is also interesting to note that national lotteries and various forms of pari-mutuel wagering are far more popular than casino gambling.¹¹ Pari-mutuel betting involving sporting events such as soccer or football is very common. Games such as bingo have achieved widespread popularity in the United States, Canada, and England. Great Britain and Australia have extensive gaming based on slot machines or amusement with prize (AWP) machines. Gaming is also found aboard cruise ships and on many foreign U.S. military bases, where slot machines are popular and generate significant revenues. Increasingly, as new international gaming locations are approved, United States gaming companies and personnel are frequently involved in this newest form of international business.

Table 1-2 illustrates the distribution of gaming revenues by type of gaming in the United States in 2006. Notice that commercial casino gaming constitutes about \$34.1 billion or 35.3% of the total. Tribal casinos represent \$25.1 billion or 25.9%, while lotteries and other forms of related gaming account for an additional \$31.6 billion or 32.9% of the total, respectively. Finally, Internet gaming is estimated to be at about \$5.8 billion or 6.0% of the total.

The History of Casino Gaming in the United States

The first casinos in the United States were undoubtedly the early taverns of New England. These taverns were set up with card games, and other activities were accepted as a regular part of the social fabric of the day. Following the Civil War, the southern states instituted state lotteries to assist in rebuilding depleted state treasuries.¹² At this same time, the frontier period of gambling developed where the interest in gambling was tied less to governmental revenues and more to recreation. As thousands of men poured westward, many early boomtowns had only two industries: saloons and casinos.¹³ The more flamboyant aspects of the American gambling scene de-

TABLE 1-2 Gross Gambling Revenue, by Industry

	2006 (in millions)	Increase or Decrease Percent	Percent of Total
Casinos			
Nevada/N.J. slot machines	\$12,109.7		
Nevada/N.J. table games	5,408.6		
Deep-water cruise ships	324.7		
Cruises to nowhere	495.5		
Riverboats	11,739.0		
Other land-based casinos	2,175.3		
Other commercial gambling	84.6		
Noncasino devices	1,775.2		
Total	\$34,112.6	7.4%	35.3%
Tribal Casinos			
Class II	\$2,883.7		
Class III	22,192.1		
Total	\$25,075.8	11.1%	25.9%
Pari-mutuels			
Horse	\$3,235.3		
Greyhound	322.6		
Jai alai	21.6		
Total	\$3,579.5	-3.0%	3.7%
Lotteries			
Video	\$3,592.8		
Traditional Games	21,038.6		
Total	\$24,631.4	7.6%	25.5%
Other			
Legal bookmaking	\$191.0		
Card rooms	1,103.5		
Charity games	2,236.7		
Total	\$3,531.2	1.1%	3.7%
Total without internet	\$90,930.5	7.7%	94.0%
Internet gaming (est.)	\$5,779.2	-2.4%	6.0%
Grand Total	\$96,709.7	7.0%	100.0%

NOTE: Columns may not add up to total because of rounding.

veloped onboard riverboat steamers, which slowly plied the Mississippi and other midwestern and southern rivers for transportation and communication. Louisiana became the center of all gaming activity in the United States, and gaming underwent various periods of legalization and prohibition depending on the mood of local politics.¹⁴

This scenario was repeated on a similar basis in most developing population centers of the country. As the United States grew, frontier laissez-faire attitudes toward gaming eventually gave way to the acceptance of widespread actions to eliminate public gambling. During the latter part of the century, this drove the remaining professional gamblers even further west with the new settlers. The West had fostered many frontier locations, originally designed for the rough-and-ready entertainment that gambling provided. These institutions survived the modernization of the frontier, and various forms of

legal gambling were widespread in New Mexico, Arizona, Colorado, Minnesota, Idaho, Montana, and Nevada in the late 1800s.

Although neither formally legalized nor declared illegal, gambling continued to be a common occurrence in the mountain and western states until the early 1900s. Eventually, though, increasingly widespread objection to gambling developed throughout the West following the periods of initial settlement and development. In Nevada, the first law to ban frontier gambling was passed in 1910.¹⁵ This law, rather than shutting down the gambling business, merely forced it underground for a period. As the years passed, these back-room establishments became more and more visible.

The modern era of casino gambling began in 1931 when the bill to legalize gaming was passed by the Nevada state legislature. This bill was based on a dual desire to legalize an activity that was already widespread (thereby eliminating the associated aspects of political corruption) and to create additional revenue for the state and counties during the Great Depression.¹⁶

It is interesting to note that over seventy years later the desire for additional governmental revenue, economic revitalization, and job growth continue to be the main reasons to justify legalization of casino gaming.

The Nevada Experiment

The conduct of gaming in Nevada was not significantly changed by the mere legalization of the activity. In fact, it was decried in many circles as an experiment doomed to failure. The years from 1931 to 1937 were marked by a period of inconspicuous operation for most of the casinos, with the emphasis continuing to be on the local gaming patrons. Two significant changes occurred in 1935 and 1937, respectively. In 1935, Pappy Smith and his son Harold Smith Sr. opened Harold's Club in Reno with a \$500 investment.¹⁷ In 1937, Bill Harrah opened his first bingo club.¹⁸

These two operators built casino operations that attracted a larger clientele from outside Nevada. Prior to World War II their operations exhibited only modest growth. The period during the war and immediately following led to enormous growth and success for both operations, a substantial enlargement of their casinos, and the establishment of others in the northern Nevada area. Between 1935 and 1946, the center of the Nevada gaming industry was clearly located in Reno.

A second major event was quietly occurring in southern Nevada. It was the construction of the El Rancho Las Vegas in 1941—the first major casino in southern Nevada. By the late 1940s three additional hotels were completed: The Last Frontier, The Flamingo, and The El Cortez. The El Cortez was located in downtown Las Vegas. With the huge financial success of these new hotels, additional enterprises were attracted, which created a Las Vegas building boom that has continued unabated to this day.¹⁹

As the number of hotel-casinos grew throughout the state, so did the revenues and the complexity of the casino business. The development of the casino industry in Nevada was an evolutionary one. The process was slow and took place throughout the state, from the massive structures of the Mirage in Las Vegas and the scenic beauty of Harrah's at Lake Tahoe, to the frontier ambience of the El Capitan in Hawthorne and the Stockman's Hotel in Elko. Along with the development of the large variety of casinos in different locations, a very substantial secondary support and service industry was created to serve the needs of the casinos. A notable example was the establishment of substantial gaming equipment manufacturing facilities in both Reno and Las Vegas, far from the traditional midwestern manufacturing centers.

The modern casino industry is a business that impacts every aspect of daily life in Nevada. It is the principal employer group in the state, and various economic studies have estimated that between 50% and 65% of the work force in Nevada either directly or indirectly depends upon this industry for their livelihood.²⁰ The industry in Nevada is characterized by a wide variety of sizes of operations, ranging from small slot machine locations to the massive football field-sized casinos of Reno and Las Vegas. In addition, the industry is geographically dispersed throughout the entire state of Nevada.

Until 1976 Nevada was the only state with legalized casino gaming. In that year New Jersey legalized it.²¹ This resulted from the passage of a referendum authorizing legalized casino gambling in Atlantic City in order to achieve substantial redevelopment of that community, which had fallen on hard times. The establishment of the New Jersey industry, in contrast to Nevada, was accomplished virtually overnight. The legislation also allowed a limited number of casinos—and only in a highly specific geographic area. The nature of the casino industry in Atlantic City was intended to be—and today is—clearly different from the industry in Nevada.

The casino industry in New Jersey is a highly homogeneous group of casinos, each extremely large and similar in size and methods of operation. Even the types of allowable games are specified. The industry is geographically concentrated in Atlantic City.²² The differences between the Nevada and New Jersey gaming industries are also reflected in substantial differences in the nature of mandatory accounting procedures, internal controls, and regulatory attitudes toward casino operations.²³

A National Industry

In addition to Nevada and New Jersey, gaming has also spread to other jurisdictions. This spread began in 1989 with the legalization of gaming in Deadwood, South Dakota. Legalization of casinos in former mining communities in the foothills and mountains of western Colorado followed in 1990.

In 1989, Iowa was the first state to license a reestablished form of gam-

ing—riverboat casinos. That legalization was followed by various other riverboat or floating casinos being approved during the early 1990s. Iowa was followed by Mississippi, Missouri, Illinois, and Indiana. These states or riverboat jurisdictions all linked the establishment of modern casino gaming in one way or another to the historical locations on rivers of nineteenth-century riverboat gaming. Most of these states tended to follow the New Jersey regulatory model, which granted a limited number of licenses to operate the casinos. Mississippi followed the broader Nevada model and allowed virtually an unlimited number of gaming locations, as long as the background suitability of the owners and operators was approved and the location requirements were met. A summary of the state-by-state gaming legalization status is shown in appendix 3.

Parallel with the development of the commercial gaming industry in various states was the development of Native American or tribal casinos. Various types of bingo halls and limited unlicensed or *gray market* slot machines were operating in some locations before 1988. The landmark *Cabazon* decision of 1987, followed by the passage of the IGRA of 1988, allowed widespread implementation of all types of gaming activity on tribal lands.²⁴ These new tribal casinos were legally established under agreements between the various tribal governments and their respective state governments. The intergovernmental compacts were individually negotiated by each tribe in each state. This has resulted in significant differences in the extent and number of tribal casino operations, their regulatory rules, and relationships with various state authorities.

These first tribal casino locations were originally in upstate New York, Michigan, Wisconsin, and Minnesota. Since the original 1989–90 period, Indian gaming has spread across the United States, and presently is conducted in more than 30 states with over 300 separate locations.²⁵

Another unique and recent factor of casino gaming in the United States has been the redevelopment of racetracks with slot machines and sometimes with table games. These are often referred to as *racinos*. These racinos have become very popular, largely because of their central locations in major cities. Traditionally, horse- and dog-racing tracks were located close to these population centers and represented excellent locations for casino gaming activities. Thus, the inclusion of casino games has made these centers very popular and financially successful. The first racinos were established in the state of Iowa, and have been followed by others in Arizona, Louisiana, Delaware, Rhode Island, and West Virginia.²⁶

Another development in the types of casino business has been the rise of government-operated or governmentally owned casinos or casino-type games. For example, the state lottery in Oregon operates a hugely successful video lottery terminal (VLT) business, as an adjunct to its traditional lottery

business. These VLTs are essentially video poker machines and slot machines, similar to those located in many other casinos. In states such as West Virginia, the state owns the VLTs, but they are located in privately owned racino locations. Other examples of government-owned casinos exist in the various Canadian provinces, where agencies of a provincial government license one or a very small number of casinos. These governmental casinos are either operated by a government agency (as in Montreal) or by private operators (as in Ontario). In exchange for this situation, the government either takes a very substantial percentage of the profits (typically 50% to 60%) as a gaming tax or operates the casino and fully participates in the profits. The high level of success of Casino Windsor, Casino Montreal, and the various provincial casinos of Alberta, Saskatchewan, and Manitoba have led various local governments to consider granting licenses for casinos in their locales.

FINANCIAL ASPECTS OF CASINO OPERATION

The casino industry itself can be characterized by its overall financial success. During the last fifty-plus years (since 1946), there has been a history of steady growth in total casino revenues; first in the state of Nevada, and later throughout the country. In 1946, the first year that Nevada levied a gaming tax, total gaming revenues were \$24.5 million.²⁷ Today, that figure has exceeded \$10 billion.²⁸ During the early years up to about 1980, gaming revenue experienced an average annual growth rate in excess of 10% per year. With the introduction of more widespread gaming, those growth rates have moderated to single-digit annual increases. Casino revenues appear to be very resistant to downturns in national economic trends. There have been a few years when gaming revenues in Nevada have not exceeded prior years. These gaming revenues have been characterized as being generally recession-proof or at least certainly recession-resistant.²⁹ This financial resilience was again demonstrated in the post-September 11, 2001, period when hotel and tourism revenues plummeted, but casino revenues recovered quite quickly.

However, as with all generalizations, there are exceptions. It was the late 1970s and early 1980s when the first forced financial closures of casinos in Nevada took place. It appeared that a radical overexpansion of casinos in Nevada, competition from New Jersey, as well as a substantial national economic recession all conspired to cause these first (albeit small) contractions in the casino industry. Single-digit decreases in Nevada's annual revenue also occurred in 2002 and 2008.

The advent of casino gaming in New Jersey focused attention on the tremendous casino market potential of the eastern United States.³⁰ For example in 1977, with only one casino operating during the first year of legalized gaming, that one location (Resorts International) generated gross revenues of \$228 million. This was more than the gross revenue in the same period for the two locations of Harrah's Hotel and Casino in Reno and Lake Tahoe. Harrah's had

TABLE 1-3 Top 25 Geographic Casino Gaming Markets, 2006
(\$ in Millions)

Rank	Market	7/31/2006
1	Las Vegas Strip, Nev.	\$6,438.8
2	Atlantic City, N.J.	5,145.2
3	Chicago Area	2,521.0
4	Connecticut Indian	1,713.1
5	Detroit, Mich.	1,701.1
6	Tunica, Miss.	1,472.9
7	St. Louis Area	979.5
8	West Virginia	941.7
9	Gulf Coast, Miss. Area	918.6
10	Lake Charles, La.	838.8
11	Bossier City /Shreveport, La.	827.7
12	Reno, Nev.	773.4
13	Cincinnati Area	770.7
14	Kansas City, Mo.	705.2
15	Las Vegas Downtown, Nev.	645.2
16	Laughlin, Nev.	627.0
17	Black Hawk/Central City, Colo.	616.6
18	Delaware Racetracks	607.8
19	New Orleans, La.	560.3
20	Council Bluffs, Iowa	445.0
21	Rhode Island	416.5
22	So. Shore Lake Tahoe, Nev.	340.6
23	Vicksburg, Miss.	296.1
24	Southern Ill./Ind.	280.0
25	Baton Rouge, La.	277.0

TABLE 1-4 Gross Gaming Revenue by State, 2002

State	Annual Revenue (in Millions)	Year Legalized
State Casino Gaming Market Results		
Atlantic City, N.J.	\$4,400.6	1976
Colorado	717.0	1990
Connecticut (slots only)	1,512.5	1988
Delaware (racinos)	566.8	1998
Illinois	1,847.4	1990
Indiana	2,003.0	1993
Iowa	965.8	1989
Louisiana	1,968.2	1991
Michigan	1,129.7	2000
Mississippi	2,731.7	1990
Missouri	1,250.6	1992
Nevada	8,546.0	1931
South Dakota	58.6	1989
West Virginia	631.7	1995

been in business with a successful operating history in excess of thirty years!³¹ With only three locations operating in 1980, the casino industry in New Jersey took in approximately \$560 million. These three locations did about 25% of the total business for the state of Nevada—which had at the time approximately 1,200 licensed gaming locations. New Jersey's first \$2-billion year occurred in 1985, but the total Nevada gaming revenue was about \$3 billion per year. By 1996, New Jersey had grown to twelve locations with revenue of \$3.8 billion. By the end of calendar year 2001, the Las Vegas Strip revenues were \$4.7 billion, and Atlantic City had revenues of \$4.3 billion. The annual rates of growth in the New Jersey industry have been consistent and quite stable. Although higher than Nevada overall, their growth rates have lagged behind Las Vegas.

The New Jersey market is clearly a significant factor in the national casino business.³² An important factor in the development of casino gaming in New Jersey was the attitude of the state policymakers regarding the continued expansion of the casino industry. Government officials indicated that the emphasis on casino building in New Jersey during the hectic early days of casino construction was to be switched from "quick to quality." This was a clear signal to the casino industry in New Jersey that the total number of casino locations was not going to be allowed to proliferate without limit. Currently, the official position is that the state will allow approximately ten to fifteen first-class hotel-casino locations in Atlantic City, and will discourage further development in order not to saturate the market.³³

During the late 1980s and early 1990s, many other jurisdictions have legalized gaming. These areas have subsequently participated in the dramatic growth in gaming revenues. Table 1-3 shows the top twenty-five gaming markets in the United States, ranked by gross gaming revenue. These gaming markets, particularly in the midwestern states, actually cover more than one state. Table 1-4 shows the gross gaming revenue by state jurisdiction. These figures are indicative of the comparative size of casino markets. Among existing gaming jurisdictions, there are relatively few changes in the ranking of casino markets once they are established. In the near future, Pennsylvania and Florida racinos are expected to change these rankings again as their markets develop.

Tribal Gaming Revenue

These statistics (with the exception of Connecticut) do not present information about the gaming revenue arising from tribal gaming operations. Since 1988, over 300 tribal casinos opened in the United States. Since there are no public financial reporting requirements for these casinos, the total amount of revenue has only been reported nationally and by broad geographic region by the National Indian Gaming Commission.³⁴ The Connecticut figures in table

TABLE 1-5 National Indian Gaming Commission
Tribal Gaming Revenues (in Thousands) by Region
Fiscal Years 2005 and 2004

	Fiscal Year 2005		Fiscal Year 2004		Increase (decrease)		Revenue Percentage
	Number of Operations	Gaming Revenues	Number of Operations	Gaming Revenues	Number of Operations	Gaming Revenues	
Region I	47	\$1,829,195	45	\$1,601,710	2	\$227,485	14.2%
Region II	57	7,042,686	54	5,822,114	3	1,220,572	21.0%
Region III	48	2,529,128	45	2,159,872	3	369,256	17.1%
Region IV	118	3,984,449	117	3,815,857	1	168,592	4.4%
Region V	93	1,729,981	87	1,258,717	6	471,264	37.4%
Region VI	28	5,514,136	27	4,820,864	1	693,272	14.4%
Totals	391	\$22,629,575	375	\$19,479,134	16	\$3,150,441	16.2%

Region I: Alaska, Idaho, Oregon, and Washington

Region II: California and northern Nevada

Region III: Arizona, Colorado, New Mexico, and southern Nevada

Region IV: Iowa, Michigan, Minnesota, Montana, North Dakota, Nebraska, South Dakota, Wisconsin, and Wyoming

Region V: Kansas, Oklahoma, and Texas

Region VI: Alabama, Connecticut, Florida, Louisiana, Mississippi, North Carolina, and New York

1-3 are an estimate of the total slot and game revenue win for the Foxwoods and Mohegan Sun casinos, two of the most extraordinarily successful Indian casinos. The Connecticut revenue figures reported in table 1-4 are for the actual slot revenue only. On a nationwide basis the latest estimates put the total Indian casino revenue at about \$20 billion. The tribal gaming revenue grew by 16.4% during 2000–01, while the growth in thirty-five major gaming markets for other forms of gaming grew only 1.8%.³⁵ Table 1-5 indicates the most recent tribal gaming revenues on a national basis and by region.

CHARACTERISTICS OF THE GAMING INDUSTRY

The gaming industry has grown from the simple duopoly of the Nevada and New Jersey organizations to a complex nationwide industry. Long-established Nevada and New Jersey gaming has continued to grow and prosper in the 1990s and into the twenty-first century. Other markets have also grown significantly. Nevada gaming, as previously described, is extremely diverse, ranging from the very smallest locations with one or two table games and a limited number of slot machines, to the football field-sized casinos containing hundreds of games and thousands of slot machines. In Nevada, there are approximately 1,200 gaming licenses. Over the years, Nevada gaming has become slightly more geographically diverse, with additional gaming being added in more rural locations such as Laughlin and Wendover.

With the spread of tribal and other forms of gaming, particularly in California, Oregon, and Washington, the future growth of the different regions in Nevada is not certain. It appears that Las Vegas continues to hold its dominant position, and will continue with its role as the premier destination resort location. The more impulse-oriented or drive-up markets of Laughlin and Reno appear to be suffering some revenue weakness or declines in recent years. The dominance of the Las Vegas area from the 1970s onward has continued to the current time. In recent reports, 66% of the overall Nevada statewide gaming revenue comes from Las Vegas and Clark County. The Las Vegas Strip also continues to dominate the statistics from Clark County, comprising some 67% of the total Clark County revenue.³⁶ This is attributable to not only geographic market factors but also the size of casino operations on the Las Vegas Strip. In Nevada, the largest seventy-one casinos accounted for 81.4% of the total gross gaming revenue.³⁷

Clearly size is an important differentiating characteristic of a casino in Nevada. Larger casinos tend to be more financially stable with better profitability, and have more resistance to economic downturns than smaller casinos. One factor given as a reason for this resistance to downturn in the larger casinos is their ability to provide a full array of services to their patrons, and therefore remain more attractive to gaming customers over a period of time. Virtually all gaming conducted outside of Nevada—other than tribal gam-

ing—is conducted by casinos which would easily fit into the largest size category (gross gaming revenue over \$72 million per year) used by Nevada.

IMPACT OF PUBLIC CORPORATE OWNERSHIP

Prior to 1969, public corporations were effectively prohibited from entering the casino industry because of the strict licensing standards requiring all owners (including all stockholders of the corporation) to be individually licensed. Changes in Nevada state laws in 1965, which are discussed in detail in chapter 2, modified and limited the licensing requirements for stockholders and corporate management. Initially, the use of publicly traded corporation structure was limited. However, since the legalization of casinos in New Jersey in 1976, the close proximity of Atlantic City to Wall Street and New York resulted in a virtual explosion of public corporations doing business in the casino industry. Since the start of publicly traded corporate gaming, the impact of public corporations has grown dramatically. Public corporate ownership has become the dominant organizational form. On a national basis, the top ten publicly traded casino corporations grossed \$23.1 billion in revenue. Given the top thirty-five markets in the United States with revenue of \$27.7 billion, these corporations actually control 83.6% of the national gaming revenue.³⁸ Based on the number of locations operated by these firms, they operate 138 locations out of a total of 182. This represents 75.8% of the casino locations in the country. Table 1-6 indicates the concentration of these large publicly traded companies in various state markets.

The impact of corporate ownership on the casino industry has been particularly significant. Corporate operations are larger, are consistently more profitable, and have succeeded in projecting an image of corporate respectability that has benefited all casino operations. Virtually all casinos in new jurisdictions are operated by publicly traded companies.

The addition of corporate gaming after 1976 in New Jersey also resulted

TABLE 1-6 Percentage of Total Gaming Revenue Generated by Publicly Traded Companies within State Gaming Markets

State	% of Revenue
Nevada	80.00
Atlantic City	89.83
Illinois	75.85
Indiana	70.24
Michigan	72.11
Missouri	96.14
Louisiana	80.84
Iowa	60.73

in bringing the casino gaming industry to the attention of the major financial centers. This led to improved access to the stock market as a source of financing for casino development.³⁹ Also, the process of informing major institutional investors regarding the profitability, operations, and controls existing in the industry resulted in the recognition of greater legitimacy of the gaming industry. This, in turn, resulted in more institutional mortgage and other long-term financing sources becoming available to all gaming jurisdictions.

The impact of corporate operations in the gaming area has also resulted in several important changes in the nature of accounting, auditing, and financial report services rendered by accountants and others to the casino industry. These changes range from increased corporate accountability to the involvement of accounting firms in the design and implementation of internal control systems. Also, there are expanded needs for financial reporting and disclosure for public investors under the requirements of the Securities and Exchange Commission (SEC). Finally, economic analysis and research into the casino business has welcomed the wealth of additional data that financial analysts have prepared.

GEOGRAPHIC LOCATION

Casino gaming has spread from a localized, two-state activity in the early 1980s to a national industry operating in over twenty-two states. The industry continues to be concentrated in Nevada and New Jersey, but there have been a significant number of new jurisdictions.⁴⁰

Nevada: In Nevada, the casino industry is divided into seven main geographic locations. Each of these locations is described in the *Nevada Gaming Abstract*.⁴¹ Each of these separate geographic areas has a different operating style, casino size, revenue pattern, and profitability results. The principal geographic locations are: Las Vegas Strip, Las Vegas downtown, Laughlin, Reno-Sparks in Washoe County, South Lake Tahoe, Elko County, and the balance of the state.

The largest casinos are clustered on the Las Vegas Strip. The Las Vegas downtown operations are very different than the Strip operations, being generally smaller and some without hotel rooms. Southern Nevada casino operations are different than the northern Nevada locations of Reno and Lake Tahoe. Lake Tahoe is operated in a style characterized as midway between the lavishness of the Las Vegas Strip and the simplicity, or even austerity, of the Reno-Sparks area. Elko, Wendover, Jackpot, Laughlin, and Primm, although at different ends of the state, are unique in that they are remote, are located at ports of entry into Nevada, and are somewhat isolated. They rely heavily on drive-up traffic and are generally more cosmopolitan than the casinos located in the balance of the state, which includes local casinos located in many

of the small towns scattered throughout rural Nevada. Another interesting categorization of casinos is the rise of local casinos within the larger population centers of the state. Here, the facility mix and the marketing emphasis are directed to the local resident population rather than the tourist trade. In Las Vegas, the Coast Resort group, Stations Casinos, and to some degree the Boyd Group have been successful in differentiating themselves among larger casino operators.

New Jersey: The casino industry in New Jersey is a highly homogeneous group of large hotel-casinos, each similar in size and methods of operation. The industry is geographically concentrated in Atlantic City. All of the casinos are operated by publicly owned corporations. Each of these locations is virtually identical in nature, with specific minimums in casino size and number of rooms mandated by the New Jersey regulatory authorities. The casino industry is highly localized, with nine operating locations being on the ocean-front boardwalk, and Trump Marina, Harrah's, and the Borgata located in the Marina district. The geographic distribution amounts to less than two miles between the furthest casinos on the boardwalk, and less than five miles overall.⁴² Because the New Jersey casinos operate in such a close geographic proximity, there is less difference attributable to the location such as exists in the Nevada casino market. Michael Pollock has created five clusters of Atlantic City casinos for more detailed financial and operational analysis and explanation purposes.⁴³ Those clusters are: Route 40/Exit 2 cluster (Atlantic City Hilton and the Tropicana); the Expressway cluster (Caesars and Trump Plaza); the Brighton Park cluster (Bally's Atlantic City, the Claridge, and the Sands); the Inlet cluster (Resorts International, Showboat, and the Taj Mahal); and finally the Marina cluster (consisting of Harrah's, Trump Marina, and the Borgata).

Louisiana: There are three major gaming markets in Louisiana. These are New Orleans, Bossier City/Shreveport, and Lake Charles. The Lake Charles area, which includes a racino, draws customers from the Houston, Texas, area. Bossier City and Shreveport draw customers from the Dallas/Fort Worth area, while the New Orleans area relies on a mix of local and tourist customers. The New Orleans area has not proven to be as successful a casino market as was originally thought. The long-standing presence of widespread slot machine locations at truck stops throughout Louisiana, where they are legal on a local-option basis, may be responsible for the more modest casino operating results in the New Orleans area. The Louisiana market is clearly driven by visitors from Texas, just as the Nevada market has relied on California visitors for its revenues for many years.

Illinois: The Illinois casinos are all riverboats. There are three primary markets within the state. The first is the Chicago-area casinos, the second is the St. Louis market, and the third group consists of the other river locations not particularly close to a major population center. The bulk of the statewide revenue is of course generated by the Chicago-area casinos, which represent about 67% of the total revenue. All the riverboats are traditional, fully functioning riverboats, which as recently as 2002 had a requirement of cruising while gaming was taking place. Sharply higher tax rates for the largest casinos were tied to the elimination of the cruising requirement. There is a considerable amount of study and attention focused on this increased taxation and the implications that it might have on both public policy revenue generation and casino operating profitability.

Indiana: The Indiana market is another riverboat jurisdiction. The two principal markets are East Chicago/Gary/Hammond area and Southern Indiana, close to Cincinnati, Ohio. Indiana has implemented recent changes in its gross revenue tax. The state has put into effect a dual rate structure, with one flat rate of 22.5% for riverboats that continue to cruise, and a more aggressive tax structure varying from a bottom rate of 15% to a top taxable rate of 35% for annual gross revenue in excess of \$150 million per year. Of the ten riverboats in Indiana, eight are owned by publicly traded corporations, and only two are privately held.

Missouri: The state of Missouri has approximately twelve riverboat casinos operating on the Missouri and Mississippi rivers. Missouri casinos have enjoyed substantial growth over the past five years, thanks in large part to a more accommodative regulatory attitude by the state government.

Mississippi: One of the first new riverboat jurisdictions was Mississippi, which legalized riverboat or dockside gaming in 1990 and changed the restrictions after Hurricane Katrina and in 2005. Gaming is conducted on a statewide basis, with the casino locations a combination of riverboat/barge facilities located close to major population centers. The Mississippi market is dominated by two locations, with a number of minor markets on the northwest corner of the state in Tunica County and the southern Gulf Coast in the Gulfport-Biloxi region. Coastal casinos were allowed to be rebuilt on shore locations after the hurricanes.

Iowa: Iowa was the first state to legalize riverboat casinos, beginning in July of 1989. During the early years, the state had considerable success in attracting not only Iowa residents, but also a substantial number of gaming customers from the Chicago metropolitan area. However, since the legalization of riverboat casinos in Illinois, the Iowa state revenues have experienced only modest growth. In addition to riverboat casinos, the state also allows two racinos, where both pari-mutuel wagering and slot machines are available. Iowa

also has the largest percentage of privately owned casinos, with only seven of thirteen locations being managed by publicly traded corporations.

Michigan (Detroit): After legalizing casino gambling in 1996, the city of Detroit allowed only three gaming casinos to operate in their city. The casinos have been enormously successful, although the path to licensing and opening the casinos was extraordinarily politically sensitive and hard fought by all the operators. Since their openings in 1999 and 2000, the casinos have enjoyed monopoly revenues and extraordinary growth in their early years.

Colorado: Colorado state has chosen unique locations for its casino gaming. The gaming in Colorado is limited to the three former mining towns of Central City, Black Hawk, and Cripple Creek in the mountain areas northwest of Denver. The casinos have been established since 1991, and operate mostly in renovated historical structures. Even with the proximity to Denver, the casinos have difficult access problems from poor roads and bad winter weather. These factors have kept the overall gaming market in this area at a modest level.

Other Locations: The last major geographic class of casinos includes those miscellaneous locations where the casinos are highly localized in order to meet specific economic development objectives. Examples of these are South Dakota and most recently New Orleans. The New Orleans land-based casino is unusual in that it competes directly with the licensed riverboat casinos in the same jurisdictions. The South Dakota casino is located in Deadwood, and is an attempt to preserve the industry and tourist base in this location.

Tribal Gaming Locations: Indian tribal casinos are much more geographically widespread than the commercial gaming industry. The enabling legislation of IGRA restricted the locations of tribal casinos to existing reservation lands. Given the original remote location of most reservations, many tribal casino locations tend to be smaller and in less-than-ideal locations, often far from major population centers. A few tribal casinos located close to major metropolitan areas do have significant advantages, and their operations rival those of the largest nontribal casinos. Recent actions of tribes to acquire lands that will eventually be brought into reservation status—but are located in better locations relative to the population centers—has resulted in considerable political debate, and has generally been restricted or prohibited.

ECONOMIC AND POPULATION FACTORS

The vitality of any casino market is affected by economic and population factors. In general, the casino must be able to draw upon suitably sized populations. That population might include residents within a certain distance (say 50 to 100 miles) as well as the number of tourists or travelers who can be en-

ticed to make the journey to the casino (up to 200 miles). Las Vegas has proved very successful at attracting travelers from some considerable distances. In fact, many analysts use Las Vegas airline statistics as a key indicator of overall gaming revenue for that city, tacitly ignoring the traditional Los Angeles–area drive-up market. Reno and Atlantic City tend to attract customers from shorter travel distances. In some markets, particularly Indian casinos, there is a heavy dependence on local markets for the bulk of gaming revenues.

There is little research and no clear understanding of gaming behavior according to median or average per capita or family income. There appears to be little or no relationship between the financial results of casino operations and the income levels of the local population or the income levels of the casino's primary feeder location. Population size alone seems to be the best indicator of aggregate casino revenue. If numerous casinos are located in the same general area, the market tends to be shared depending on individual factors of detail location, style of casino, and other measures of individual popularity and the results of successful marketing!

TYPES OF GAMING FACILITIES

Other ways of differentiating among casinos in the industry focus on distinguishing physical aspects of the gaming operation.

Land-Based Casinos: There are several distinct types of casino operations. The first is the traditional land-based casino, typical of the Nevada and New Jersey operations. These casinos are traditional buildings, usually with several levels of ancillary facilities. A few casinos operate without rooms or a hotel facility, but that is relatively rare. Regulatory authorities have tended to emphasize a longer-stay market, and have demanded hotel rooms in connection with approval of new casinos in Nevada over the years. The availability of various forms of food service is also a key element in the casino operation, with the food service ranging from inexpensive fast food to truly world-class, high-end dining experiences.

It is interesting to note the progression in the development of physical facilities in new Indian casinos. The casino building is the first constructed, followed by the food and beverage facilities. The next step is to add lodging facilities—usually an RV park and then a small hotel. Slowly but certainly, other facilities are added to the basic casino structure as the operation improves in profitability and total revenue levels increase.

Established markets such as Nevada and New Jersey virtually demand that in order to be effective and competitive in the market, newly established casinos should have a full range of facilities upon opening. In some new gaming jurisdictions, when gaming is first approved, it is common for legislation or licensing regulations to call for a certain minimum level of these support

facilities. Given the lack of outside regulation of tribal casinos, this initial lack of these related facilities is often criticized by the general public.

Riverboats: Another significant kind of gaming facility classification includes riverboat or barge casinos. While these are both floating casinos, they can vary widely. In some jurisdictions, the casino must be on a seaworthy boat. There may actually be the requirement that the casino must periodically leave the dock and cruise. This kind of operation also calls for a fully licensed, authorized, US Coast Guard–licensed crew to be available to operate the ship while it is cruising. The industry generally recognizes that an active cruising schedule actually does not maximize casino revenue. In fact, consultant advice seems to be “if you have any choice, don’t cruise, and if you have to—cruise as little as possible.”

Barges have entered the industry as a curious anomaly. They are floating, like a riverboat, but do not require a regular cruising schedule. They are nominally able to move but functionally they stay stationary in one location. Most riverboats and barges have their casino games and slot machines on the floating portion of the casino. Land-based facilities are usually reserved for hotels, food and beverage, or other support services.

Riverboats present very unusual physical design challenges for the casino. They also present challenges for spaces to locate support services such as count rooms, cashier cages, and surveillance rooms. Also, where there are cruising requirements, the letter of the law regarding seaworthiness must be complied with in the original design, construction, and in the operations of the vessel. Key operational considerations include how to carefully route wiring from slot machines to central computers when all wiring must be both fireproof and waterproof! Also, coin vaults must be located in such a manner so as not to disturb the ballast of the boat when coins are removed from the slot machines, stored, and counted.

Racinos: Racinos are racetracks (horse and dog racetracks) with slot machines and occasionally table games. At the end of 2006, there were eleven states that had more than twenty racetrack casinos. More and more states are considering allowing racinos. As states look to new ways to raise governmental revenues, tax on legal slot machines located at racetracks is a very attractive and trouble-free revenue source. Racinos have been financially successful largely because their existing track locations tend to be close to major population centers. The form of ownership and operation of the slot machines is unusual, in that in some states the racetrack owns the slot machine and is subject to gross revenue taxes. In other states, the state actually owns the slot machines, pays the operator a percentage fee for running the operation, and keeps the operating income as a form of tax. The introduction of racino-type

operations in New York, Pennsylvania, and Florida is likely to have a substantial impact on the traditional gaming markets in the area.

COMPETITIVE MARKETPLACE

Another way to classify casinos is according to the competitive marketplace in which they operate. This classification is very helpful in understanding the differences between New Jersey and Nevada, and between Mississippi and Louisiana. The market classification could be described as free-market, managed competition (or oligopoly), and a monopoly market. The principal difference here is the degree to which the state is willing to restrict the number of casinos operating in any given area.

Free Market: Traditionally, Nevada and Mississippi have chosen the model which could be described as free competition. If certain suitability criteria are met—lack of criminal background and adequate financial resources—the licensing laws in these states allow anyone to operate a casino in virtually any location. (There are certain public policy restrictions such as not operating a casino next to a school.) These free-market environments are very competitive, and several large operations in the Tunica and Gulfport areas of Mississippi have found that success is not guaranteed. Some operators have been forced from the marketplace by aggressive competition. This process has been well documented in Nevada for many years.

Managed Competition: The managed-competition model is used in markets such as New Jersey, Detroit, and to some degree, Louisiana. This is also the model adopted by other riverboat states such as Iowa, Illinois, Indiana, and Missouri. In this situation, the state limits the number of casino operations both by number and by geographic location. The result of this managed competition is an oligopoly of a small number of firms and enhanced profitability. In exchange for this grant of limited competition, the state usually insists on a somewhat higher level of both taxation and regulation than might occur in states with more open competition.

Monopoly Market: Certain states have been willing to grant a monopoly in casino gaming for a reasonable period of time and within a certain geographic area. Most of these examples occur outside of the United States. The best examples are in Windsor, Ontario, and Montreal, Quebec, where the Canadian government grants a single casino license in these locations.

Tribal Casinos: Various states have different situations with regard to Indian casinos. In some cases, such as Foxwoods and Mohegan Sun—both located in Connecticut—the casino has a natural monopoly since there are no other

Indian tribes that have casinos within a reasonable distance. In Minnesota, there are enough Indian tribes that operate casinos that the markets have the appearance of an oligopoly, with some tribes having the advantage of being closer to population centers than others. Based on existing recognized Indian tribes, most states have an upper limit on the number of casinos that can be built. This limit varies however, from two tribes in Connecticut to over 120 tribes in California. Depending on the extent or the definition of a geographic market, there appears to be a modestly strong monopoly situation enjoyed by most tribal casino operations.

CASINO GAME MIX AND REVENUE SOURCES

In the past, a way to characterize the differences in casino operations beyond their mere geographic location was to look at the game mix as a way of differentiating operating philosophy, character, or target market for different casinos. However, with the development of the industry, other factors apparently are becoming more important.

Game Mix

The term refers to the ratio of slot machines to table games, and considers both the number of games and the revenue generated. As individual locations are analyzed, the game mix for most of the casinos in a certain geographic area would tend to follow what is common or average for that area. In some instances, proposals for new casinos may have had different game mixes than would have been expected for an area, but when they were eventually opened and in operation, the game mixes were quickly adjusted to reflect the game mix appropriate for the market in which they were located. This was the case for the original MGM-Reno which, when first proposed, had a game mix appropriate for the Las Vegas Strip, where existing management was located. However, the management found out very quickly that the number of table games had to be reduced, and the number of slot machines expanded to more closely approximate the game mix for the Reno-Sparks market.

Game mix historically has been very different in the various Nevada gaming markets. The difference in the ratios is significant enough to indicate that there are indeed several different submarkets in Nevada, with each geographic location having its own unique slot to game mix. Over time the mix of slot machines to games has been lowered in northern Nevada while increasing in southern Nevada, but there still remains a significant difference, inherently reflecting a substantial difference in the two markets. In states that have a more homogeneous structure like New Jersey, the mix of slots to table games has been virtually identical for all casinos.

Casino Size Influences: There are significant differences in the slot to game mix ratio according to the revenue range or size of the casino. There appears to be little difference in the mix of slots to table games for smaller casinos (under \$20 million in annual revenue). However, there is a significant difference in the slot to game mix for the very largest casinos (including the publicly owned casinos) when compared to the smaller operations. As the casino increases in size, proportionately more table games are added than slot machines. Also, as the size of the casino increases, the percentage of revenue arising from table games also increases.

Market Maturity Influences: In analyzing the mix of slots to games in emerging markets such as riverboats and tribal casinos, the slot to game ratio exhibits another significant difference. This difference seems to be related to the maturity of the gaming market and the sophistication of the customers in that market. The conventional wisdom from the casino operators and the gaming equipment suppliers indicates that the gaming behavior in these "new" markets tends to favor slot machines. The reasons for this are twofold. First, new gaming customers tend to be less intimidated by interaction with machines than they are with human interactions such as on a 21 game. These new customers are largely unsophisticated in their playing habits and are less likely to be embarrassed by errors made in front of a machine. Second, the new generation of slot machines offers a much wider variety of games. Thus, there is a cross-substitution effect, where table game players may actually gravitate to the same games being offered on a machine rather than a live table game. The popularity of video-based 21 games is an example of this effect. These changes are very apparent when the established Nevada and New Jersey markets are compared to new jurisdictions.

Factor Ranking and Conclusions: The predominant factor appears to be the revenue size first, maturity second, and location the weakest of the game mix explanatory factors. Larger casinos (with higher revenues) tend to have lower percentages of the total revenue contributed by slots than smaller casinos, almost regardless of their location or maturity of the gaming market. As small casinos grow into larger casinos, there is not merely an increase in the number of slots, but an increase in the type and kind of table games. For example, it is not unusual for newly opened Indian casinos to have a slot to game ratio of fifty slots to one table game. Also, new jurisdiction casinos typically operate only slot machines and 21 games. Later, other table games such as craps and roulette may be added, and the total number of 21 games is increased. Newer, immature markets have much higher percentages of slot revenue when compared to existing markets for casinos of the same revenue size. As the gaming market matures, the table game revenues tend to increase as a percentage of the total revenue. When both factors are combined, the result is that newer, smaller casinos tend

to have a larger ratio of slots to table games than larger casinos in established jurisdictions. The weakest factor in game mix is the geographic location of the casino. This appears significant only in the long-established Nevada markets.

Game Revenue Sources

A final method of distinguishing casino operations is based on the percentage of revenues arising from various games in the casino. Table 1-7 indicates the revenue mix or sources as percentages of gaming revenue for casinos in different locations. From a geographic perspective, the Las Vegas Strip has very high total revenue from games, with a division of approximately 44% games to 52% slots. The Reno-Sparks area derives 16% of the revenue from its games, and 79% from slot machines. Atlantic City has 27% of its revenue from games and 73% from slots. Illinois is even more slot-oriented, with just 14% from games and 86% from slots. Iowa riverboats have 11% from games and 87% from slots. Missouri has 13% from games and 88% from slots. Survey data provided by Harrah's Entertainment in 2006 show the game revenue sources nationally by age, geographic region, and gender. This data is shown in table 1-8.⁴⁴

TABLE 1-7 Mix of Game Slots—Selected States

Location	Game Percent	Slot Percent	Other Games	Total Gaming Revenue
Las Vegas Strip	44.8%	51.6%	3.6%	100%
Reno-Sparks	16.1%	78.5%	5.4%	100%
Atlantic City	26.9%	72.6%	.5%	100%
Illinois	14.3%	85.6%	.1%	100%
Missouri	12.5%	87.5%	—	100%
Iowa	11.3%	88.6%	.1%	100%

TABLE 1-8 Game Mix Preferences, by Demographic Factors

	Slots	Table Games	Other	Don't Know	Total
Nationwide	71%	14%	6%	9%	100%
By Age					
21–35	65	21	6	8	100%
36–50	73	14	5	8	100%
51–65	75	10	5	10	100%
66+	74	9	5	12	100%
By Region					
North East	71	16	6	7	100%
North Central	74	11	6	9	100%
South	71	15	5	9	100%
West	70	14	6	10	100%
By Gender					
Male	63	21	5	11	100%
Female	79	9	5	7	100%

SOURCE: Harrah's Entertainment.

CASINO PERFORMANCE AND WIN PER UNIT

In presenting various comparisons of casino operating characteristics, the final and perhaps most telling comparisons can be drawn from the common operating statistics of win per unit per day, commonly referred to as win per unit. These figures are typically presented as an aggregate figure for win per unit for slots and win per unit for games. Many states present this data on a monthly basis. It is an important metric to assess the financial performance of a casino.

The slot figure is usually a composite figure for all denominations of slot machines, and usually also is calculated for all machines, regardless of whether they are true slot machines or machines which include other games such as video poker or 21. The game win per unit figure presents the average results for all games, again regardless of the type of game. The game of 21 is the most dominant table game, and inaccuracies due to other table games are considered to be of minimum importance.

Table 1-9 shows the comparison of win per unit data from various jurisdictions in 2002. The win per unit in slot machines is considered more accurate since there are slot machines operating in almost all jurisdictions. Data is usually collected by states where there is either taxation of the casino revenue, or where there is other mandatory reporting.

There are two notable exceptions to the reporting data. First, Connecticut reports only slot revenue, as required by the agreement between the tribes and the state. Table game win per unit is not presented. Second, tribal casinos in a variety of states are not required to report win per unit, so this information is not uniformly collected and reported. Where this data has been estimated, it is indicated on the table. In reviewing the slot data, it is apparent that the nature of the market and location seem to be the most important criteria. Detroit and Connecticut's average slot win per day exceeds \$300. This clearly reflects monopoly revenues from the slot machines. These win figures are consistent with the results reported from Windsor and Montreal, which are both similar monopoly situations. The riverboat states and other oligopolies of New Jersey, Louisiana, and Illinois generally reflect a win per unit in the range of \$250–\$400 per machine per day. Illinois data reflects an increase from no longer being required to cruise. In the situation where there is free competition, such as in the states of Nevada, Mississippi, and Colorado, the win per unit drops considerably to about \$90–\$150 per unit.

A somewhat less distinct difference exists in the case of table game win per unit. There is no reliable information for monopoly situations, but the oligopoly situations tend to have higher averages while full competition and more mature markets tend to have an average of \$1,000–\$1,500 per day or less. Anecdotal information from gaming operations in Macau indicate that

TABLE 1-9 Selected Slot and Table Win
(Ranked by win per unit)

Jurisdiction	Slot Win per Unit (2002)
Illinois	\$450
Detroit	324
Connecticut	323
Delaware	289
Indiana	266
West Virginia	242
New Jersey	238
Louisiana	231
Iowa	199
Missouri	184
Mississippi	151
Nevada	90

	Table Win per Unit (2002)
Illinois	\$2781
Indiana	1532
Nevada	1447
New Jersey	1133
Mississippi	1112
Missouri	1028
Iowa	837

TABLE 1-10 Slot Win per Unit, for Specific Casinos

Casino or Area	Total Annual Slot Win (in Millions)	Total Slots	Win per Slot per Day
Black Hawk—Colorado	34.4	8,509	\$130
Foxwoods—Connecticut	\$66.0	5,852	\$364
Mohegan Sun—Connecticut	48.0	3,035	\$510
Delaware Park—Delaware	23.1	2,000	\$373
Argosy—Indiana	22.5	2,077	\$349
Ameristar—Iowa	7.7	1,472	\$168
Bluffs Run—Iowa	9.9	1,480	\$216
Las Vegas Strip—Nevada	211.2	59,389	\$115
Reno—Nevada	51.8	19,811	\$ 84
Laughlin—Nevada	39.2	11,513	\$110
Harrah's—New Jersey	28.9	3,048	\$306
Resorts—New Jersey	13.6	2,344	\$187

NOTE: Data from October 2000.

table game win per day in that unique market may exceed \$5,000 per table per day, an amount three times the win on the Las Vegas Strip.

Finally, table 1-10 indicates that the win per unit for specific casino operations and for more localized areas can result in different win per unit data. The lesson is that while the win per unit data is indicative of the overall revenue levels in a market, it is highly variable and influenced by a multitude of individual operating variables.

TABLE 1-11 Analysis of Source of Revenue

Company	Gaming Percent	Rooms Percent	Food & Beverage Percent	Other Percent
Las Vegas Strip Average	42.2	24.7	18.8	14.3
Reno-Tahoe	55.8	16.4	21.9	5.9
Park Place	71.1	11.6	9.4	8.0
Harrah's	74.9	7.1	12.5	5.5
MGM Mirage	54.7	17.8	14.0	13.8
Mandalay	48.5**	23.7	16.2	11.8
Boyd	73.8	6.4	13.6	6.4
Trump	82.0	5.9	9.3	2.9
Argosy	88.6	0.0	8.9	2.5
Aztar	79.8	8.6	6.7	4.9
Stations	76.4	4.3	12.9	6.4
Isle of Capri	93.7*	1.8	4.5	0.0
Ameristar	75.5	16.1	4.9	3.8
Pinnacle	84.3	2.3	5.6	7.8
Average	75.3	8.8	9.9	6.0

* Highest Gaming %

** Lowest Gaming %

Noncasino Revenues

Casino operations are often characterized by a very substantial physical plant, which provides anywhere from 500 to 3,000 hotel rooms as well as a broad variety of support facilities. Despite the appearance, however, the principal source of revenue in the hotel-casino is the gaming revenue, comprising 60%–75% of the total. The rooms, food and beverage, and other areas are secondary. Table 1-11 indicates the percentage distribution of revenues among the principal activities of the hotel-casinos in Nevada and for the fourteen largest public gaming companies as well as for the overall Las Vegas Strip area.

CASINO ORGANIZATION STRUCTURE

In general, all the facilities of the hotel exist to serve the casino patron, either directly or indirectly. It is vitally important that all of the hotel-casino facilities be established in such a manner as to balance and complement the overall casino operation. When the organization charts are examined, the importance of the role of the casino executives in the overall operation is clearly indicated.

Figure 1-2 indicates a typical organization chart used in a casino in Nevada. Figure 1-3 indicates the organization chart used for a casino operating in New Jersey. The most important observation in the Nevada organization chart is the relatively important positions that the casino executives occupy relative to the overall organization. Recently, there has been a trend away from these “absolute power” positions held by the casino executives as more

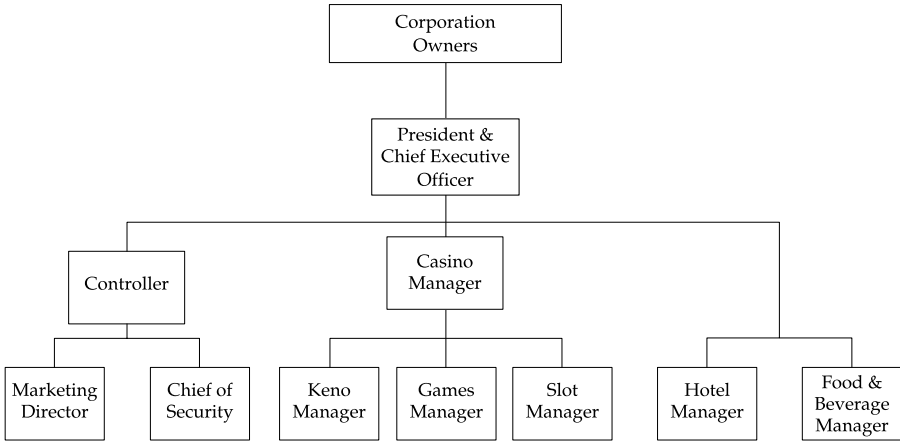


Fig. 1-2. Nevada Casino Organization

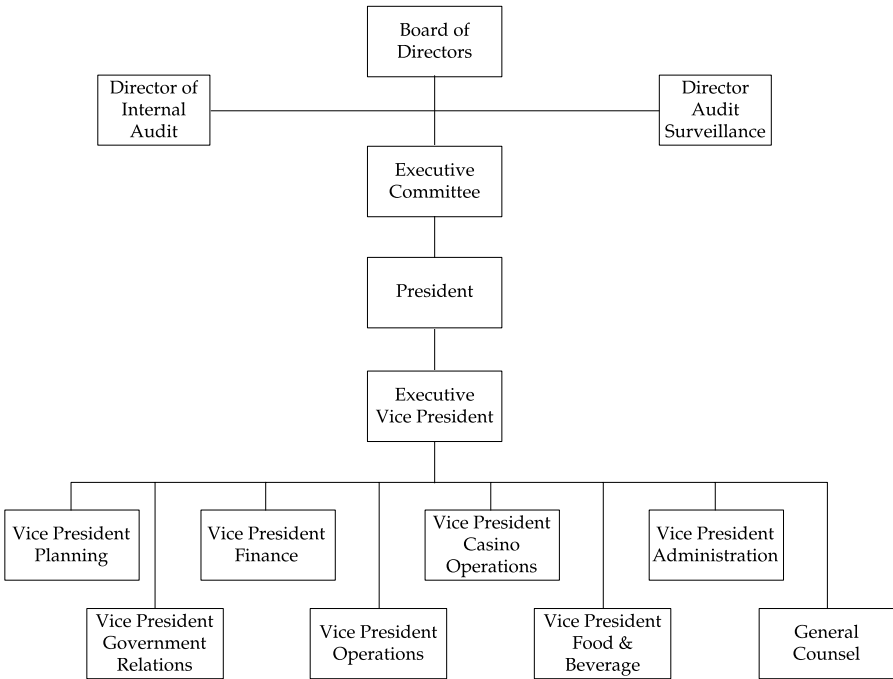


Fig. 1-3. New Jersey Casino Organization

traditional corporate organizations are developed. Still, casino personnel who are responsible for the lion's share of the revenue have a substantial amount of informal power in the organization.

Another important observation is the relatively senior positions that accounting, financial, and control personnel have in the organizations. There is a widespread acknowledgment that the maintenance of a high degree of internal control over all aspects of the hotel and casino operations is mandatory if the casino is to continue to be licensed, as well as be expected to operate in an effective and efficient manner. When the organization chart for the New Jersey casino is examined, the importance of the control functions (as specifically legislated by the state) and the role of regulatory compliance (which, typically, is an important part of the accounting and finance functions) are given senior vice president status in a New Jersey casino. Typically, the financial and control functions in a Nevada casino are viewed as less important.

When the casino organization is examined in detail, two additional issues come to light. The first is that although the casino manager has extensive responsibility for all aspects of casino operations, as well as the supervision of the various shift personnel, the casino manager does not control or supervise any of the revenue accounting in the casino. An important separation of

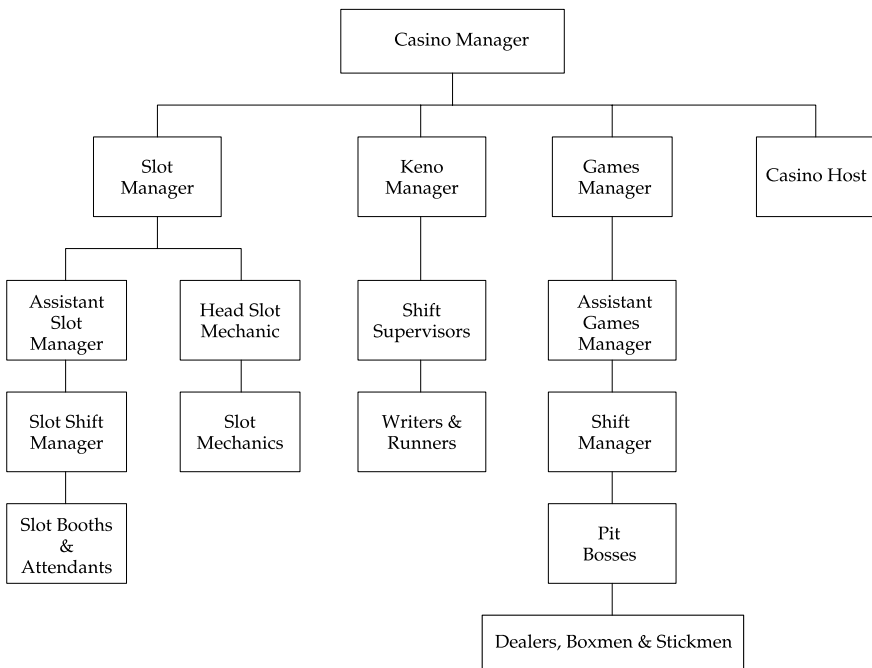


Fig. 1-4. Casino Manager Responsibilities

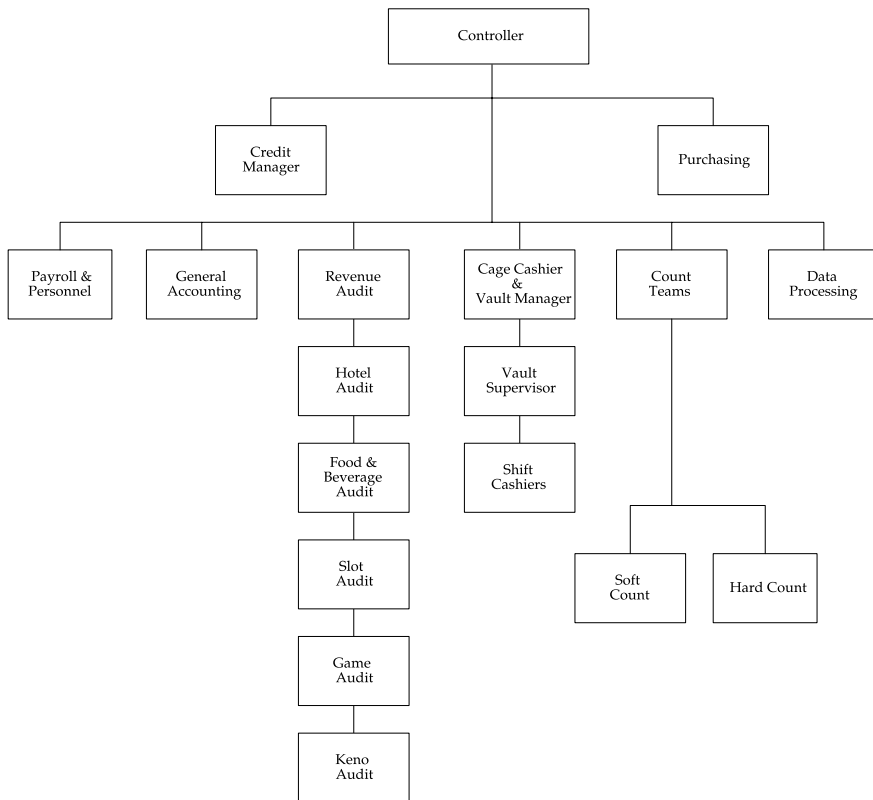


Fig. 1-5. Controller Responsibilities

duties that exists in a casino is the supervision of the cage and vault operation under the controller or financial personnel rather than casino operating personnel. This division of responsibilities is indicated in figure 1-4, which shows those areas that report to the casino manager. Figure 1-5 shows the areas that report to the controller. The controller’s responsibilities include direct supervision of certain casino staff such as cage cashiers and count teams, as well as supervision over the recording of the financial transactions originating in the casino.

CASINO FINANCING

A brief overview of the current structure and the trends in casino financing will assist the reader in understanding the financial environment within which casinos operate.

The history of casino financing in Nevada was closely tied to the public perceptions of legality and organized crime involvement in the casino industry. The early investment capital for most of the casinos in Nevada was provided

by families, individuals, or by small groups of investors. These investors included individuals in Reno such as the Smith family and William Harrah. In the case of southern Nevada, individuals who had earned their fortunes in unusual or certainly unconventional methods (such as illegal gambling or bootlegging) supplied the initial venture capital. The early casino financing was entirely risk capital. This risk capital was difficult to obtain, and the lack of substantial sums made the rapid expansion of the gaming facilities very difficult, if not impossible.

During the 1950s the negative image of Nevada gaming, particularly in southern Nevada, discouraged investors and traditional lenders. However, the high profitability of the casino operations did not escape the notice of knowledgeable financiers. One such person was Jimmy Hoffa. Hoffa had a strong interest in the casino business and moved slowly and consistently to promote long-term loans to Nevada casinos from the Teamsters' pension funds. During the period 1962 to 1977, the Teamsters Central and Southwest Pension Fund investment in casinos grew from \$5.5 million to \$240 million. This represented a growth from 3% of the total investment portfolio to 24% of the portfolio of pension investments in 1977.

During this time, several Nevada-based banks were expanding their involvement in the financing of the casino industry. Valley Bank of Nevada played a prominent role in the financial development of the Las Vegas Strip under the direction of its chairman, Perry Thomas. However, lending by Nevada banks was constrained by the Controller of the Currency regulations that prohibit loans in excess of 10% of the capital of the bank to any one business. Thus the loan demand by Nevada casinos for expansion capital could not be fully met by the relatively small Nevada banks. Several innovative mechanisms were used, therefore, with consortiums of banks from many states being established to lend to the casinos, with the Nevada banks taking the lead role in these offerings.

Another significant development in the field of casino financing came on the scene in the early 1970s with the widespread adoption of equipment leasing (particularly slot machine leasing) as a method of capital acquisition for the casinos. This segment of casino financing continues to be strong even today, with substantial amounts of leasing being done through both third party as well as manufacturer-related leasing companies.

Early public stock sales by corporations who owned and operated casino facilities were met with only moderate success. Harrah's Hotel and Casino made one of the first casino public stock offerings in 1973, but the industry lacked the stature and widespread reputation for profitability necessary to create a very active and favorable stock market reception.

Three significant financing events hold some promise for future casino financing. The first event was the issuance of first mortgage bonds by Golden

Nugget, Inc. (later the Mirage Corporation), the parent corporation of the Golden Nugget casinos in Las Vegas and Atlantic City. Although offered at the unheard-of price of 9% at the time, the bonds were well accepted by the market. In light of the escalating interest rates during that period, this transaction turned out to be a very inexpensive source of expansion capital for those casino firms. These casino bonds also heralded the beginning of the high yield (or junk) bond market. Many other casino firms have subsequently utilized public debt offerings at high yields to finance their construction and operations.

The second event was the financing of a major casino operation by more traditional institutional investors. The first was the investment by the state of Nevada through its Public Employees Retirement System in the long-term mortgage of the Riviera Hotel and Casino in Las Vegas. Another financing arrangement was concluded between Aetna Life and Casualty and Caesars Palace for a long-term mortgage commitment on their Las Vegas property in the amount of \$40 million. This marked the first time that a life insurance company had made an investment in a Nevada casino gaming property. Operating problems at the Riviera, as well as New Jersey licensing difficulties at Caesars, have created an aura of uncertainty about these investments, and the initial optimism regarding the use of institutional financing for other casino projects in Nevada has become somewhat subdued since that time.

The third significant financing event was the increasingly widespread use of equity financing through publicly traded stock issues as a source of financing for casinos. This mechanism was utilized extensively for the development of Atlantic City and midwestern riverboat properties. After a period of widespread enthusiasm for casino industry stocks in the market following the legalization of casino gaming in Atlantic City in 1976, the market for casino and casino supplier stocks has settled into a regular cycle of ups and downs.

Casino Licensing and Regulation

This chapter discusses the licensing and continuing regulation of casino operations. It begins with a brief discussion of the historical development of gaming regulation. The differences in regulatory philosophy between Nevada, New Jersey, and other jurisdictions, including a detailed look at the respective gaming control agencies and their operations, are examined. The chapter concludes with a discussion of a number of special problems associated with casino licensing and regulation.

THE FUNCTION OF LICENSING AND REGULATION

It must be recognized from the beginning that in order to operate casino gaming in a legal and publicly supported manner, there must be an effective system of controls over that gaming activity. Not only must the gaming regulation be effective, but the operation of the gaming regulation groups must be such that public confidence in the agencies remains at a very high level. This confidence in the regulatory mechanisms is an important factor in the continuing success of casino gaming.

Casino gaming is an industry that is considered to be only marginally accepted by many people in the United States. There is a very thin line between the social acceptance of casino gaming and the rejection of other types of social behavior as undesirable. Even where casino gaming is accepted, there is always some danger of movements to prohibit or otherwise significantly limit it. Unforeseen shifts in public opinion arising from new social attitudes or, more importantly, from an erosion of confidence in the regulatory controls over casino operations could have a negative impact on the industry.¹

In 1976, the President's Commission on the Review of the National Policy

Toward Gambling issued its final report entitled "Gambling in America," which stated the following: "In the past 45 years since gambling in Nevada was legalized, the state's role in licensed gaming has evolved from a simple tax collection scheme into a sophisticated regulatory system covering every facet of the gaming industry."²

The tone of the report was generally favorable and seemed to support the widely held belief that gaming control has long been effective in Nevada and that its operations will serve as a good model for other states that are considering the adoption of legalized gaming. The report concluded by saying: "Nevada has used its 45 years of experience in the gaming field to develop a regulatory system that is sophisticated, efficient, and, on the whole, capable of maintaining the integrity of the gaming industry at an acceptable level."³

HISTORY OF GAMING REGULATION

Although the formal process of gaming regulation in Nevada did not start until 1955, there were many historical antecedents in earlier years that have had an impact on gaming regulation. The development and changes in the gaming regulation laws are the result of a mixture of needs for enforcement and needs for economic revenue. The basic economic need is raising tax revenues for both state and local governments. The enforcement component has been constantly modified to accomplish certain public policy objectives, which most commonly correct deficiencies in the licensing and operating procedures as they are discovered. A second enforcement emphasis is to make changes that react to the perceived threat of federal government intrusion into the regulation of casinos and to maintain strong state control of the gaming regulatory process.

Gaming had its legal inception in Nevada in 1931 with the passage of the so-called "wide open gaming act," more formally known as the *1931 Gambling Act*.⁴ The passage of the 1931 act ended a period from 1910 to 1931 when all forms of casino gaming had been outlawed in the state of Nevada, but were still widely carried out in a variety of clandestine locations.

From 1931 until 1945, gaming licensing and taxation were completely in the hands of the sheriff of the local county in which the gaming was taking place. The original taxation levels for these casinos included a tax of \$25 per month per table game, \$50 per month per machine for coin-operated games, and \$10 per month per slot machine. This revenue was then distributed, with 25% going to the state and 75% going to the county. The only license required was that issued by the local county or sheriff.⁵

In 1945, the need for state revenue again prompted a major change in taxation of gaming activities. The original legislative intent was to levy a percentage tax on casino revenues. The first casino revenue tax was 1% of the quarterly gross gaming revenue in excess of \$3,000. The responsibility for the

collection of the tax was assigned to the Nevada Tax Commission. The gross revenue tax was subsequently increased to 2% by the 1947 state legislature, and a sliding scale of fees or taxes on the number of games, slots, and card games was adopted. In order to facilitate the collection of the tax, the legislature required the gaming establishments to obtain a gaming license from the tax commission. Prior to this time, the acquisition of a gaming license was a mere administrative formality. There was, however, no formal investigation or determination of an establishment's suitability for licensing.

During this period, the licensing procedure and the accompanying tax collections were quite lax, primarily due to a lack of manpower to enforce the tax laws. Some casinos continued to operate with just the county license. Over the next five years, there was considerable expansion of the powers of the state concerning the enforcement of these new tax and license laws.⁶

The first major expansion was the determination that the issuance of a gaming license was not a constitutionally guaranteed right, but rather a privileged class of license that could be strictly controlled by the issuing body. The second major step was the requirement that local county licenses could not be issued until the state license was issued. This gave the Nevada Tax Commission a strong basic set of rules by which to regulate the industry and the individuals involved in it.⁷

The 1954 state election marked a major turning point in gaming control in Nevada. During this election, the strength of state control over casino licensing was a pivotal issue and resulted in the reelection of Governor Charles Russell, who had previously supported strong gaming control and licensing investigations.

In 1955, in recognition of the limitations under which the Nevada Tax Commission was operating, a full-time gaming control division was created. This division was headed by a three-member board with backgrounds in accounting, administration, investigation, law enforcement, and gaming. The group operated under the tax commission until 1959, when it became autonomous. The Gaming Control Board (GCB) has continued until the present time and bears the primary responsibility for enforcement of the gaming laws and collection of the proper amount of taxes.⁸

The 1959 legislation that created the independent Gaming Control Board also created a senior organization called the Nevada Gaming Commission, consisting of five part-time members appointed by the governor for staggered four-year terms. No more than two can come from the same occupation, no more than three can have the same major political affiliation, and none can have a financial interest in any gaming establishment. The primary function of this group is the licensing of applicants.⁹

The operations of the Gaming Control Board and the senior gaming commission are generally complementary. The gaming commission is formally

empowered to issue all licenses upon the recommendation of the Gaming Control Board. The control board is the body empowered to investigate the background and qualifications of each candidate. It exercises all enforcement activities in the name of the gaming commission. In addition to these responsibilities, the gaming commission is responsible for all action involving the collection of fees and taxes from gaming establishments. The Gaming Control Board makes all recommendations to the gaming commission on the licensing of individuals based on its investigations. In the case of a recommendation for denial by the control board, the gaming commission may take one of three actions: deny the license, refer the matter for further investigation by the control board, or overrule the control board and grant the license. This overruling is only allowed with the unanimous vote of all members present.

The final body that forms the gaming control structure in Nevada is the Gaming Policy Committee. This committee was authorized and established by the 1961 state legislature in order to hold public hearings and recommend changes in gaming policy to the Nevada Gaming Commission. The recommendations are advisory and can be ignored by the gaming commission. The governor chairs the policy committee, which consists of eight other members representing the public, the legislative bodies, the gaming industry, and the gaming regulatory agencies.¹⁰

The next significant changes in the process of gaming regulation occurred in 1967 and 1969. In 1967, largely in response to the purchase of several major Las Vegas casinos by Howard Hughes, the state legislature passed the first corporate licensing law. Prior to this time, only individuals could be licensed. In 1969, the corporate licensing laws were modified and extended so that all publicly traded corporations could be licensed, providing that all major stockholders, corporate officers, directors, and key employees were investigated and licensed.¹¹

The 1977 legislature enacted another key element of gaming control legislation—permission for foreign gaming. This allowed licensees of the state of Nevada to operate gaming establishments in other states or jurisdictions, providing there was a clear and effective program of gaming control in these other jurisdictions.¹²

With the spread of casino gaming outside the state of Nevada, various new statutory laws and common-law case law have developed. As outlined earlier, the spread of gaming has occurred within states such as South Dakota, Colorado in the late 1980s, and Mississippi, Missouri, Louisiana, and Iowa in the early 1990s. Each of these states has adopted various enabling legislation and has developed a modest amount of case law regarding the regulation of the industry. A second factor has been the continued growth of various forms of locally allowable gaming of a limited type. The best example of this is the

continued proliferation of legalized card rooms in California and in some cases throughout the western U.S.

Finally, although not a major factor in casino regulation or taxation, the federal government can also have a significant impact on the casino industry.¹³ In essence, the thrust of federal gaming law has been in three areas. First, federal laws have been passed to prevent certain criminal activity in interstate commerce, and to strictly control and prohibit interstate gambling in any form. Second, they have passed various laws which were intended to ensnare illegal gambling operators, such as the necessity of registering all persons who engage in gaming activity, or all persons and firms who manufacture gaming devices. This licensing and registration is intended to control these illegal activities. Third, the federal government has passed various tax laws intended to harass illegal gaming operations. A prominent Internal Revenue Service (IRS) recruiting poster announces “THE IRS GOT AL CAPONE.”

These first three areas are clearly directed toward the control of criminal activities, and especially those in interstate commerce. They have generally met with considerable support both at the federal and state levels.

Indian Gaming

The last area where the federal government has had a significant impact is in the passage of legislation permitting gaming by Indian tribes—such as the passage of the Indian Gaming Regulatory Act (IGRA) in 1988. This federal legislation opened the door to widespread legalized gaming throughout the nation on the lands of federally recognized Indian tribes, or off the reservation with consent of the state (section 20).

Tribal Sovereignty: Federal laws over the years have formalized the concept of tribal sovereignty through various rules and jurisdictional actions.¹⁴ Given this unique status, whenever tribes wish to conduct Class III gaming activities, they must conclude an agreement with the state government. This agreement is known as a compact between these coequal entities—the Indian tribes and the state. In some situations, the states have refused to negotiate with the various tribes in an attempt to prevent the establishment of tribal gaming. However, these nonnegotiation strategies have become delaying tactics at best, and in some cases the federal government has exerted subtle pressure on the state to enter into negotiations with the Indian tribes to conduct legal gambling. The federal government has implemented procedures under Title 25 CFR to allow the secretary of the interior to approve tribal gaming if the state refuses to negotiate in good faith.

Tribal Regulation Model: The regulation of tribal gaming has followed the states rights model used by the federal government for commercial gaming.

Each tribe (like each state) is empowered to exercise control over its gaming operations. In most cases, each tribe will establish a separate Tribal Gaming Regulatory Authority (TRGA) which has most of the same responsibilities as a state gaming board. These responsibilities include: licensing of individuals; licensing of vendors, suppliers, and management groups; and the adoption of an ongoing enforcement of various regulations. In general, however, the tribal regulatory group does not exercise any taxation responsibility, since the operating profits typically accrue directly to the tribe. This separate regulatory model makes most sense when the tribal casino is operated by an independent third party. However, when the tribe itself operates the casino, the tribe is essentially regulating itself. While this may be inefficient, there appears to be enough separation of responsibilities within the tribe so that the situation is very workable.

Finally, the federal government has had a significant impact on the gaming industry through what it has chosen not to do in regulating gaming. In general, the U.S. Congress has said that they will regard the legalization of gaming and the regulation of commercial gaming as a state issue. However, the widespread existence of casino gaming on Indian lands has led to calls from certain sectors for some form of uniform regulation. Such uniform regulation may then be the precursor of some form of federal taxation. The National Indian Gaming Commission (NIGC) has exercised regulatory authority in the areas of approvals of compacts with the states and approvals of management agreements between the tribes and third parties. The NIGC has also specified minimum internal control standards which are intended to bring a degree of operating uniformity to tribal gaming.

The creation of the Federal Gambling Impact Study Committee in 1997 marked the second time that the entire gaming industry was subjected to federal scrutiny. The study did not have a very significant impact on the industry. First, there was no greater level of federal oversight over gaming regulation of Indian or tribal operations. Also, there was no call for alterations to the already very low level of federal taxation on the tribal operations. The present tax policy is restricted to supporting the regulatory machinery that will be IGRA created. Second, the other forms of gaming were left to state-by-state regulation. Third, there may be additional taxes and fees extracted from all gaming operations, which will be dedicated to the treatment of compulsive gaming disorders. (This would be similar to directing a portion of cigarette taxes to cancer research.)

GAMING LITIGATION AND COURT DECISIONS

In addition to the development of administrative rules for gaming control, there have also been a number of related steps taken by the courts to support the continuation of the actions of the gaming regulators. The general trend of

all these administrative and legal actions has been to support the state's absolute power to regulate, enforce, and tax the gaming industry.

A series of important administrative and judicial actions has served to form the foundation of gaming control in the state of Nevada. These judicial and administrative determinations have occurred in two significant areas. The first is the power of the Nevada Gaming Commission and the Gaming Control Board to regulate the operation of the casinos.

This issue relates to the power of the state to enforce the "Black Book" regulations, which provide for the mechanism by which certain individuals must be excluded from casinos. If they are not excluded, then the licensee can be called before the gaming commission and may possibly be subjected to disciplinary action. One significant confrontation over the Black Book was the 1963 incident when Sam Giancana (then listed in the Black Book) visited the Cal-Neva Lodge at Lake Tahoe, which was partially owned by Frank Sinatra. Before any disciplinary hearing could be conducted, Sinatra voluntarily surrendered his gaming license, thus avoiding a direct confrontation on the issue of the state's power to exclude persons.¹⁵

There was a formal test of the Black Book regulations in 1967 by Frank Marshall, who was ejected from a Las Vegas Strip hotel. The Nevada Supreme Court affirmed in that case that the state did possess the authority to prohibit undesirable persons from entering licensed gaming establishments. Following the supreme court decision, the state legislature adopted formal procedures to govern the process by which persons are included in the Black Book, in response to criticisms included in the supreme court's affirmative judgment.¹⁶

The second major area of gaming litigation that has formed the basis for the gaming regulation of the casino industry has been the original license-granting procedures. In this area, there have been four significant cases. The first, in 1970, was *George v. Nevada Gaming Commission*, in which the Nevada Supreme Court ruled that the district court was without jurisdiction over the state regulatory authorities and that the state constitution precluded the court's intrusion into the administration, licensing, and control of gaming.¹⁷

In 1977, *State of Nevada v. Rosenthal* tested the validity of the state's rules, procedures, and powers regarding licensing of individuals.¹⁸ The supreme court of Nevada (with the U.S. Supreme Court refusing to review or reconsider the case) stated that the statutory licensing standards were adequate and that only reasonable action was required by the gaming commission in licensing procedures. It also specified that there were no federally protected constitutional property rights inherent in the gaming licenses, and that the procedures then in place for the denial of a license were proper.

Further cases involving *Jacobson v. Hannifin* and *Rosenthal v. State of Nevada* have both reinforced the earlier state court finding that there are no feder-

ally guaranteed rights of property involved in a gaming license, particularly in the case of a first-time applicant (Jacobson).¹⁹ Furthermore, any property rights that might have existed in a license could be terminated with a proper administrative review.²⁰

NEW JERSEY GAMING REGULATION

The development of casino gaming regulation in the state of New Jersey has only a recent history. The original enabling legislation to establish the control agencies, the licensing, and the taxation policies was enacted in 1976 by the New Jersey legislature following approval of a public referendum permitting casino gaming in Atlantic City. Since that time, there have been three major developments that have resulted in changes to the New Jersey regulatory environment.

The first major development was the alteration of the basic mechanism for licensing casinos in the state of New Jersey. Due to the extensive original requirements for casino licensing not only of the casino workers but also of all workers in support industries, it was virtually impossible to complete the licensing evaluation before the dates when the casinos were scheduled to open. To avoid a considerable financial problem resulting from the delay in opening, the Casino Control Commission provided for the granting of six-month temporary licenses, which would become permanent upon subsequent approval. At the present time, there are eleven casinos operating, and all have been granted permanent licenses. Many licensees have had very restrictive conditions attached to their licenses.²¹

The second major development in the regulation of New Jersey gaming is the change in the composition of the five-member Casino Control Commission that resulted from the ABSCAM scandals. One of New Jersey's part-time commissioners was implicated in taking a bribe to secure a casino license for an undesirable person. When this was disclosed, the governor immediately pressed for a change in the status of the Casino Control Commission from part-time to full-time. It was felt that a full-time commission would be more insulated from this type of influence buying. This change was accomplished in 1980.²²

The third major development was in connection with the licensing of Caesars Boardwalk Regency Hotel and Casino. A temporary license was granted to the company. During the hearing for the permanent license, it was brought to the attention of the Casino Control Commission that the major shareholders of Caesars World, the Pearlman brothers, had previously had business and social dealings with known members of organized crime. The permanent license of Caesars Boardwalk Regency was granted only after the Pearlmans agreed to step down from the management of the hotel and casino operations and to sell their stock in the corporation. This condition was partially

met when the brothers stepped down and the stock was assigned to a voting trust. In the meantime, the validity of the action of the Casino Control Commission was affirmed by the courts. In the absence of a major failure to follow reasonable procedural rules, the validity of the conditions set by the New Jersey authorities was upheld by the New Jersey courts.²³

Regardless of the specific jurisdiction or the model of jurisdiction adopted—either Nevada or New Jersey—the general types of regulatory actions are the same; original licensing and ongoing regulation. When other commercial jurisdictions were first licensed outside of Nevada—South Dakota and Colorado—there was little legal activity of significance. These jurisdictions largely adopted Nevada regulatory structure and rules. In doing so, they de facto adopted the Nevada jurisprudence history. There have been no significant court cases regarding licensing or jurisdiction since those cited above. When Mississippi legalized casino gaming in 1990, they adopted the Nevada model and rules virtually unchanged. There have been no significant new legal cases regarding gaming reported in Mississippi either.

Several continuing problems have come about as a result of the spread of gaming in other jurisdictions. That is the inevitable conflict of outcomes from cases with largely the same facts or circumstances. For example, New York courts generally support the collections of casino receivables (markers) or checks issued by a casino customer. However, Florida has decided that checks issued by a pari-mutuel betting customer cannot be enforced. In California, the difference in check collectibility is often dependent on local court interpretation of the laws. Historically, markers were unenforceable in Nevada. However, they are currently fully enforceable in unrestricted casino operations.

TYPES OF GAMING REGULATION

Gaming regulation has evolved in two principal phases.²⁴ The first and most critical is the original or entry licensing. The second is the process of ongoing enforcement of the gaming laws, with the accompanying review of suitability for continuing operation.

Entry Licensing

In both Nevada and New Jersey, the greatest regulatory emphasis is on the process of entry licensing. In Nevada, original licensing focuses on the licensees: the individuals operating the business, the members of a partnership, or the principals of an operating corporation. Key employees in the casino are also licensed.

In addition to the licensing of the owners and key employees, there are also procedures associated with the licensing of various games manufactured or distributed. These various forms of licensing and the procedures associated with the securing of a license are discussed in detail later in the chapter.

The entry-level licensing in New Jersey and other jurisdictions is much broader than in Nevada. Original licensing includes all casino employees, all hotel-casino employees, and, most significantly, all industries that support or supply goods and services to the casinos. This casino service industry licensing is a significant broadening of the scope of licensing authority of the state gaming agencies. In both Nevada and New Jersey, labor organizations are subject to registration requirements (but not strict licensing), and there are suitability requirements associated with this registration procedure.

Ongoing Regulation

Ongoing control and regulation in the state of Nevada is the primary responsibility of the enforcement division of the Gaming Control Board. The principal area of activity is surveillance and audit. The surveillance group is to assure that the games are being conducted in a fair and honest manner. This group also has responsibility for the gathering of intelligence regarding the conduct of the business activities of the casinos. The audit division is most commonly associated with the process of tax collection, but it also forms an important link in the process of continuing enforcement by its review of the financial results of the casino's operations and investigation of financial or operating improprieties.

Ongoing regulation of casino activities in New Jersey is much more highly structured. There are two separate regulatory bodies concerned with this type of regulation: the Division of Gaming Enforcement and the Casino Control Commission. Both of these groups are responsible for casino regulation. The Division of Gaming Enforcement has an enforcement unit and a compliance unit, both of which provide surveillance activities of the casino operations. The Casino Control Commission has divisions working on financial and internal control evaluations, as well as evaluating overall compliance of operating procedures at all times that the casino is in operation.

PHILOSOPHY OF GAMING REGULATION

With the advent of casino gaming regulation in New Jersey in 1976, there was for the first time an opportunity to compare the style of gaming control in Nevada to another model. That comparison has been most informative. There are both many similarities and many differences between the gaming regulation procedures of these two states.

The differences and similarities can be analyzed in several ways. The first is the overall state policy toward regulation. In Nevada, gaming is considered to be an industry, with significant importance to the overall economic health of the state. In New Jersey, casino gaming is only one small part of a program of economic revitalization of a specific resort location. Other regulatory differences are a result of basic differences in the casino industries in Nevada and

New Jersey. The Nevada casino industry has great diversity in location, size, and style of operation. In New Jersey, the operation of casinos is limited to one specific geographic area, with all the casino operations being highly constrained by statute and regulation in the type of operations, games offered, and even the physical facility layout, design, and colors permitted.

A second major difference is in the attitude and philosophy of gaming control. In Nevada, gaming, which is an activity that is half a century old, enjoys a good reputation in the local community for its honesty, integrity, and contribution to the state. In New Jersey, the industry is twenty years old, has had a long association (prior to its legalization) with undesirable and illegal elements of the population, and does not enjoy a high standing in the community. Under these circumstances, one would expect the degree of gaming control to be much more rigorous in New Jersey than in Nevada.

A third difference lies in the philosophies of how gaming control is accomplished. The New Jersey regulations are highly specific, with little room for interpretation, innovation, or change in the method of doing business in a casino. This could be expected in a highly structured system of regulation, where the industry itself is highly structured, geographically limited, and under considerable suspicion. The Nevada situation is much more flexible, with almost any style or size of operation being accommodated in the regulations. Most of the Nevada regulations dealing with control items are expressed in general terms, with specific implementation left up to the individual casino. A good example of the difference lies in the systems of casino internal controls. In Nevada, the individual casino presents its system of casino internal controls to the state. These individual systems are evaluated against a set of minimum internal control standards for operation and control. If these minimum standards are met, then the casino is allowed to operate using its own methods and style of internal control. Each Nevada casino has a different way of operating, even though the basic minimum operational standards are common to all. In New Jersey, the nature of the system of internal controls is prescribed. This required uniformity leaves little room for innovation or changes by the individual casinos. The Nevada approach is typical of a widespread industry, where the differences between the large clubs and the small clubs must be recognized.

The final difference between the Nevada and New Jersey regulatory attitudes is found in the background of the development of the processes of gaming control. Nevada gaming control has grown up slowly over the past seventy years. The New Jersey gaming control environment, on the other hand, was created instantly in 1976. The basic attitude in Nevada was somewhat casual, recognizing that changes can be implemented at any time to assure proper gaming control. This led to a high degree of flexibility in Nevada gaming controls. New Jersey, on the other hand, felt that the legalization of

this industry demanded rigorous and rigid controls. If necessary, authorities believed, these controls could be revised later to accommodate different operating requirements. This process has already taken place in a number of areas where controls were modified after original procedures were determined to be too rigid.

Other Gaming Regulatory Environments

With the significant spread in gaming outside of Nevada and New Jersey, there has been significant development of many new regulatory regimes. Each of these systems of control shares some of the elements of both Nevada and New Jersey systems.

For example, the early states of Colorado and South Dakota have largely adopted the Nevada style of gaming regulations, adding the element of supplier licensing which was adopted from New Jersey regulations. The development of Mississippi regulations, where there was what could be described as a wide-open attitude to the establishment of new casinos, took the bulk of its regulations from the Nevada example.

Tribal gaming has generally adopted the single-regulatory-agency Nevada model, but with extensive tribal licensing of all casino personnel, not just the key decision-making personnel in the casino. Given that the initial guidelines for regulatory control were drafted in the Washington, D.C., offices of the NIGC, it seems only natural that the long-standing model of Nevada would be amended and adopted to include some of the more extensive controls brought on by the state of New Jersey. The NIGC does not require licensing of vendors but it does recommend it, and many tribal-state compacts do require vendor licensing.

THE STRUCTURE OF GAMING REGULATION IN NEVADA

There are three basic state organizations concerned with the regulation of gaming in Nevada: the Gaming Policy Committee, the Gaming Control Board, and the Nevada Gaming Commission. The organizational structure of these agencies is indicated in figure 2-1. Each of these groups is discussed in some detail below.²⁵

Gaming Policy Committee

This group is unique to the state of Nevada. As previously noted, it was created by legislation in 1961, and its primary purpose is to make recommendations on matters of gaming policy to the executive branch of government and to the state legislature. It can only make recommendations, which are not binding on either the Gaming Control Board or the Nevada Gaming Commission. The policy committee can hold public hearings and has the force of persuasion through its members. The membership of the group includes the

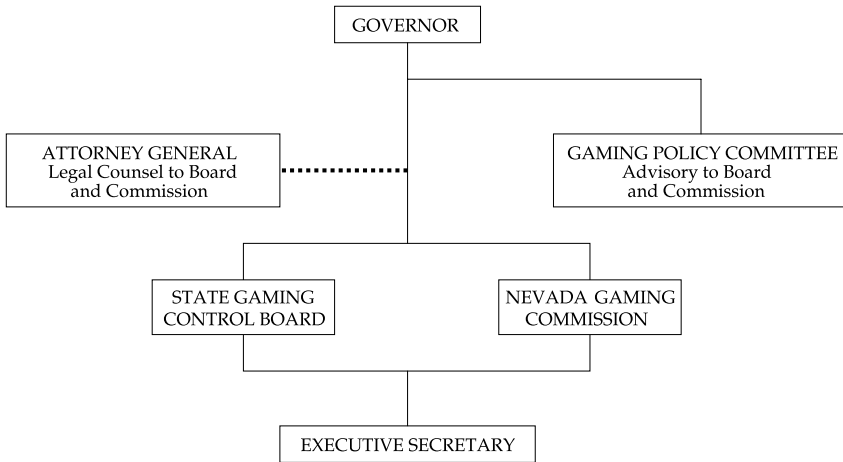


Fig. 2-1. Organization of Nevada Gaming Control Agencies and Staff

chairperson, who is always the governor; gaming industry representatives—one from the northern part of the state and one from the south; general public representatives—one from the north and one from the south; one member from the state senate; and one member from the state assembly.

The Gaming Policy Committee has made two very important contributions to the process of gaming regulation in Nevada during the last decade. On two separate occasions, it was the body that initiated discussions of major policy changes that were subsequently adopted in revised gaming legislation. The first issue was that of allowing corporate (including publicly traded corporate) ownership of gaming enterprises. The second was the investigation of whether to allow Nevada casino licensees to conduct operations in foreign jurisdictions. Both of these issues were recommended for adoption, and the discussions of many aspects of each topic were instrumental in securing widespread understanding of the issues, together with a large degree of support from the public, the gaming industry, and the state legislature for the eventual modification of the gaming legislation.

Nevada Gaming Commission

The Nevada Gaming Commission is the senior governing body of gaming regulation in the state of Nevada. It was created in 1959, with the primary responsibility for the licensing of all gaming activities. This group can grant or deny new licenses; can determine the suitability of current licensees to continue to hold licenses; and can revoke, suspend, or otherwise condition gaming licenses. This action can be taken on any basis or for any cause that the gaming commission deems reasonable. Its powers also include the ability

to adopt various regulations that govern the conduct of the Gaming Control Board or the licensees.

Another important function of the gaming commission is the ability to call any previously unlicensed person forward for licensing. That person is then evaluated for suitability to hold a gaming license. This allows the gaming commission very broad investigatory powers with respect to all casino personnel. In cases of problem operations, the gaming commission can also conduct a disciplinary hearing and, if necessary, recommend to the county district attorneys or to the attorney general that either civil or criminal actions be initiated against licensees. The gaming commission can, on its own, initiate civil actions to collect gaming fees and taxes, including interest and penalties.

Although the gaming commission acts on the recommendations of the Gaming Control Board, that action is independent. On licensing matters, the recommendation of the control board must be overruled by a unanimous vote of the members of the gaming commission present. In the absence of this unanimous vote, the recommendation of the Gaming Control Board is upheld.

The gaming commission consists of five lay members, appointed by the governor for staggered four-year terms. The members can only be removed for cause, except with the concurrence of a majority of the legislative commission. The members of the gaming commission are part-time, with no more than three members allowed from the same political party and no more than two from the same occupational area. None of the members can have a financial interest in any gaming establishment.

The members of the gaming commission are paid only the state per diem allowance for the periods during which it meets. The chairperson receives a small annual stipend in addition to the per diem. Based on this financial compensation, it is obvious that the gaming commission is made up of public-spirited individuals who customarily make a significant personal sacrifice to help regulate the gaming industry in Nevada.

Nevada Gaming Control Board

The Gaming Control Board was initially created in 1955 as part of the state tax commission. This group became administratively independent in 1959, together with the creation of the senior governing body, the gaming commission.

The control board has three governing members. They are appointed by the governor to full-time, compensated positions for four-year staggered terms. The appointees can be removed for cause, but cannot be removed without cause. Each of the members must have a specific background. This is required

in order to allow the members of the Gaming Control Board to properly supervise the internal day-to-day operations of the control board.

The chairperson of the Gaming Control Board, who also serves as the executive director, must have at least five years of responsible administrative experience in public or business administration and should have broad management skills. This person is responsible for the overall administration of the gaming board's operations. The second member and fiscal director must be a Certified Public Accountant (CPA) or a public accountant with five years of experience or be an expert in corporate finance and auditing, general finance, gaming, or economics. The third board member, the surveillance director, must have training and experience in the fields of investigation, law enforcement, law, or gaming.

As full-time state employees, the members of the Gaming Control Board may not pursue any other business or occupation or hold any other office or profit from any other business transactions. Of course, the members must not have any financial interest in a gaming establishment or other business relating to the gaming industry.

The powers and duties of the Gaming Control Board are very broad. It has virtually unlimited powers with respect to the enforcement of the gaming laws of the state:²⁶

1. The control board investigates the background of all applicants for gaming licenses and makes recommendations to the gaming commission to grant or deny the license.
2. The control board also has the responsibility of enforcing the gaming laws and regulations promulgated by the gaming commission, including filing complaints against licensees who are felt to be violating the gaming laws and regulations.
3. The control board assures that revenue collection and taxing functions are being properly carried out. It also conducts audits in order to verify that the correct taxes are being collected.
4. The control board has the responsibility for surveillance of all gaming activity and can inspect and examine all premises where gaming is conducted or gaming devices are manufactured, sold, or distributed.
5. Finally, the control board has the right of access to all books and records of a licensee or any other documents necessary for its investigations.

The responsibilities of the Gaming Control Board staff are indicated in figure 2-2. The organization consists of seven main divisions.

1. Administration division: this division is responsible for the day-to-day administrative functions of both the Gaming Control Board and the gaming commission.

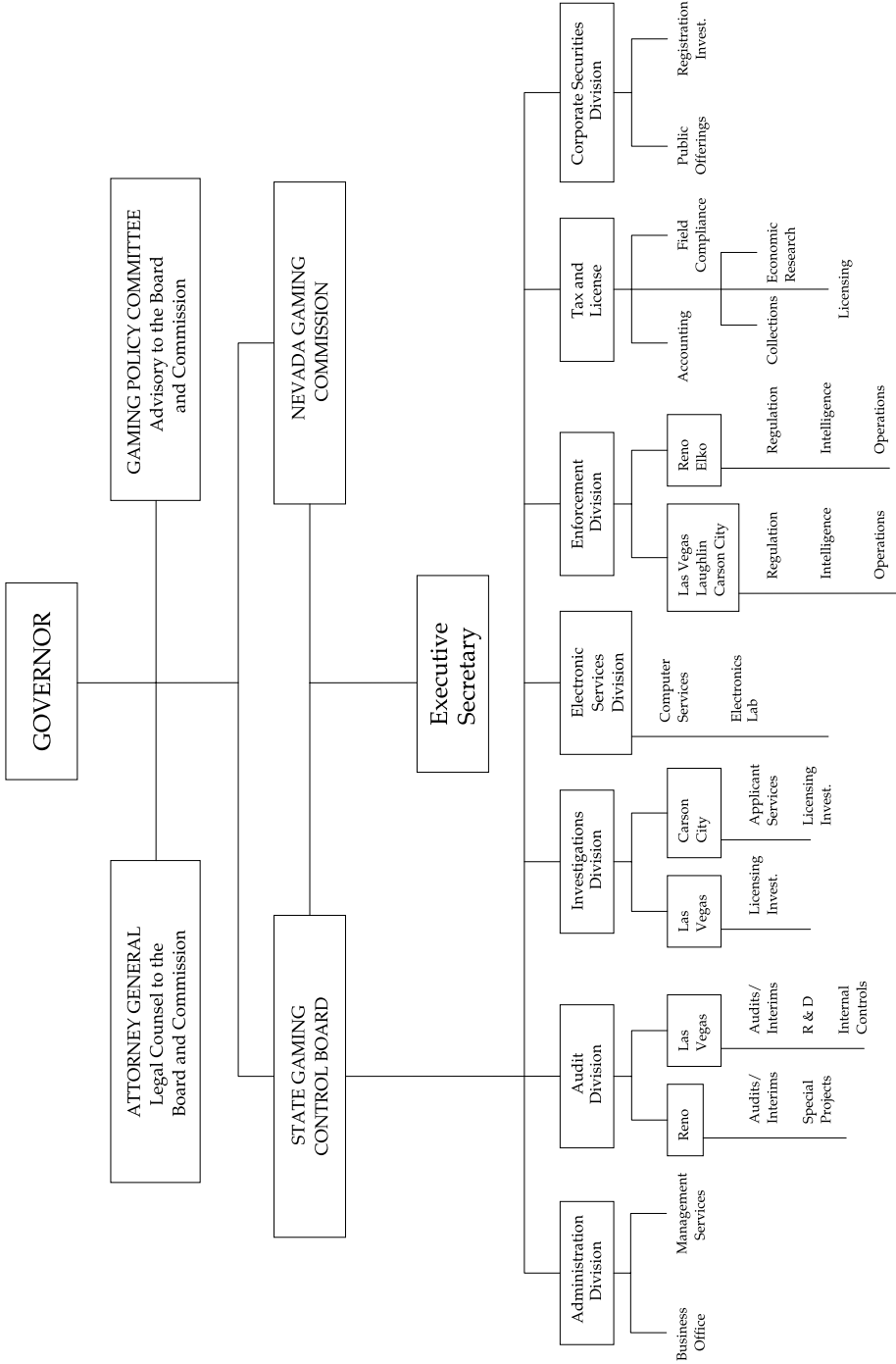


Fig. 2-2. Nevada State Gaming Control Board Organization

2. Audit division: this division is in charge of assuring that the state receives all revenues that are properly due it. The audit division also functions to enforce accounting and internal control regulations. From time to time, the audit division provides financial expertise to the other divisions.
3. Investigations division: this group is in charge of investigating the background of all new applicants for licenses. The investigations division is frequently augmented by persons with specific audit or enforcement skills.
4. Electronic services division: This division has the responsibility for maintenance and operations of the control board computers for internal management and reporting processes, and is also responsible for designing, testing, and maintaining the electronic security of various electronic-based gaming devices. The Gaming Control Board in Nevada operates an electronic testing lab for games. Other jurisdictions use Gaming Laboratories Limited (GLI), a private company, to test electronics for gaming machines. Recently, Michigan has developed its own testing facility.
5. Enforcement division: this division is in charge of the enforcement of the gaming rules and regulations to ensure proper game conduct and the honesty of the games. The enforcement division protects the casino from dishonest players or employees and also investigates player complaints.
6. Tax and license division: this division is responsible for the administrative functions of issuing licenses and amending licenses when new games or slot machines are added or when new individuals are licensed or are added to corporate licenses. It also includes the economic research division, which is responsible for the collection, analysis, and publication of financial information and statistics regarding the gaming industry.
7. Corporate securities division: this group maintains information files on publicly traded corporations and reviews all documents filed with the Securities and Exchange Commission and processes the applications for public offerings of gaming securities.

THE STRUCTURE OF GAMING REGULATION IN NEW JERSEY

The two agencies involved in the regulation of the New Jersey casino industry are the Casino Control Commission and the Division of Gaming Enforcement. Their functions are dramatically different than those of the control agencies in Nevada.

Division of Gaming Enforcement

This agency is a part of the state attorney general's office. Its responsibilities include the investigation of all applications for casino licenses and the enforcement of all criminal provisions of the *Casino Control Act*. The division is organized in four departments, with the investigations section being the most important. The other three departments are intelligence and research, legal,

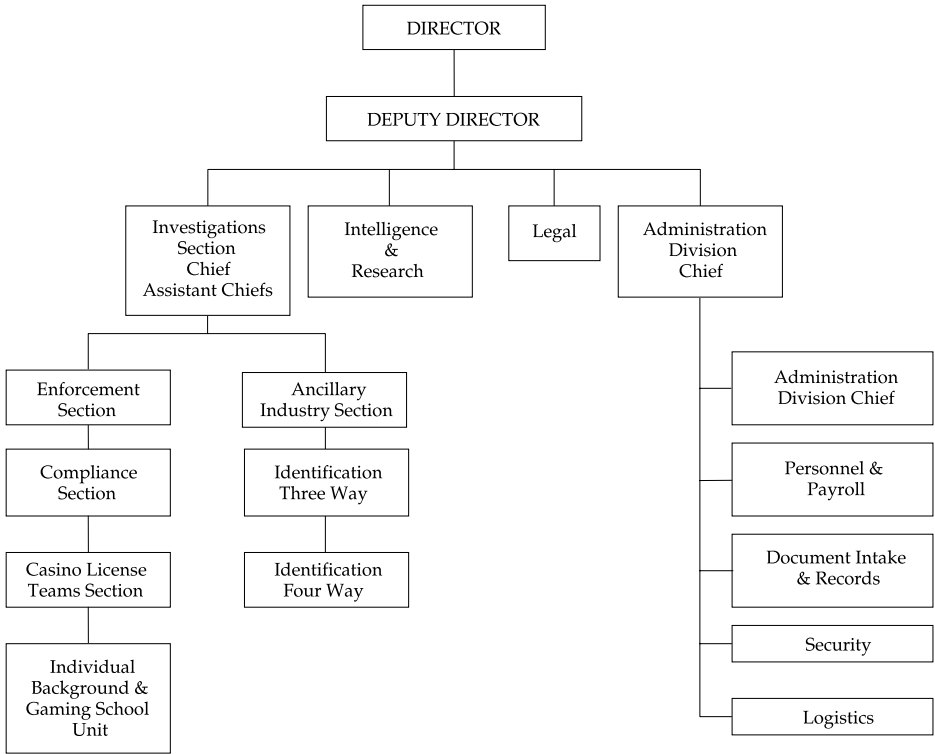


Fig. 2-3. State of New Jersey Division of Gaming Enforcement

and administration. Figure 2-3 indicates the organization of the Division of Gaming Enforcement.

The investigations section is divided into four areas. The first is the enforcement unit, which focuses on the proper conduct of casino operations, including investigation of cheating as well as player complaints. The second is the compliance unit, which has the responsibility for supervision and security within the individual casinos. The third and fourth are the license investigating units, whose primary activity is the background investigation and licensing of employees, casinos, and the casino service industry.

The licensing unit of the Division of Gaming Enforcement is an investigative body only. It gathers information and provides it to the Casino Control Commission for action or approval. Similarly, the compliance and enforcement units have supervisory roles, but cannot initiate actions against a casino. The only allowable action is the filing of criminal charges in the case of violation of the gaming statutes. In general, the Division of Gaming Enforcement is a support or advisory unit and must rely on the Casino Control Commission for the final action on issues of casino control.

Casino Control Commission

The New Jersey Casino Control Commission is a full-time five-member board. Members are appointed for four-year terms by the governor and are drawn from a broad range of business backgrounds. There are no specific background requirements such as those in Nevada. The control commission maintains its own legal staff, which can and often does function independently of the legal staff of the Division of Gaming Enforcement and the state attorney general.

The Casino Control Commission has the ultimate responsibility for licensing, including new licensing, revocation, and conditioning. It is also responsible for setting rules and regulations to implement the gaming statutes and for collection of all gaming taxes and license fees.

The principal operating divisions of the control commission are the licensing division and the financial evaluation and control division. Minor administrative groups within the control commission include the administration and legal divisions. Its overall structure is shown in figure 2-4. The licensing division is charged with the responsibility for licensing of three main groups:

1. Casinos
2. Casino employees, including all working permits and licenses
3. Casino service industries

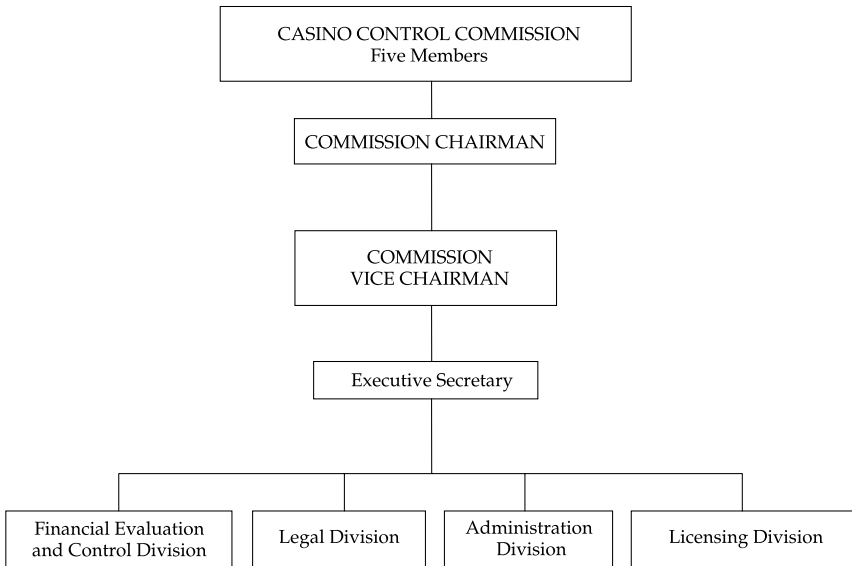


Fig. 2-4. State of New Jersey Casino Control Commission

The third area, the licensing of casino service industries, considerably expands the licensing and background investigation responsibilities of the regulatory authorities. Under New Jersey rules, if the business providing service to a casino is unlicensed, then each contract must be individually approved by the control commission. After the service entity has been licensed, then individual contract or transaction approval is not required.

The second major control function of the Casino Control Commission is performance of financial evaluation and internal control review. This group has responsibility for the evaluation of the financial strength and suitability of the casino prior to opening, as well as its financial strength and performance after licensing and during operation. The group is also responsible for approval of the submitted systems of internal control, which must be filed prior to opening the casino and must be in conformity with the specification contained in the gaming regulations of the state.

In addition to overseeing correct operating procedures, the financial evaluation and control group maintains oversight of the system of internal controls in place in the casino. Not only must the internal control system meet the initial state criteria before opening, but it must also be kept up-to-date, with appropriate documentation amended as the changes in casino operations take place and are approved by the control commission.

This group also has considerable responsibility for the actual inspection and review of daily operations, as well as regulatory oversight of the counting rooms. An additional area of responsibility is the monitoring of various Securities and Exchange Commission reports, including initial stock offerings. The group also reviews all periodic SEC reporting documents and subsequent stock offerings.

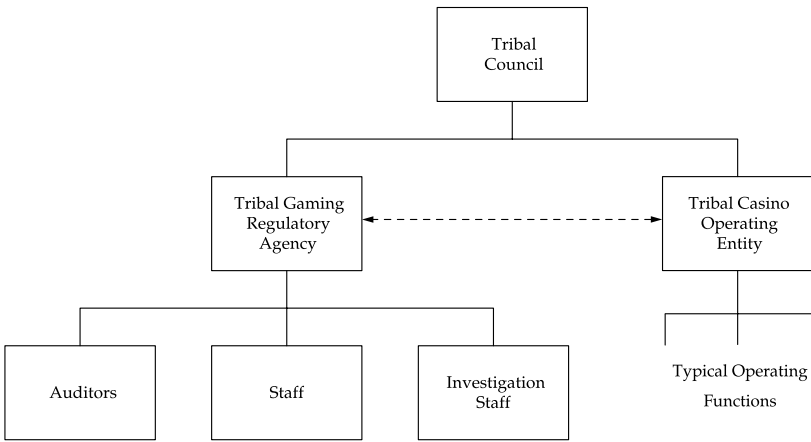
The administrative division of the control commission is responsible for collection of casino taxes on a monthly basis and for public reporting of the operating results. In addition to these support responsibilities, the Casino Control Commission also functions as an administrative hearing board and, in the process, performs much like any other administrative body, with formal rules of subpoena, adjudication, evidence, and other administrative procedures. It functions under these administrative procedures for hearings as well as when considering adoption of the various operating rules and regulations.

A final unique area of concern for the Casino Control Commission is the formal responsibility to keep up-to-date on all legislative developments in gaming laws in other jurisdictions that may have an impact on New Jersey law.

TRIBAL GAMING STRUCTURE

The structure of tribal gaming regulation that has developed is single and distinct. The typical reporting relationship is shown in figure 2-5. It is a straightforward reporting and regulatory structure.

In some instances, there may be some separation of the gaming operations under an intermediate tribal body such as an economic development group, where it is viewed as one of several tribal business operations. This separation tends to avoid having the elected tribal members attempting to interfere with, or micromanage, the general casino operations. Under this situation, the regulatory commission still has direct oversight and regulatory responsibilities for the casino operations.



Alternative Form

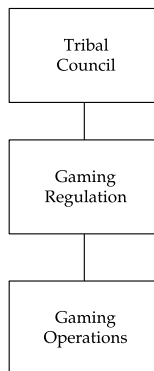


Fig. 2-5. Tribal Gaming Structure

In a second operational consideration, the tribal regulatory structure should depend heavily upon the nature and the extent of the gaming activity. The first consideration should be the nature of the gaming operator. If the casino operation is being managed by a group outside of the tribe, then rigorous and independent control is vitally important. This is to assure the integrity of the gaming activity as well as to assure that the profits are properly flowing to the tribe. Where the tribe itself is operating the casino, then the regulatory control of gaming operations is still important, but the necessity of tracking tax or revenue distributions to the tribe is largely unnecessary.

The second consideration should be the division of various responsibilities. Many of the tribes have adopted the New Jersey model, where the surveillance responsibilities are vested in the senior regulatory body. The Nevada model generally keeps the surveillance within the casino operations. Nevada gaming regulators can intercede or preempt the surveillance within a casino in order to investigate certain problems, but the bulk of the surveillance is the responsibility of the gaming operation. Many tribal casinos do not wish to duplicate the surveillance equipment or procedures, and insist on keeping the operations somewhat blind in not providing surveillance to operations. I feel this is wrong, and that surveillance should be closely coordinated with the operations of gaming.

ENTRY LICENSING PROCEDURES

This section discusses the procedures that are used to investigate the granting of licenses for gaming activities in Nevada, New Jersey, and other jurisdictions.

In general, the process of casino licensing is considered to be a privilege granted by the state to an individual or corporation. This privilege can be revoked at any time for cause, including the general finding of unsuitability, provided that certain minimum administrative due process procedures are followed.

The overall focus on original licensing of the casinos and the persons who operate them is the key to effective gaming control. The most stringent controls are implemented at the point of entry. The entry controls focus on three main criteria: personal suitability and character, financial capability, and management capability.

Who Can Be Licensed

The general conditions that determine who must be licensed cover all individuals, partnerships, and corporations that operate a casino, have a financial interest in the casino, or share profits from the operations.²⁷ This general criterion is quite broad and has been modified in a variety of ways.

Individuals: Generally, all individuals who have an interest based on gaming revenues or profits must be licensed. Licenses are usually granted to individual owners of a casino.

Partnerships: All partners must be licensed, including both general and limited partners. Partnerships in which one or more of the partners is a corporation must have the corporation approved and licensed. Exceptions to partner licensing are provided for limited partners, who are passive investors only.

Corporations: Corporations, including both closely held corporations and publicly traded corporations, must be licensed.²⁸ A difference arises between the two types of corporations. In closely held corporations, all officers, directors, and shareholders must be licensed. In publicly traded corporations, all owners or stockholders must be registered but need not be formally licensed. All officers, directors, and key employees of a publicly traded corporation determined by the regulatory agencies to be engaged in the administration or supervision of gaming must be licensed. In addition, shareholders who hold either directly or indirectly between 5% and 10% of the voting stock may be required to be licensed.

Key Employees: In all ownership situations, the key employees of the casino must be licensed. The definition of a key employee is left strictly to the regulatory agencies and any employee may be called forward for determination of suitability for licensing if so requested. In general, key employees include all direct casino employees from the supervisory level upward, all major operating department heads, and department heads in various administrative departments of the casino, such as personnel managers, controllers, and security supervisors. Appendix 6 outlines the requirements for applying for a key employee license in Nevada.

General Employee Licensing: One of the innovations in casino licensing that came from the New Jersey experience is the much wider licensing of employees within the casino. The New Jersey regulations called for all “responsible” employees to have their backgrounds investigated, and be subjected to licensing review. In several new jurisdictions, but particularly within tribal regulatory schemes, the rules called for *all* casino employees to be licensed. Initially this meant all employees of the casino enterprise, including those in support areas such as food-and-beverage and hotel-and-lodging operations. Some operations have modified this requirement to include *all* employees in the *casino* operations only. This would include all administrative personnel as well.

In Nevada this function was met by the general requirement that all casino employees have a “work card” issued by the sheriff in the county in which the employee wished to work. Thus the basic responsibility of background checks developed through the traditional criminal justice system. However,

the sheriff checked fingerprints only and verified no current warrants or other criminal behavior. It was a basic check that was met.

In tribal gaming jurisdictions, there is also a serious political issue, where some tribal members have noticed that there is a higher rate of petty crime among tribal members. These minor infractions result in that person being ineligible for casino employment—one of the stated economic goals for having tribal casinos—or else the rules are modified or waived for tribal members, which creates a serious personnel issue for management—that of having two sets of rules for employees (a form of reverse discrimination).

The second problem then is not the breadth of the employee licensing, but also the extent of the background testing. Sometimes minor problems exist, but rigid rules prevent these from being considered. Not everybody is a key employee. The need for licensing or background checks is basic, but must be tempered with being applicable to only certain levels of employees, and that the range of background problems which can be considered to be excusable should be set at a reasonable standard.

In addition to owners and key management employees, the regulatory authorities can require licensing of any individual or business entity exercising effective control over a casino through loans or other financial arrangements.²⁹ Specific licensing exemptions exist for national banks that may from time to time loan money to casinos or have leasing arrangements with casinos. Other financial institutions may be required to be licensed.³⁰

Other Licensing Requirements

In addition to the licensing of the owners and the key employees of the casino, there are numerous other licensing requirements. First, each casino location must be licensed after the suitability of the location has been determined. Once the basic location license has been granted, it is not customarily subjected to extensive reviews thereafter. New Jersey requires annual licensing review and licensing. Although at one time Nevada licensees had to request approval from the Gaming Control Board and gaming commission for the extension of its gaming into other gaming jurisdictions, this requirement has been eliminated and the licensees are free to venture into new casino markets.

Vendor Licensing: Various jurisdictions have also adopted a wide-range processing of vendor licensing. In other words, all persons or companies who sell products to a casino must be licensed. While this seems reasonable and uniform, it can result in some truly unusual situations. No one seems to debate the necessity of licensing the vendors of gaming equipment such as slot machines. However, what about the vendor of food and beverages, or of

computer systems? How far should licensing go to regulate the industry? In general, my observation is that the newer jurisdictions tend to go overboard and request licensing from too many vendors, and go too far into regulating the ancillary aspects of the gaming business. As the casino operation matures, we have often seen a relaxation of the rules on extensive licensing.

A second problem exists in the tribal gaming industry. Within a particular state, there may be upward of a dozen different tribal regulatory agencies. Thus, a vendor might be forced to pursue multiple licensing applications and be subjected to multiple investigation fees or other administrative charges in order to qualify to sell to a casino operation.

Another problem arises in the case of emerging jurisdictions. In these areas, the vendors and gaming equipment suppliers who are already licensed in other jurisdictions are reluctant to do business where there is a lack of clear regulatory guidelines. The classic example was in California, where slot machines were not legal—nor were they illegal. The major suppliers of slot machines refused to do business in California, since the finding of illegality on the part of the supplier in California could jeopardize legal operations in other jurisdictions. Thus, the emerging jurisdictions were neglected by the biggest, brightest, and best of the vendors because of this cloud of uncertainty. This problem could be cured by having some form of “safe harbor” rules for vendors in these emerging jurisdictions.

Labor organizations and the individuals within those organizations must also be approved and licensed.³¹ In addition, various support and service industries related to the casino business must be licensed. In Nevada, this is restricted to manufacturers and distributors of games and other gaming equipment, while the New Jersey licensing extends to virtually all casino industry suppliers. The more wide-ranging concern of the New Jersey authorities has been based on the belief that undesirable infiltration of the casino industry may be achieved by indirect means, rather than direct involvement. By licensing the suppliers of the casinos, control can be achieved over these undesirable elements. This departure from previous Nevada experience may prove to be a worthwhile additional step in casino regulation. Finally, one additional area of regulatory concern in New Jersey is the licensing of the various schools that train employees for the casino industry.

In Nevada, there is a procedure to allow the approval of new games or gaming devices. The licensing and investigatory procedures involved in a new game are particularly lengthy. The review includes detailed technical, electronic, and engineering investigation of the design and operation of the game and the controls over the game. In addition, market acceptance is often tested by the granting of short-term licenses for test marketing of the new game. The recent proliferation of various electronic games has given rise to an

entirely new division within the Nevada Gaming Control Board that specifically investigates these new machines and recommends approval or licensing of the games.

Other Related Licenses

In addition to the state licenses for the operation of the casinos, a license must also be granted by the county and the individual city or town where the casino is located. The application for these licenses is made only after the state license has been granted. Also, as in any other business, liquor, cabaret, food, and general business licenses must also be secured prior to opening a casino.

License Application Procedures

The license applicant must furnish the gaming control authorities with a comprehensive and detailed personal history, as well as many items of background information to document the various items of personal history. In addition, the applicant must furnish detailed financial statements and supporting information. The general process is that the applicant first supplies the information to the gaming authorities. The regulatory group then begins an investigation of the information in various questionnaires and endeavors to determine the suitability of the applicant. The investigation, although conducted by the regulatory authorities, is paid for by the applicant. (As a matter of fact, the estimated investigation fee must be prepaid by the applicant.) After the regulatory authority staff has completed its investigation, the results

TABLE 2-1 Gaming Licensing Documents

Nevada
Individual application for state gaming license
• Key employees
• Change of existing license
• Regular application
Personal history form
Invested capital questionnaire
New Jersey
Individuals—casino
• Personal history disclosure—form 1 (includes application, personal history, and financial data)
Individuals—noncasino
• Personal history disclosure—form 2
Corporate applicant
• Business entity disclosure form
Other forms
• Ancillary services industry form
• Personal history disclosure—form 4 for service industry
• Labor organization registration statement

are presented to the control board and the gaming commission, which make the final determination on the license approval or denial. Table 2-1 indicates the various types of forms and information that customarily must be supplied by a casino license applicant in New Jersey and Nevada. Not only must the required forms be completed, but all subsidiary documents must be supplied with the application. Examples of this information include items such as permissions to release information and documents suspending mandatory time limits, together with releases of claims against the investigating body. All these items must accompany the application in order to have the investigatory process begin.

Appendix 5 contains a copy of the instructions to applicants for the state of Nevada gaming license application and describes in considerable detail the information that should be submitted in connection with a gaming application. The requirements for the New Jersey application are similar but more exhaustive. Since the New Jersey application is much longer, the volume of documentation is much greater. The Gaming Control Board has also issued Regulation 3.070, which contains the criteria used by the Gaming Control Board in evaluating the suitability of a particular licensee. These criteria are in addition to the three criteria described in the beginning of this section, covering personal suitability, financial capability, and management capability.

Classification of Licenses Granted

The state of Nevada grants the following types of gaming licenses:

1. Gaming licenses: restricted, nonrestricted, and nonrestricted slot machine
2. Manufacturer's licenses
3. Distributor's licenses

Gaming licenses are divided into three subgroups. Restricted gaming licenses are for less than fifteen slot machines, where the principal business is not gaming and no table games are present. Nonrestricted licenses are for more than fifteen slot machines or any number of slot machines operated in conjunction with table games. Nonrestricted slot machine licenses apply to large-scale (more than fifteen) operators of slot machines.

Depending upon the volume of business and annual revenue, all gaming licenses are classified as either Group 1 or Group 2 licenses. If the annual revenue is under \$1 million, then the casino is a Group 2 licensee; if the annual revenue is over \$1 million per year, then the casino is a Group 1 licensee. The Gaming Control Board regulations concerning the types of internal controls necessary in a casino are slightly less rigorous for a Group 2 licensee.

The state of New Jersey issues gaming licenses for the various types of persons, corporations, and support personnel and businesses involved in the ca-

sino industry. However, no distinctions are made between licenses based on the number of games and slots operated or on the amount of casino revenue.

REGULATION THROUGH AUDITING AND CONTINUING ENFORCEMENT

This section of the chapter discusses the role of ongoing control and regulation by the various gaming control agencies and the impact that these functions have on gaming control. It also considers the detailed reporting that is required of gaming licensees and the role that this reporting plays in the continuing enforcement of gaming laws and regulations.

Regulatory Audit Objectives

The basic audit objective of the Nevada Gaming Control Board is outlined in Regulation 6.110. This section grants broad powers to the control board to conduct audits of all gaming licensees. The objective is quite detailed and forms the basis for all audit procedures. The purpose of the audit is to assure the compliance of the licensee and its accounting system with the minimum standards set by the control board, and to ensure that the proper amount of gaming revenue has been reported and the appropriate amount of taxes paid on that revenue. Given the significant size of gaming tax collections in the funding of the state of Nevada, the determination of the proper amount of taxes is a crucial role for the audit division of the Gaming Control Board. It should be noted that this is strict compliance auditing and should not be confused with the audits required of all licensees to be performed by independent certified public accountants.

In addition to the tax assessment objectives of the audit procedure, the audit division from time to time conducts special studies in connection with special investigations. These investigations typically involve complex financial applications that require sophisticated financial analysis or special enforcement situations where complex financial transactions or significant problems of diversion of funds or hidden ownership interests are suspected.

Other audit objectives are directed toward evaluating the systems of internal control. This process begins by evaluating the system of internal controls in place in the casino to assure that the system is operating as described. In addition, there is an important responsibility to ensure that the internal control system continues to be effective and adequate so that all transactions (particularly revenue transactions) are properly reported. In addition, the system of internal control is examined to verify that the operating procedures meet the minimum standards spelled out in the regulations and laws. A final audit objective is to make sure that all applicable gaming regulations and laws have been followed by the licensee.

New Jersey shares these same broad control objectives through its on-

going audit and compliance reviews. A modest difference exists due to the two-agency control model used in New Jersey. The Casino Control Commission has the principal responsibility for the integrity of the revenue reporting and tax collection process, while the second agency, the Division of Gaming Enforcement, has the primary responsibility for the integrity of the ongoing gaming operations. This gives the auditors different outlooks when performing compliance audits of the New Jersey casinos.

The Role of Public Accounting in Gaming Control

In addition to the regulatory audits performed by the gaming control agencies, the public accounting profession also serves a vitally important role in the ongoing regulation of the casino industry. In Nevada, Regulations 6.040 and 6.050 require the submission of annual audited financial statements for each licensee, and there must also be an annual evaluation of the casino internal control system by an independent accountant. The results of this evaluation must be reported to the gaming control authorities. This report must include all instances where deviations from the specified internal control procedures occurred. A similar regulation in New Jersey (Regulation 19:45.7) requires the filing of annual, independently audited financial statements and evaluations of internal control systems. These detail requirements are described more fully in the other chapters regarding casino auditing.

Reporting Requirements for Casino Operations

There are many types of mandatory reporting by a casino operation. This reporting allows the regulatory bodies to track performance to identify problem situations and to maintain proper control of the gaming operations.

The most comprehensive set of regulations regarding record keeping and reporting is contained in Nevada Gaming Control Board Regulation 6. This regulation is comprehensive, requiring the following reporting.

1. Record retention period is five years to allow the GCB auditors to perform audits on a rotating basis.
2. Specific minimum elements of the accounting and record keeping system must be present in a casino accounting system. These requirements include:
 - a. General accounting records
 - b. Records of all revenue and costs of operation
 - c. Maintenance of casino credit records
 - d. Complete documentation of all loans to the casino
 - e. Statistical data on individual games, including detailed revenue figures on each game
 - f. Records necessary to allow the system of internal control to operate as specified

3. Annual reporting of data on standard financial statement forms is required. This requirement specifies that the licensee must submit information regarding various aspects of casino financial operations on a standardized form, with amounts determined in accordance with the standard chart of accounts specified by the state. This reporting allows a statistical compilation and analysis of industry and casino operating data.
4. Annual audited financial statements, as previously described, are provided by the licensee to the Gaming Control Board.
5. Internal control reporting is quite complex and must include the following elements and meet the following conditions:
 - a. All letters or comments received by a licensee from the independent auditor regarding internal control matters must be forwarded to the audit division within thirty days of receipt of the letter
 - b. A system of internal control, together with the independent accountant's report on the adequacy of these internal and administrative controls, must be submitted to the Gaming Control Board before an original license can be granted
 - c. All changes that are made to the internal control system must be submitted in writing to the Gaming Control Board
 - d. The independent public accountant must perform an annual evaluation of the internal control system and the compliance of the licensee with the minimum internal control standards
6. Time of day of the drop, the count, and other related activities must be communicated to the Gaming Control Board. The casino must not only report the time of these events, but must adhere to the time schedule.

Gaming Control Board Regulations 3, 8, and 16 govern other reporting aspects of casino operation. Regulation 3 specifies the reporting of all leases entered into by the licensee. The regulation requires that notices of changes in leases or new leases entered into be reported to the Gaming Control Board within thirty days of the inception of the lease. This action allows the Gaming Control Board time to evaluate the terms of the lease and the suitability of the lessor or to note any other problems that may arise. Regulation 8 deals with the transfer of ownership interests in the casino. It is divided into four main types of transactions that must be reported:

1. Transfer of interest among existing licensees requires written notice of the proposed transfer of interest, and the transfer is reviewed and approved by the control board and gaming commission before becoming effective.
2. Transfer of interest to new licensee requires the same notification and review procedure as above. The length of time to approve the new licensee may vary depending upon the complexity of license investigation.
3. Permission to participate in the casino operations and profits prior to actual

completion of a transfer of interest requires notification as above. This procedure allows a person to participate in the casino operation and/or profits while a transfer is pending.

4. Loans to licensees require reporting within thirty days of the effective date of the loan. This is a procedure similar to the lease disclosure noted above, again allowing the Gaming Control Board to review the loan for suitability of the lender, as well as for any potential problems.

Regulation 16 specifies the reporting requirements that must be met by publicly owned and traded corporations in the casino business. In general, the reporting requirements parallel those of the Securities and Exchange Commission. In practice, the SEC forms are merely duplicated and sent to the respective gaming authorities in order to meet the reporting responsibility.

SIGNIFICANT PROBLEMS OF GAMING REGULATION AND ENFORCEMENT

Several significant problems relating to casino regulation have arisen over the years in Nevada. While these problems may be unique to Nevada, they undoubtedly could be used as signposts for other jurisdictions in pointing to problems that can arise and ways they may be guarded against. Each of these problems is outlined briefly below.

Competent Staff

The state of Nevada has had a constant battle in securing competent and adequately trained staff at all levels. The assurance of high-quality staff is the number one priority of effective gaming control. The problems of attracting and maintaining good staff arise from several causes:

1. Poor perception of the role of compliance auditing by young accounting graduates
2. Somewhat lower levels of compensation and slower salary progression within the civil service employment environment
3. Lack of progression within the agency due to frequent top-level changes in policy emphasis arising from the political nature of the agency
4. The inability of the state to compete with private industry on salary and benefits at intermediate skill levels (this has resulted in the widespread exodus of supervisory personnel)
5. Poor working conditions, including extensive travel throughout the state, as well as long duration of audit assignments

Conflicts of Interest

In 1978, the Gaming Policy Committee recommended that the regulatory agencies in Nevada adopt some form of conflict of interest regulations. This

recommendation was brought about by the widespread practice of having members of both the Gaming Control Board and the gaming commission move from their respective regulatory positions directly into positions in the gaming industry.

New Jersey has addressed this problem and requires a specific waiting period of two years before any members of the regulatory agencies can assume positions with a firm that they are charged with regulating. Several important differences exist between Nevada and New Jersey. First, the pay for various regulatory agencies in New Jersey is much higher than in Nevada. This results in a higher degree of career commitment. In Nevada, individuals tend to leave for the higher salaries that the casinos there have traditionally offered.

Complimentaries to Officials

There has been a long-standing tradition within the gaming industry of providing free services of various types to gaming customers. These same complimentary services are provided as a matter of course to the members of the Gaming Control Board, their staff, and the members of the gaming commission. This has even extended to the provision of complimentaries to various elected state officials. In these circumstances, the appearance of independence on the part of the regulatory and decision-making bodies can be severely compromised. Nevada has implemented regulations against acceptance of complimentaries by gaming control employees that may help to eliminate or minimize this problem. Another solution suggested is to allow more liberal expense allowances for the gaming regulatory agencies. However, this liberalization has to be implemented in the state legislature, which has traditionally held to a position of fiscal conservatism. Some jurisdictions have created administrative rules prohibiting the rendering of complimentaries (New Mexico) or have statutorily limited the nature and value of complimentaries offered by casinos to public officials.

Enforcement Powers

The Gaming Control Board has requested specific powers such as the use of polygraphs and wiretaps in order to improve enforcement efforts. This authority has been consistently denied by the state legislature, which has limited the effectiveness of some investigations.

Hidden Ownership

There is a continual problem of hidden ownership in casinos. In these situations, the real owners are not subjected to regulatory scrutiny or investigation. In this way, the effectiveness of gaming regulation is severely limited. Hidden interests are one of the main reasons cited for the request for wiretap

authority by the gaming regulatory authorities. The control board maintains that this is a vital tool in determining the real ownership of the casino.

Interjurisdictional Conflicts

As mentioned earlier, the development of an aggressive enforcement and investigation policy in New Jersey has resulted in several well-publicized situations where individuals who have been licensed for many years in Nevada were found to be unsuitable to hold licenses in New Jersey. There appear to be two sets of standards operating with regard to the suitability to hold a gaming license, with Nevada being viewed as having inferior standards. This is clearly hurting the public perception of effective gaming control in Nevada. However, whenever new information regarding the licensees has become available, the Nevada regulatory agencies have promptly examined the information and, if necessary, have reviewed the status of the license.

These conflicts are a part of life. Questioning the integrity of an operator or manufacturer as a result of operations in one jurisdiction could create licensing or regulation problems for that operator or manufacturer in another jurisdiction.

Revenue Taxation of Casino Operations

This chapter presents and discusses the various types of taxes levied on casino operations. The discussion is limited to taxes applied on gross revenue, together with various license fees. Taxation of income from casino operations is dealt with in chapter 13. These gross revenue taxes are significant costs of operation in a casino and are of importance in the accounting and financial reporting of casino operations. Finally, the increasing need for state and local government revenue has led legislators to levy increasing amounts on the casino and legal gaming business.

GOVERNMENT INTEREST IN CASINO TAXATION

Casino taxes in all jurisdictions represent significant sources of taxation revenue for many levels of government. These local governments are substantial stakeholders in the amounts of taxes generated by casino operations.¹ It has been suggested that one of the major forces behind the proliferation of various forms of gambling has been the need for local governments to generate additional tax revenues from nontraditional sources.

Government Gaming and Taxation

The emergence of more and more jurisdictions that have legalized gaming activities has also given rise to the situation where the state or local government not only has a taxing interest, but is the actual owner and has the equity interest in the casino operation. Examples of these emerging types of governmental casinos include the operations of the Ontario and Quebec casinos in Canada. There, the casinos are actually owned and operated by the provincial lottery authorities. In the United States the operations of many tribal casinos

are, in effect, operations owned by the Indian tribe and, by parallel, are owned by the local government. Finally, the increasing use of video lottery terminals by some state lottery agencies such as Oregon and Rhode Island have, in effect, put the state governments into a subset of the casino business. In these cases, there may be no formal taxation of the gross revenue, but a sharing or distribution of the profits is the equivalent of a very substantial tax levy.

Proposals for the extension of legalized gaming have always been promoted on the basis of the additional revenues that would flow into the local economy. These flows include direct employment and indirect benefits to support industries and local government coffers through increased tax revenues. During the 1998–2000 period, the National Gaming Impact Study Committee studied the economic impact of casinos throughout the country, and found a significant positive impact, both in terms of employment and, in the case of revenue to Indian tribes, significant increases in governmental revenue.²

Gaming taxes are also of considerable significance as an operating cost for a casino. Based on the most recent Nevada *Gaming Abstract*, the gaming taxes and licenses at all levels averaged 7.5% of gross gaming revenue for 249 casinos with gaming revenue over \$1 million per year.³ These gross revenue taxes were typically only second to payroll as an expense item in the casino.

The level of gaming taxation varies greatly from one jurisdiction to the next and typically reflects the local philosophy and attitudes toward the industry. While gaming taxes range from 3 to 6.75% in Nevada, they start at 8% in Atlantic City, New Jersey. In the riverboat markets of Illinois, Indiana, and Missouri, the rates start at 15 to 20% of gross gaming revenue. Another important aspect of gaming taxation is that the amounts or levels of taxation often reflect the attitude of the state in granting licenses. In states with unlimited gaming and relatively low barriers to entry into the business, the tax rates tend to be lower, while in certain states with a limited number of gaming licenses, the tax rates tend to be much higher. The main idea is that additional tax levies are in exchange for the oligopoly or monopoly positions given to gaming firms in certain markets. The limited licenses and high marginal taxation of Illinois and Indiana are indicative of this oligopoly situation while Mississippi, with a more open or competitive market, has a tax rate of only 8%.

In New Orleans, the minimum tax on gaming revenues of 21.5% is mitigated by the granting of exclusive rights to land-based casino operations in that community. While the combination of high taxes and exclusive licensing generally benefits both the jurisdiction and the gaming operator, high-tax locations that have liberal license guidelines pose significant business risks for gaming operators. A number of riverboat casinos in such venues have recently failed or have been forced to seek new locations. The implications of high tax rates, together with other competitive factors, can have a significant adverse effect on the profitability of the casino.

TABLE 3-1 Gaming Tax Summary, by State

	State	Type of Gaming	State Percentage Fee	State Tax Rates		State Device Fee	Annual License Fee	Other State Fees	Local Government-Tax/Fee
				Statutory	Effective (Combined)				
1	Arizona	Tribal	N	n/a	n/a	Y	N	N	N
2	California	Tribal	Y Rev Share	0-25%	n/a	Y	N	N	N
3	Colorado	Regular	Y	2-20%	13.64%	Y	N	N	Y
4	Connecticut	Tribal	Y Slots	25%	n/a	N	N	N	N
5	Illinois	Riverboat	Y	15-50%	46.90%	N	N	Y Admission	N
6	Indiana	Riverboat	Y	15-35%	27.20%	N	Y	Y Admission	N
7	Iowa	Riverboat	Y	5-20%	25.64%	N	Y	Y Admission	Y GA
8	Iowa	Racino	Y	5-36%	26.22%	N	Y	Y Admission	Y
9	Louisiana	Regular	Y	21.50%	29.18%	N	Y	N	Y
10	Louisiana	Racino	Y	21.50%	33.17%	N	Y	N	Y
11	Louisiana	Riverboat	Y	15%	21.30%	N	Y 3.5%	Y Admission	Y Admission
12	Michigan	Tribal	Y	0-10%	n/a	N	N	N	Y
13	Michigan (Detroit)	Regular	Y	18%	22.14%	N	Y	Y Regulatory Fee	Y
14	Mississippi	Riverboat	Y	4-8%	12.29%	Y	Y	N	Y
15	Missouri	Riverboat	Y	20%	28.10%	Y	Y	Y Admission	Y Admission
16	Montana	Regular	Y	15%	15%	Y	Y	N	N
17	Nevada	Regular	Y	3.5-6.75%	6.30%	Y	Y	Y	Y
18	New Jersey	Regular	Y	8%	9.18%	Y	Y	Y 1.25% Redev	Y
19	New Mexico	Racino	Y	45%	25.00%	N	N	N	Y GA
20	New Mexico	Tribal	Y	16%	n/a	N	N	Y Regulatory Fee	N
21	South Dakota	Regular	Y	8%	7.80%	Y	N	N	N
	Government-Operated Casino/Racinos/VLTs								
22	Delaware	Racino	Y	35%	35.00%				
23	Rhode Island	Racino	Y	40%	53.07%				
24	West Virginia	Racino	Y	58%	36.00%				

NOTE: GA stands for Compulsive Gaming/Gambler's Anonymous Funds.

Definition of Gaming Taxes

This discussion of gaming taxes does not include a consideration of income or profits taxation that may be levied by any level of government. Gaming taxes in the present context could more aptly be described as license fees or excise taxes. These taxes are traditionally based either on gross revenue or on the number and type of games in the casino. In some jurisdictions, these taxes are levied on gross gaming revenue, on the number of games being utilized, or on the actual number of patrons admitted to the casino.

Levels of Gaming Taxation

Taxation of gaming and casino activities takes place at all levels of government. Table 3-1 outlines the present major gaming taxes for states where casino gaming operations are being conducted. In general, Nevada is the only jurisdiction that has taxation at all three levels of government; federal, state, and local. The levying of local taxes varies widely in other states, ranging from admission fees which benefit local counties in some states, to the required tax to support compulsive gaming treatment, which is required in Iowa and New Mexico.

Tribal Casino Taxation by States

In most states, the various tribal gaming operations are usually exempt from state taxation under the concept of tribal sovereignty.⁴ As a matter of legal and political precedent, the tribes are considered coequal with the states, and therefore cannot be taxed by the state.

Only if, as a part of negotiating and establishing gaming compacts between the states and the tribes, some form of taxation or revenue sharing is approved can the states share in the tribal revenues. In the states of Connecticut, Michigan, New Mexico, and to a certain degree in California, there is a limited amount of taxation or revenue sharing by the state.

Some tribes have made "grants in aid" to local governments in the vicinity of the tribal casino (a technical difference from paying taxes) in order to offset some of the local economic impacts or costs associated with the operation of a tribal casino. For example, some California casinos have made grants to cities and counties to improve roads leading to the casinos or to supply additional law enforcement or safety resources to the local communities. Other grants to charitable organizations or local governments by the tribes are usually characterized as goodwill-building donations and not taxation!

Types of Gaming Taxation

In addition to describing gaming taxes according to the government level imposing the taxes, another meaningful categorization can be made accord-

ing to the type of casino activity. For example, taxation of riverboat casinos in one jurisdiction has tended to follow the tax patterns set in other riverboat states. The fundamental categories could be described as: casino, riverboat casinos, racinos, tribal casinos, and government-operated casinos.

FEDERAL TAXATION

The federal government has for many years viewed casino taxation not as revenue generation, but as a punitive measure designed to assist various law enforcement agencies and attorneys in identifying and controlling illegal gaming operations. Another thrust has been for the taxation to provide statutory avenues to punishment for not paying the various fees and taxes due, when other criminal sanctions could not be imposed or sustained. With the growing number of legal gaming establishments, there have been frequent calls for the repeal and elimination of all of the federal gaming taxes.

The federal government, like other levels of government, has periodically called for taxes to be levied on legal gaming activity as an additional revenue source. Proposals made during the 1990s were floated but never introduced to Congress.

Federal Slot Tax—A Historical Note

The first federal gaming tax was the coin-operated gaming device tax. It began in the mid 1930s and was repealed in 1980. This tax was imposed at the rate of \$250 per year for each coin-operated device in a casino. This so-called slot tax applied to all types of coin-operated devices, including automatic poker, keno, and 21 games. Initially a federal tax, over the years it was not reduced but was substantially rebated to the state in which it was collected. The rebate was at 80% during the 1970s and rose to 100% in 1980. At that time, the tax was eliminated at the federal level. However, both Nevada and New Jersey continued it as a state tax.

During the period when the tax was being applied, it had several provisions of accounting importance. First, the amount of tax for the coming year was due and payable on or before June 20. This created substantial year-end accounting accruals on the June 30 accounts of any casino operation using the accrual method of accounting. Also, the tax was nonrefundable; if the casino closed, no refund was forthcoming. However, in case of a transfer of ownership, then the new owners would receive credit for the tax payments, since the tax was attached to the machines. When the machines were transferred, the taxes paid were also transferred during the change.

Federal Wagering Excise Tax

This tax is known as the wagering excise tax (26 USC 4401). It is levied at the rate of .25% (¼ of 1%) on all wagers placed on a sports event or contest

with a bookmaker, any wagers placed in a wagering pool (such as a pari-mutuel pool in dog racing or jai alai), or the wagers made on a lottery. (Of course, the wagers made on a state-conducted lottery are exempt from taxes under traditional constitutional prohibitions on the taxation of governments.) The amount of the wagering excise tax was reduced in 1975 from the rate of 10% to 2% and in 1984 from 2% to the present .25% ($\frac{1}{4}$ of 1%).

The $\frac{1}{4}$ of 1% rate is applied to state-authorized wagering, and should unauthorized wagering be discovered, then those amounts are subject to the 2% rate. Again, this demonstrates the punitive, rather than revenue generation, focus of the federal taxes.

There have been persistent calls for the complete elimination of the excise tax. The present rate represents virtual elimination. In addition to the reduction in the rates of this tax, there have been various exemptions carved out for any gaming activity that is licensed by a state. In 2000, the IRS briefly attempted to impose the tax on keno, but was convinced by the Nevada congressional delegation to not pursue the issue.

From an accounting standpoint, it must be realized that this tax is levied on the gross amount of the wager and can add up to a very significant amount of money. The excise tax is due and payable on a monthly basis. The tax return used to report these tax payments is IRS form #730, which must be filed monthly by the end of the month following the reporting period. For accounting purposes, these taxes due are accrued at the end of the accounting period.

The significance of this tax is reflected in the following comment taken from a news article:

Sparks Sports Book Closes

A federal wagering tax which "bled us dry" was blamed Tuesday for prompting the closure of the Winner's Circle, a Sparks race and sports book facility which opened 2½ years ago.

Co-owner Tony Maccioli conceded that generally poor economic conditions and increased sports book competition in the area contributed to the firm's problems. But he said the business was "really buried" by the special tax.

"The federal (two percent) tax was a killer for us. The government took \$250,000 from our winnings during the time we were in business and that's too much for a small operation like ours to absorb," Maccioli said. "To make matters worse, the tax is assessed on the total handle rather than the net. It's a devastating, unconstitutional tax."⁵

Federal Wagering Occupational Stamp Tax

This tax, known as the wagering occupational stamp tax (26 UCS 4411), is a special occupational stamp that is required of both the principals and agents

or—in legal parlance—“any person” who is liable for or who is engaged in receiving wagers for or on behalf of any person. For example, this not only makes the casino operating a race and sports book responsible for the occupational stamp, but also potentially makes all the employees who are engaged in taking wagers liable for having the occupational stamp. The stamp amount is \$50, and in the 1990s there were approximately 900 stamps sold in Nevada. Currently, and largely attributable to the spread of tribal gaming, there are approximately 3,000 stamps sold nationally. This stamp applies only to wagers and wagering and only to race and sports books, pari-mutuel pools, and lotteries. In tribal locations, this also applies to pull tab sales. Again, the state-operated lotteries and their employees are exempt from the licensing requirements. The occupational stamps are nontransferable from person to person and are nonrefundable. They must be purchased by June 30 for the next year. Application and payment are made on IRS form 11-C; if stamps are purchased during the year, the amount due is prorated from the date of application to the end of the following year.

STATE TAXATION

The taxes at the state level are discussed with particular regard to the present structure throughout the United States. The number and amount of state taxes are very significant. The importance of gaming taxes to the state of Nevada is overwhelming. Figure 3-1 indicates the growth of the total amount of gross gaming revenue on a statewide basis in Nevada from 1988 to 2004. For the fiscal year ending June 30, 2004, the state realized \$854.5 million from state tax and license fees on gaming. This amounted to 48% of the total revenues collected by the state of Nevada general fund.⁶

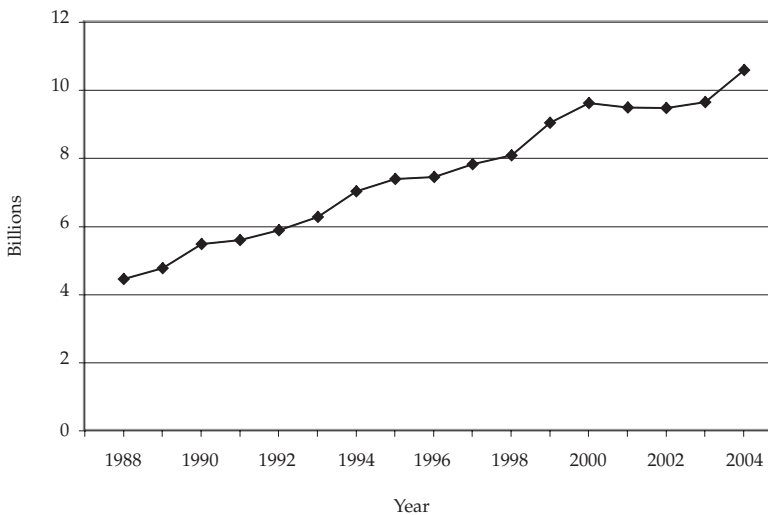


Fig. 3-1. Total Nevada Gaming Revenue

The amount collected in New Jersey is similar in magnitude to the amount collected in Nevada. However, the percentage that gaming fees represent to the total New Jersey state budget is significantly less.⁷ In other states, the contribution of gaming taxes is a much smaller amount of the overall state revenue picture. In Mississippi in 2001, the gaming taxes collected amounted to \$331.7 million, which represented just under 10% of the state budget amount.

Typical state-level taxation is broken into as many as three broad categories. The first category is percentage fees, which constitute a percentage tax on the gross gaming revenue of the casino. The second category is various license fees, usually based on the number of games or machines operated. These could be imposed either by the state or local governments. The third category is special fees.

The examples vary widely by state. In Nevada, for example, there is a casino entertainment tax, which is a percentage fee on revenues arising in non-gaming areas when the casino is in "entertainment status." The fourth and final category includes a variety of miscellaneous fees applied to other gaming activities. In Iowa, there is a special 3% levy to be deposited to a Gambler's Assistance Fund, to help pay for compulsive gaming treatment programs in that state.

State-level taxation in New Jersey and other states is somewhat simpler. The primary reason is that gaming is a newer industry in these other states. However, in general, the structure of the taxation is similar to Nevada's. In New Jersey, the first category is a tax as a percentage fee based on the gross gaming revenue. The second category is a percentage fee for local government, such as the required reinvestment of casino profits in redevelopment projects in New Jersey. The third category consists of various per-unit license fees based on the number of games and slot machines. Finally, there may be substantial taxes or administrative charges made to the casinos to pay for regulatory oversight.

Percentage Fees on Gross Revenue

The percentage fees in Nevada and other states are levied under the specific legislative authority or administrative rules (*Nevada Revised Statutes*, NRS 463.370). These fees are a progressive percentage on a sliding scale based on

TABLE 3-2 Nevada Monthly Percentage Fees on Gross Gaming Revenue

Monthly Gross Revenue	Equivalent Annual Gross Revenue	Tax Rate
\$ 50,000	\$600,000	3.5%
\$ 84,000	\$1,008,000	4.5%
\$134,000	\$1,608,000	6.75%

TABLE 3-3 Former and New Illinois Tax Structure

Former Tax Structure		New Tax Structure	
Annual AGR*	Tax rate	Annual AGR*	Tax rate
< \$25	15.0%	< \$25	15.0%
\$25–\$37.50	22.5%	\$25–\$37.50	28%
\$37.50–\$50	22.5%	\$37.50–\$50	33%
\$50–\$75	27.5%	\$50–\$75	38%
\$75–\$100	32.5%	\$75–\$100	45.0%
\$100–\$150	37.5%	\$100–\$150	50.0%
\$150–\$200	45.0%	\$150–\$200	50.0%
\$200–\$250	50.0%	\$200–\$250	70.0%
> \$250	50.0%	> \$250	70.0%
Admissions tax	\$3	Admissions tax	\$3

* AGR—Adjusted gross receipts, in millions.
SOURCE: Goldman Sachs Research.

the total amount of gross revenue. The rates in effect in Nevada are indicated in table 3-2. Periodically, by legislative or administrative action, the rates of tax are adjusted (usually upwards). Recent draconian increases have been proposed in Illinois, where the top marginal rate on casino revenue over \$200 million annually was to be 70%. This rate was implemented at only 50%, as shown in table 3-3.

It is important to note that the tax rate break points are specified in terms of the amount of gross gaming revenue. This revenue could be on a monthly basis in Nevada, or on annual basis in Illinois. For example, a monthly basis annual revenue of \$25 million would mean gross gaming revenue of just over \$2 million per month.

Tax Due Date and Reporting

In Nevada, the gross revenue tax is due on or before the twenty-fourth of the month following the month to which the return applied. Penalties for late payment (which are mandatory—not optional) are 25% of the amount due—with a \$25 minimum and a \$1,000 maximum penalty. Other states have similar reporting and penalty requirements. The states of Illinois, Indiana, and Michigan have very short tax-reporting deadlines. In some cases, the taxes must be due and payable by 10 AM on the morning of the next business day.

In general, the percentage fees on gross gaming revenue are progressive in nature. However, there is little uniformity in the break points between the various percentage rates. Table 3-4 indicates some of the typical percentage fees on gross gaming revenue for Colorado, Illinois, Iowa, and Nevada. At different assumed levels of annual gross revenue, the tax burden can vary widely.

TABLE 3-4 Comparison of State Gross Revenue Taxes

Gaming Revenue Millions	Colorado		Illinois		Iowa		Nevada	
	Percent	Tax Amount	Percent	Tax Amount	Percent	Tax Amount	Percent	Tax Amount
2	0.25%	5,000	15%	300,000	10%	200,000	6.75%	135,000
4	2%	80,000	15%	600,000	20%	800,000	6.75%	270,000
5	4%	200,000	15%	750,000	20%	1,000,000	6.75%	337,500
10	11%	1,100,000	15%	1,500,000	20%	2,000,000	6.75%	675,000
15	16%	2,400,000	15%	2,250,000	20%	3,000,000	6.75%	1,012,500
20	20%	4,000,000	15%	3,000,000	20%	4,000,000	6.75%	1,350,000
25	20%	5,000,000	28%	6,875,000	20%	5,000,000	6.75%	1,687,500
37.5	20%	7,500,000	33%	12,187,500	20%	7,500,000	6.75%	2,531,250
50	20%	10,000,000	38%	18,750,000	20%	10,000,000	6.75%	3,375,000
75	20%	15,000,000	45%	33,750,000	20%	15,000,000	6.75%	5,062,500
100	20%	20,000,000	50%	50,000,000	20%	20,000,000	6.75%	6,750,000
200	20%	40,000,000	50%	100,000,000	20%	40,000,000	6.75%	13,500,000

DEFINING GROSS GAMING REVENUE

There has been an extensive amount of debate, both informally and in courts of law, regarding the definition of what constitutes gross gaming revenue. The current Nevada statutory definition takes gross gaming revenue to mean all winnings, less only the total of all sums paid out as losses. There is no deduction for money or merchandise or other promotional allowances given to customers. This would include amounts paid in cash or merchandise to player club members. These are considered general operating expenses.

There is, however, a deduction allowed for money or tokens paid at face value to patrons as a result of wagering under some promotional schemes. This would allow the deductibility of amounts paid to a winning patron on a table game where the bet was made with “two-fer” coupons or match play coupons.

Other deductions from gross gaming revenue include amounts paid to fund periodic payments such as progressive jackpots or jackpots associated with table games that include a progressive feature such as Caribbean Stud or Let It Ride. The law does allow the deduction of certain giveaway prizes added to gaming winnings.⁸ For example, if certain slot machines, keno, or bingo have merchandise prizes such as diamonds or an automobile, the cost of this prize is deductible from gross gaming revenue. Finally, the costs of additional free play in bingo games as a result of previous wagers can be deducted from reported gross revenue.

If the casino has an intercasino linked game (not card games) such as a wide-area progressive slot machine, then the casino may deduct its pro rata share of the payout of the game from gross gaming revenue. There are specific requirements that there be a written agreement between the operator of the game and the casino (location). There is also a provision for the deductibility of all cash prizes and the value of noncash prizes awarded during a contest or tournament conducted in conjunction with the intercasino linked system. This appears to be an exception to the general rule about the nondeductibility of payments in merchandise or other promotional allowances.

Two areas of dispute have arisen in the computation of gross gaming revenue. The first dispute centers on the definition of items such as the rake-off, time buy-in, or commissions for poker games, where the income is not really casino *win* in the traditional sense but is revenue to the casino. The second involves the timing of the receipt of gaming revenue, where the winning may be in the form of credit instruments known as markers, but the real cash collection may take place sometime in the future. The long-standing practice of Nevada has been adopted virtually unchanged for other states' taxation purposes.

Poker Rake-off, Time Buy-In, and Commission

The definition of gross gaming revenue in the statute is “total winnings minus all sums paid out as losses.” Nevada Gaming Control Board regulations further define the gross revenue as including “all sums received by the licensee as a percentage rake-off, a time buy-in, or other compensation charged for the privilege of playing.” A lawsuit challenged this expanded definition and asked that amounts paid under the poker winnings category not be subjected to gross revenue taxation. Without waiting for the judicial outcome, the 1981 Nevada legislature acted to redefine gross revenue in order to eliminate any misunderstanding, ambiguity, or debate over what was intended to constitute gross revenue.⁹ This action now requires including poker rake-off and similar items in gross gaming revenue.

Markers and Credit Instruments

The second issue of the nature of gross revenue is the practice of not requiring casinos to report winnings based on casino credit advanced to customers but not yet paid. According to Nevada Gaming Control Board Regulation 6.080, credit play winnings (receivables or markers) are not included in gross gaming revenue until they are collected. The current practice in computing the adjustment to gross gaming revenue to account for credit play is shown below.

Net win from operations: Cash and Credit		\$6,854,358
Less: Adjustment for Credit Play		
1. Subtract outstanding credit		
Issued during the period	(385,000)	
2. Add credit instruments		
Collected during the period	173,000	
Net Credit Play Adjustment		(212,000)
Gross Gaming Revenue for Taxation Purpose		\$6,642,358

In subsequent periods, when the balance of the \$385,000 in markers was collected, the casino would then include the amounts in gross gaming revenue at the time collected. This cash method of accounting for gross gaming revenue is allowed under Regulation 6.020 of the Gaming Control Board for revenue-reporting purposes, even if the financial statements of the entity may be presented on a full accrual basis.

Another issue is that regulatory authorities are very concerned with the potential for abuse of markers, where money might be transferred out of the casino by advancing money on credit and never collecting or even making an effort to collect the funds. Under most state rules, gross revenue for state taxation purposes will include certain uncollected markers if the regulatory

agency determines that any or all of the following circumstances occur (the specific Nevada statute for this provision is noted below):

1. The marker is improperly executed or does not have enough information to make it reasonably collectible.
2. There was no verification of the creditworthiness prior to issuance of the credit.
3. There was no evidence of reasonable effort to collect the marker.¹⁰

The state's basic position is that if the credit was not extended properly, then the amount extended should be subject to gross revenue taxation, regardless of whether or not it was collected. Markers paid at reduced amounts or settled for less than face value—as long as the reduction could be demonstrated as being in good faith, such as to settle a dispute, retain a customer's goodwill or to secure partial payment—are not subject to the above rules and the amount of the reduction does not have to be reported as gaming revenue. The action is clearly a move both to reduce the issuance of substandard markers by putting the casino on notice that the tax is due on those amounts and to impose a penalty on poor credit administration in order to encourage upgrading of the quality of marker credit issuance, control, and collection.

NEVADA STATE LICENSE FEES

Nevada has perhaps the most complex and well-developed program of license fees. These fees vary according to the type of gaming license and the number of machines and table games in operation. These fees have also developed over a period of over seventy years. Other "younger" gaming jurisdictions tend to have fewer fees and simpler overall structures of fees. Not only are the Nevada fees numerous, their administration is quite complex, with fees payable both annually and quarterly, with some rates computed on an annual basis and some on a quarterly basis. The tax rates and other detailed information about the Nevada fees are contained on the Gaming Control Board's website at <http://www.gaming.state.nv.us>.

Annual Slot Tax

The first state annual tax is the slot machine tax that is authorized by *Nevada Revised Statutes* (NRS) 463.385. This is the tax that has replaced the federal slot tax. The amount of this tax is \$250 per year, due and payable—in advance—as of June 20, for the ensuing year of operation. There is a provision for the prorating of the fees on a monthly basis on new machines put into operation. There is a penalty of 25% of the amount due for late payment. In addition, under changes of ownership, there are limited provisions under NRS 463.386 for the transferability of the tax due. However, if the operation is under substantially new ownership, then the new owners must pay the fees again.

The federal slot tax was payable on the basis of \$250 per mechanism. This often resulted in confusion regarding the number of slot machines or other coin-operated devices in a casino. Specialty slot machines—consisting of multiple reels, totem pole slots, or banks of three or four machines in a row with a single handle—are taxed on the number of sets of reels in the machine.

This is in direct contrast with the state of Nevada, which regards the number of slot machines or coin-operated devices as the number of machines with a separate handle to play—or on more modern machines, a play button. In simple terms, the old federal rules counted the machines on a “mechanism basis,” while the state counts on a “handle” basis. This often resulted in minor but troublesome differences in the counts of the number of slot machines in the casino.

Annual State License Fee

The annual state license fee is levied under NRS 463.380 and is computed according to the total number of games that the casino operates. The number of games is computed by excluding card games that are not “banking” games, such as keno and bingo. Games such as 21, craps, and roulette are included. The fees are set on a sliding scale, which is indicated in table 3-5.

The tax amount generally increases as the number of games goes up, but there appears to be a somewhat heavier per-game tax burden for those clubs that operate five to sixteen games. For example, a casino with five games would pay a fee of \$350 per game for a total of \$1,750. A sixteen-game casino would pay \$1,000 per game for a total of \$16,000. However, a very large casino with one hundred games would pay a total of \$32,800, or an average of \$328 per game.

There are some minor provisions that define race and sports books as one “game” for taxation purposes. The game count does not include poker and other games operated on a rake-off basis rather than a banked basis. Finally,

TABLE 3-5 Nevada Annual License Fee
(Nonrestricted gaming license)

Number of Games	Fee Due
1 game	\$100.00 total
2 games	\$200.00 total
3 games	\$400.00 total
4 games	\$750.00 total
5 games	\$1,750.00 total
6–7 games	\$3,000.00 total
8–10 games	\$6,000.00 total
11–13 games	\$650.00 for each game
14–16 games	\$1,000.00 for each game
17 or more games	\$16,000.00 plus \$200.00 for each game over 16

the game count is totaled on a property-by-property basis by aggregating across smaller, room-sized gaming areas within the same property.

The state law does not provide for a prorating of the fees for a partial-year operation, although there is the same limited transferability to new owners as in the case of the annual slot tax. The taxes on the annual basis are due and payable on or before December 31 for the coming calendar year. The penalty for late payment is mandatory and amounts to 25% of the total tax due. The annual license fee reporting form for Nevada is NGC-2.

Quarterly State Slot License Fee for Nonrestricted Slot Machines

The next state license fee is for nonrestricted slot operations. The distinction is drawn between nonrestricted and restricted slot licenses. Restricted licenses operate less than fifteen machines at any one location. Nonrestricted licenses operate sixteen or more machines or any number of slot machines if they are operated in conjunction with other games such as 21, craps, keno, or bingo. The tax is levied under NRS 463.375.

The amount of the tax is \$20 per quarter for each slot machine. As previously discussed, the state of Nevada definition of a slot or coin-operated machine is based not on the internal reel mechanism count, but on the number of machines in the casino. The amount of the tax, although expressed as an annual rate, is payable in advance on or before the end of each quarter. There is no provision for the prorating of the fee during the quarter, and the availability of transfer to new owners is the same as previously discussed. The penalty for late payment is again a mandatory 25% of the fees due. The license fee reporting form is NGC-15.

Quarterly Flat License Fees for Games

The quarterly flat license fees are authorized under NRS 463.383. Their operation is very similar to the annual state license fee. This tax is based on the number of games being operated and is in addition to, and should not be confused with, the quarterly gross revenue percentage license fee previously discussed. The computation of the number of games in a location is the same as under the annual fee, and the scale of rates is presented in Table 3-6. Note that these are annual rates, but again are payable on a quarterly basis. The payments are due and payable on the last day of the last month of each calendar quarter, for the ensuing quarter. The quarterly payment is in advance and should be based on the number of games expected to be in operation during that quarter.

The quarterly fees are initially much lower, but rise much more sharply until the maximum of \$1,200 per game is reached for casinos with seventeen to twenty-six games and then fall to a rate of \$25 per game for the very largest casinos. This pattern of increasing rates per game with a decrease for the

TABLE 3-6 Games Quarterly License Fee
(Nonrestricted gaming license)

Number of Games	Fee Due
For Nonrestricted Licensees Operating 10 or Less Games	
1 game	\$ 12.50 total
2 games	\$ 25.00 total
3 games	\$ 50.00 total
4 games	\$ 93.75 total
5 games	\$218.75 total
6-7 games	\$375.00 total
8-10 games	\$750.00 total
For Nonrestricted Licensees Operating More Than 10 Games	
1-16 games	\$125.00 each game
17-26 games	\$2,000.00 plus \$1,200.00 for each game 17-26
27-35 games	\$14,000.00 plus \$700.00 for each game 27-35
36 or more games	\$20,300.00 plus \$25.00 for each game over 35

largest number of games places the same heavy tax burden on those casinos with a medium-sized operation. There are no provisions for prorating of fees during a quarter, but the same general provisions apply to transfers of ownership. The standard penalty of 25% of the amount due is applied on a mandatory basis for late payments. The information for this fee is reported on form NGC-15.

Quarterly Restricted Slot License Fee

The last state tax discussed here is that applied only to restricted slot license operations. It is levied under NRS 463.373. These licenses apply to operations where there are fifteen or fewer slot machines at any location and where there are no other table games. These small operations are required to pay a fee of \$81 to \$141 per machine per quarter. The amounts are due and payable in advance for each quarter on the last day of the last month of the quarter for the ensuing quarter and are also based on the number of slot machines expected to be in operation. The same provisions of prorating, transferability of interest, and penalties apply for the nonrestricted slot machine tax as for other slot machine license fees. The reporting form is also NGC-15.

Casino Live Entertainment Tax

The next category of state tax is a unique Nevada tax levied not on the gaming revenues, but on the amounts paid for admission, merchandise, refreshments, or service while a casino is in "entertainment status," which is broadly defined to mean live music or other cabaret entertainment.¹¹ This tax is based on the authority of NRS 368A. The basic tax rate is 10% of the amounts collected under the above definition. In terms of total dollars col-

lected, the casino entertainment tax is the second largest tax, following only the percentage gross revenue quarterly tax in the state of Nevada.

The casino entertainment tax has been subjected to numerous legal challenges for a variety of reasons. The principal problem is the difficulty of determining if a casino is in “entertainment status.” Subtle differences—such as a lounge act playing in a glassed-in room, not an open space with access to the gaming area—have resulted in substantial additional tax assessments based on food and beverage receipts in the general casino area. These assessments have given rise to an equally substantial tax dispute. These disputes resulted in a significant revision of the live entertainment tax in early 2003. The revised rules have been helpful in clarifying the application of this tax.

Restricted licensees are subject to a live entertainment tax if *all* of the following three criteria are met:

1. Live entertainment is offered on the premises.
2. An admission charge or drink minimum is collected.
3. The facility in which the live entertainment is provided has a maximum eating/occupancy capacity of at least 300 as determined by the state fire marshal or other official.

The tax is paid quarterly and is payable on or before the tenth day of the month following the end of the preceding calendar quarter.

Nonrestricted licensees who license more than fifty slot machines, more than five games or any combination thereof, and offer live entertainment in a facility with a maximum occupancy or seating of less than 7,500 are subject to a live entertainment tax. For nonrestricted locations who license less than fifty-one slot machines, less than six games, or any combination, the tax applies only if entertainment is provided in a facility with a maximum occupancy or seating of at least 300 and an admission charge is collected.

The tax rate is 10% of all amounts paid for food, refreshment, merchandise, and admission or similar charges while in live entertainment status. Live entertainment status commences either at the time entertainment starts or at the time when any charge such as admission, entertainment fee, minimum purchase, cover, or similar charge is paid, whichever is earlier.

A special tax rate applies to large stadium situations. Nonrestricted licensees who offer live entertainment in an area with a maximum occupancy/seating of at least 7,500 are subject to a reduced rate of 5% tax on admission sales only.

Recent changes have included making the tax due and payable on a monthly basis. The tax is now due by the twenty-fourth day of each month covering the preceding calendar month. The penalty for late payment of the casino entertainment tax is now 1% monthly of the amount due. All casino entertainment tax returns are filed on forms NGC-11, 12, and 13.

Miscellaneous State Taxes and Fees

There are a number of miscellaneous taxes and fees that are applied by the state of Nevada. This discussion is limited to regular, repetitive fees and taxes and does not include fees such as investigatory fees, application fees for licensing, or other one-time fees levied by the state authorities.

The first miscellaneous taxes were levied on the dissemination of racing information by various news services. The amount of this so-called "Wire-Fee" tax, as specified by NRS 463.450, is 4.25% of the amount of the wire fee charged to the race or sports book serviced. The statute is silent on the various administrative aspects of the race book fees, but they are due on a quarterly basis, in arrears, on the last day of the month following the quarter. The same rates of penalty apply to late payment as for other state fees.

The second tax is the tax on pari-mutuel pools. These pools are taxed at the rate of .25% of the total handle. This rate is equivalent to the federal excise tax on wagers imposed on all race book wagering. The pari-mutuel tax of the state is applied only to wagering on racing or sporting events other than horse or dog racing. Race books are subject to the standard gross gaming revenue fee as a part of overall casino revenue. The authority of the tax is NRS 464.040, and in Nevada it applies principally to the jai alai operations, which are largely nonexistent. The amounts are payable quarterly, in arrears, on the last day of the month following the end of the quarter.

The third tax is that levied on manufacturers, sellers, and distributors of devices or machines used in gambling.¹² This excludes pinball machines. The amount of the tax is \$500 per year for a manufacturer's license, either initial or a renewal, and \$200 for a seller or distributor's license, again either a new license or a renewal. The manufacturers' fees are payable annually, in advance, on or before June 30 of each year for the coming fiscal year. There are no standard reporting forms for these miscellaneous taxes. The main purpose of this fee is to regulate and require registration and licensing of gaming manufacturers, rather than being a substantial revenue enhancement item.

LOCAL GAMING TAXES IN NEVADA

The local taxes in the state of Nevada are divided into two types. The first category is a single tax, called the county quarterly license fee. This tax was passed into law by the state itself on behalf of the counties. The purpose of this tax was to provide some funding for local governments when the original laws permitting legal gaming were passed in 1931! The payments are made to the county sheriff, and the monies are subsequently transferred to the county treasurer for use in the county general fund. The administration (both collection and expenditure) of the tax is entirely a local county matter, with only the enabling legislation being a product of the state. All gaming operations

TABLE 3-7 Typical County Quarterly License Fees in Nevada

Category	Monthly Amount
Card games (nonbanking)	\$25 per table per month
Table games (21, craps, etc.)	\$50 per game per month
Slot machines	\$10 per machine per month

within the county must pay the county quarterly license fee, regardless of any other county or city levies that must be paid.

The rates of tax under the county quarterly license fee are set under NRS 463.390 and are presented in table 3-7. The amounts of the taxes are specified on a monthly basis.

The amount of the county quarterly license fee is payable in advance on a quarterly basis and is due and payable on or before the last day of the end of the quarter for the ensuing quarter. There is provision for ownership transfer as outlined in NRS 463.386, and the taxes are generally transferable with the machines or games to which they apply. The standard 25% penalty applies to late payment of this tax.

Local Ordinances

A second broad category of local taxes in Nevada are those imposed in local ordinances by the counties and cities. Appendix 7 outlines the county and city levies in effect. These local fees are quite extensive and can vary widely from county to county and city to city. In spite of the variety, there are a number of common elements.

The local tax rates are generally imposed on all gaming establishments within the jurisdiction. Thus, a casino in an incorporated city would be liable to pay not only the taxes under the local county ordinances, but also the tax levied under city ordinances. If the casino were operated outside of the limits of the incorporated city, then it would only have to pay a single local tax—to the county. An exception to this rule is Clark County, where there is no county tax if the casino is within the incorporated areas, so that a casino in the city of Las Vegas would pay only the city of Las Vegas fees. A different program exists in Washoe County, where there is one rate for casinos in the incorporated cities of Reno and Sparks and a second, somewhat higher rate for casinos outside of the incorporated areas. In Washoe County, the casinos located in the city of Reno are responsible for the reduced Washoe County rate plus the city of Reno fees. Table 3-8 indicates the difference. These differentials are an attempt by local governments to recognize the duplicate burden of taxation and to provide some relief to the casinos.

Local taxes in Nevada have a bewildering array of miscellaneous provi-

TABLE 3-8 Washoe County Gaming Tax Rates

Description	Rate Applicable
Poker and other	
Nonbanking games	\$25 per year
Slot machines	\$50 per year
All other games	\$25 per year

sions. For example, in Washoe County the taxes at the county level are not due until the first day of the quarter, but are still payable in advance. They do have a prorating schedule for payments of games and slot machines added during the quarter, but do not have any provisions for penalties for late payment, short of sealing the machines to prevent their use.

The state legislature has passed a law, as part of a property tax and spending limitation program, to limit the amount of increases that local governments can implement in fees from year to year. Under NRS 463.395, local government gaming fees were limited to those in place as of April 27, 1981. This freeze on local government fees went beyond the general restriction imposed on other governmental fees, which limited the increases to cost-of-living increases plus the percentage of population increase in the jurisdiction of the local government. This move was to avoid having the local governments excessively increase local gaming fees and taxes.

CASINO TAXATION IN NEW JERSEY

The New Jersey laws with respect to casino taxation are presented below. In total, they have roughly the same structure as Nevada's, with license fees annually payable for the right to operate, coupled with a gross revenue tax at the state level. At present, there are no specific gaming license fees levied by the local government in Atlantic City.

Federal Taxation in New Jersey

The casino operations in Atlantic City are subject to the same federal taxes as Nevada operations. Since the present federal laws are applicable only to race and sports book betting, neither of which is allowed within the casinos in Atlantic City, the federal levies do not have any effect in New Jersey. The old federal slot machine tax has been taken over by the state of New Jersey, in a fashion similar to that in Nevada.

New Jersey State Taxation

The taxation and fees for Atlantic City operations within the state of New Jersey are applied at the state level as follows:

1. Annual state license fee
2. Annual device (slot) fee
3. Gross revenue tax
4. Casino reinvestment tax

Annual State License Fees

The state license fee is a single fixed amount for the initial application and subsequent renewals. The initial fee was to be at least \$200,000, with biannual renewals not less than \$100,000. The actual license fee is determined after the fact by considering all the costs of maintaining the control and regulatory activities of the respective state enforcement and control agencies. This cost is then allocated back to the casino in the form of a state license fee. The license fee is not determined on the cost of controlling individual casinos. These charges are determined by having the aggregate administrative costs of the control agencies shared by all casinos equally. The specific authority for the license fee is contained in NJSA 5:12-139. The license fee is not based on the number of games or slots in the casino, as is the case in Nevada. The annual license fee is nonrefundable and nontransferable. No mention is made in the statute of a prorating of part-year license fees or of a specific date for renewal of the license. Based on current practice, the initial licenses run for one year, with renewal licenses having a two-year term. There is no fixed expiry date.

Annual Device (Slot) Fee

This tax is New Jersey's version of the federal slot tax. The tax is authorized by NJSA 5:12-140 and amounts to \$500 per machine per year. The fee is due and payable on July 1 of each year with regard to all slot machines in use on that date. Additional machines may be added on a pro rata basis. The tax is nonrefundable but is transferable with the machine.

Gross Revenue Tax

New Jersey has a tax of 8% on the gross revenue of the casino. The gross revenue tax is authorized under NJSA 5:12-144. Deductions are allowed for uncollected casino credit instruments (markers), but only to a maximum of 4% of the gross revenue, including markers. A sample calculation of the amount of tax due under the New Jersey Gross Revenue Statute is shown here. The computation is very similar to that used in Nevada. The payment of the gross revenue tax is due weekly by authority of the Casino Control Commission, but the statutory period is monthly, with collection due by the tenth of the following month. There is a March 15 deadline for filing the annual gross revenue report for the prior calendar year.

Gross Winnings: Cash and Credit		\$6,854,358
Less: Credit Adjustment (the lesser of actual uncollected or 4% of gross winnings)		
Actual	212,000	
4% of gross	274,174	
		(212,000)
Amount Subject to New Jersey Tax at 8%		\$6,642,358

Casino Reinvestment Tax

In addition to the 8% gross revenue tax, there is a second tax (also based on gross revenue) commonly described as 1.25% local reinvestment tax. The actual tax rate specified in the legislation is 2.5%.¹³ This tax is to be paid if the gross investment made by the casino in the community or in authorized reinvestment projects does not meet or exceed 2.5% of gross revenue. This tax is either to assure the redevelopment of Atlantic City or to result in the payment of a like amount to the government, which will in turn be directed to such development efforts. A casino can offset this investment tax obligation by obtaining investment tax credits. These credits can be obtained by investing in Casino Reinvestment Development Authority (CRDA) bonds or by making direct investment in projects authorized by the CRDA. The amount of the casino’s reinvestment tax credit is twice the amount of such investments. An investment equal to 1.25% of the casino gross revenue can avoid the 2.5% tax. The purpose of the tax credit provisions of the law is to encourage casinos to make the investments, rather than simply paying the tax. Appendix 8 presents a summary of the principal elements of each gaming tax on a state-by-state basis.

DISTRIBUTION OF TAX PROCEEDS

Of considerable interest is the distribution of the various license fees and taxes that are imposed on the casino operations. In general, the majority of tax proceeds go to the state general fund. In general, the New Jersey distributions are quite straightforward, as are the distributions of the primary taxes in Nevada. However, distribution of minor taxes in Nevada, such as the county quarterly taxes and the slot taxes, can be very complex. This complexity has grown out of many years of reliance on gaming taxes as a primary revenue source for the state of Nevada. In addition, there have been years of sophisticated political negotiations that have impacted where and how these tax monies are distributed.

For newer gaming jurisdictions, the distribution of gaming taxes seems to have taken a rather simple direction, with most of the funds going to state coffers. Where nontribal gaming exists, all states require the percentage fees to flow to the states. In some cases the revenues are earmarked for specific

purposes such as education or school support. In addition, most license fees and state device fees are also retained by the states.

In most states with riverboat gaming, an admission fee is charged in addition to state percentage fees. These admission fees are levied by the state, and in Louisiana and Missouri the funds collected are distributed to local governments. Another unusual situation has occurred in Iowa and New Mexico, where there is a levy (based on gross revenue), which is distributed to a Gambler's Assistance Fund, which is intended to pay for treatment of compulsive gaming behavior.

Earmarking of State Gaming Taxes

In addition to programs that share the gaming taxes among the various governmental jurisdictions, Nevada and other states have earmarked certain funds for specific purposes within the revenue distribution system. Appendix 9 indicates some examples of earmarking of gaming revenues in Nevada, New Jersey, and other states.

In the case of tribal gaming, the entire profit share is distributed back to the tribal council for use within their local government structure. The federal tribal gaming enabling legislation, the *Indian Gaming Regulatory Act* requires the tribe to specify, in advance and with the approval of the National Indian Gaming Commission (NIGC)—how the distributed funds from the tribal casino will be distributed to the tribes. The tribal distributions usually take the form of: (1) general support for education, health services, housing and reservation development; (2) support of other economic development activities; and (3) per capita distributions to individual tribal members.

Although not all tribes originally specified per capita distributions, most have found that these distributions are very popular with tribal members, and many tribal spending plans have been subsequently modified to now include individual payments. If the tribe has a few members and a successful casino operation, the total of these distributions can add up to a significant amount of money. These payments have had the effect of attracting additional members to the tribe. This, in turn, has put pressure on the tribal process of certification of members. The per capita payments and membership admissions or denials to the tribes are the source of considerable debate and criticism.

Cash Flow Planning for Tax and License Payments

The amounts of money involved in the periodic payments of taxes and licenses can be significantly large for a casino operation. Also, the timing can be very critical. For illustrative purposes, imagine a Nevada casino with table games and 2,400 slot machines. The annual slot machine tax of \$250 per machine would amount to \$600,000. This amount would be due and payable on June 20 of each year in Nevada (or July 1 in New Jersey). This would be

TABLE 3-9 Example of Cash Flow—Gaming Taxes Due

Date	Tax	Amount per Unit	Total Due
June 20	Annual slot tax	\$250	\$600,000
June 30	Casino entertainment	10% of \$5,000,000 (est.)	500,000
July 24	Percentage fees on gross revenue	5.75% of \$30,000,000 (est.)	1,725,000
July 31	Annual slot license fee	\$20 (per quarter)	48,000
July 31	Quarterly flat fees	Sliding scale	25,800
	Grand Total		\$2,898,800

a significant cash outflow that would have to be properly anticipated in the casino operation. This June 20 outflow would then be followed by the May installment of the casino entertainment tax, which would be due by June 30. By July 24, the monthly installment of the percentage fees on gross gaming revenue would be due. On July 31, the annual nonrestricted slot license fee (\$20 per quarter per machine times 2,400 machines equals \$48,000) and the quarterly flat fees of \$25,800 would be due and payable. Table 3-9 illustrates the computations of the taxes that would be due.

Hypothetically, then, in the 45-day period between June 20 and July 31, it would not be unreasonable to have a cash outflow for payment of taxes that would amount to almost \$2,900,000. Although many of these tax payments would represent amounts already withheld from customers, such as the casino entertainment tax, all other taxes would have to be paid from the gross revenues generated. Under the heavy burdens of day-to-day operating expenses and capital needs for expansion and renovation, cash-flow planning would be critical.

As a final note, the taxes indicated above do not include payments that would be due to a county or incorporated city for their respective licensing ordinances. Also, these amounts do not include payments of regular business, cabaret, or liquor licenses, which would be in addition to the gaming taxes.

Taxes on Shared Games and Slot Machines

In some circumstances, slot machines and occasionally table games located in a casino are actually operated by a separate person or business entity. These games and slot machines are often called participation slots or games. The standard business arrangement calls for the location (casino) to receive a portion of the profits and the machine or game owner to receive the rest. NRS 463.370 (4) specifies that the owner of the location (i.e., the casino) is responsible for the payment of the quarterly gross revenue percentage fees, but the owner of the game shares the amount of the tax. The same general rule is applied to all other gaming taxes and licenses, except where specific local statutes or ordinances call for a different treatment.

In the implementation of these procedures, the location (casino) is considered to be the licensee and must assume the responsibility for payment of all taxes and fees. Then, quarterly (or for smaller locations, annually) the total amount of fees paid is computed, the owner's share of these fees is determined, and the casino sends an invoice to the owner of the machine for his or her share of the fees. In this way, equitable sharing of the fees is achieved.

These arrangements can vary from owner to owner, and the specific terms of the participation agreement govern the sharing of the expenses associated with the operations. However, the statutes require that, under any circumstances, the location (casino) licensee is responsible for the eventual payment of the fees.

Accounting Issues of Gaming Taxation

There are several significant issues of an accounting nature that arise from state and local government taxation of gaming operations. These include accounting for the prepaid or accrued portion of taxes, licenses, and fees, and the audit procedures to verify the prepaid or accrued portion of these taxes and licenses. The audit procedures are discussed in later chapters.

Prepaid Gaming Taxes and Licenses

Many of the license fees and taxes that have been described in previous sections of this chapter have to be paid in advance. This creates a large prepaid taxes and licenses account on the books of most casinos. The most significant of these taxes are the monthly gross revenue percentage fees. When a new casino opens, but before a license is issued, a bond customarily must be posted or cash payment made by the casino in the amount equal to the first full month or quarter fees. This requirement is to assure payment of the tax amounts to the state. The prepayment is calculated under different methods. It may be specified by statute (as in Nevada) by doubling the first-period payment, or can be set by administrative rule based on some form of estimate procedure. The timing and the amount of this prepayment can vary depending on the exact timing of the casino opening, the extent of gaming upon initial opening, and the statutory definitions of gaming revenue.

For each month after the first month, the license fee is considered to be a fee paid in advance, but the amount is based on the gross gaming revenue of the preceding month. The duplicate first-period payment merely puts the new casino on the payment-in-advance basis from the start.

Financial Statement Presentation

Given the substantial amount of money involved in gaming taxes, several accounting treatments of the taxes are suggested. Fees paid in advance—such as state, county, and local flat license fees—are typically treated as prepaid

items. Since the prepayment is for a quarter, the amount is usually amortized on a monthly basis for interim reporting purposes. There are a few taxes, such as the federal wagering excise tax, that are simply accrued as a liability payable at the end of the month, in a manner similar to other taxes payable.

The largest tax payments arise from the gross revenue percentage fees. Given the unique system of first-period prepayment, the accounting treatment can be quite complex. This complexity arises because the prepayment of the fee does not fit the strict definition of an asset. However, there are several alternative methods to account for this duplicate portion when paid and to assure the proper expense recording. One alternative is to record it entirely as an expense when paid. A second alternative is to record it entirely as a deferred charge. A third alternative is to divide the payment into expense and deferred portions in some manner.

If the payments were recorded entirely as an expense when paid, then there would be one extra quarter's tax expense recorded in the first year of operation. To avoid this distortion, some portion of the fee should be recorded as a deferred charge when paid. This deferred charge is carried until the license is terminated. Since no additional fee is required if a licensee discontinues operations at or near the end of the calendar month then, by inference, the duplicate portion of the payment has some future utility in a traditional asset sense and is suitable for categorization as a deferred asset.

An alternative treatment of the expense aspects of the prepayments is to regard one-half of the duplicate payment as a long-term deposit held by the taxing authorities against future liabilities, while regarding the other half of the payment as a prepaid expense item. The proper accounting treatment under this prepaid method is to compute on a monthly basis the gross revenue percentage fees actually due and payable. Once the monthly amount is known, the previously established prepaid tax deposit is then amortized by the computed amount and the appropriate expense recognized. This provides the most accurate matching of revenue and expenses in the period in which the revenue was earned and the liability incurred.

Another alternative accounting treatment with respect to expenses is to classify the entire doubled payment amount initially as a prepayment of expense. These items are held at that amount and not amortized to expense. However, a monthly accrual of expense is made in order to match revenues and expenses. When the next tax payment is made, the accrued liability is eliminated, while the prepaid expense remains in place.

The Accounting Principles Committee of the Nevada CPA Society has recommended that the recurring license fee be accrued for the period in which the revenue is earned and the license fee is calculated.¹⁴ This revenue measurement focus is considered the primary objective of the financial statement. If material, the duplicate portion for the first full quarter of operation should

be recorded as a deferred charge. The deferred charge should not be expensed unless and until the license is terminated. There is no recommendation with regard to the classification of the expense portion of the payment as prepaid expense or a deposit, as long as the proper periodic expense accrual adjustment is made.

PART II

Accounting for Casino Operation

Casino Revenue Flows

This chapter discusses the basic concepts of casino revenue accounting, which represents the truly unique aspects of casino counting control, systems, and procedures. The importance of understanding these casino revenue flows cannot be overemphasized. The diversity, the complexity, and the commingling or mixture of revenue transactions with exchange or cashiering transactions creates an atmosphere where even sophisticated laypersons may have difficulty understanding how casino revenues really flow. A second important need is to recognize that once casino revenue flows can be understood, they can indeed be controlled, the controls can be tested, and eventually the entire casino operation can be subjected to appropriate auditing scrutiny and review.

CASINO ACCOUNTING ORGANIZATION

The first step in understanding the casino revenue flows is to understand the accounting personnel, their working relationships, the overall accounting organization, and the role of casino revenue accounting operations in this structure.

The casino accounting organization could be characterized as having been set up in five distinct categories. The first consists of the operating personnel who are present in the public casino areas. These include pit clerks, change booth personnel, and to some degree even the dealers on individual games. These operating personnel have primary responsibility in the revenue reporting process. In the case of dealers, they also have some limited revenue reporting duties in addition to their regular responsibilities for the conduct and security of the games.

The second group consists of accounting personnel who occupy semipublic positions and who conduct intermediate-level revenue collection activity. Examples at this level are cashiers within cages, personnel such as runners and supervisors connected with the fill and credit procedures, and those persons connected with the issuance of casino credit or markers, including credit approval and record keeping.

The third group of accounting personnel consists of those who have relatively little public exposure. These persons have the highest degree of responsibility for the revenue collection procedures. The people in this area include count room personnel, vault or main bank personnel, and cashiers involved in the maintenance of marker and check cashing activity. Many supervisors (such as cashier supervisors) are in this category.

The fourth group consists of those persons who have top revenue reporting responsibility, including overall income statement reporting. This group includes the senior financial management, internal auditors, controllers, and financial vice presidents and CFOs.

Finally, in addition to these revenue personnel, the casino has other traditional accounting personnel dedicated to functions such as food and beverage accounting, hotel room revenue accounting, accounts payable, and payroll and general ledger accounting.

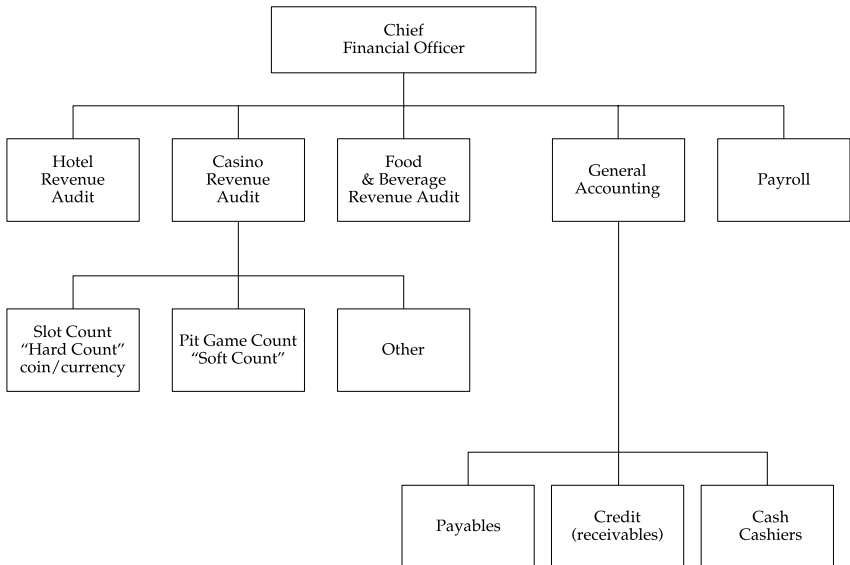


Fig. 4-1. Casino Financial Organization Structure

CASINO ORGANIZATION AND CONTROL OBJECTIVES

It should be stressed that since the fundamental product of a casino is service to the customer and the principal inventory item is money, the accounting controls exercised by the accounting department alone cannot and should not be overly centralized. There must be many clerks and controllers and many control points. In this way, each and every operating department can assure the proper recording of transactions and the proper conduct of the appropriate controls in each area.

Figure 4-1 indicates the financial operating structure of a typical hotel-casino. The main principle of organization is to achieve maximum control, principally through separation of duties of various individuals. This principle is based on the belief that if many persons are involved in processing and reporting a transaction, then theft can only occur through collusive fraud. The risks of this occurring are lessened by a substantial division of duties in the accounting and record-keeping area. The separation of the responsibilities for various revenue reporting activities among several departments may even result in financial reporting personnel having several different supervisors. This maximum separation of duties helps to maintain a program of effective internal control.¹

There may be as many as three distinct groups of accounting and financial reporting personnel involved in the casino revenue flows and the casino operations:

1. Casino operations
 - a. Dealers
 - b. Pit clerks to record game transactions
 - c. Drop teams
2. Cage operations
 - a. Cage cashiers
 - b. Credit cashiers
3. Count rooms
 - a. Hard coin and soft currency count personnel

(Note: Slot count now includes both coin and currency counts. The traditional hard count now includes certain "soft count" items.)

All of these personnel are involved in various degrees with the revenue reporting process. There is also extensive involvement of operational personnel in maintaining internal controls over revenue procedures and their involvement in the record keeping for the casino revenue.

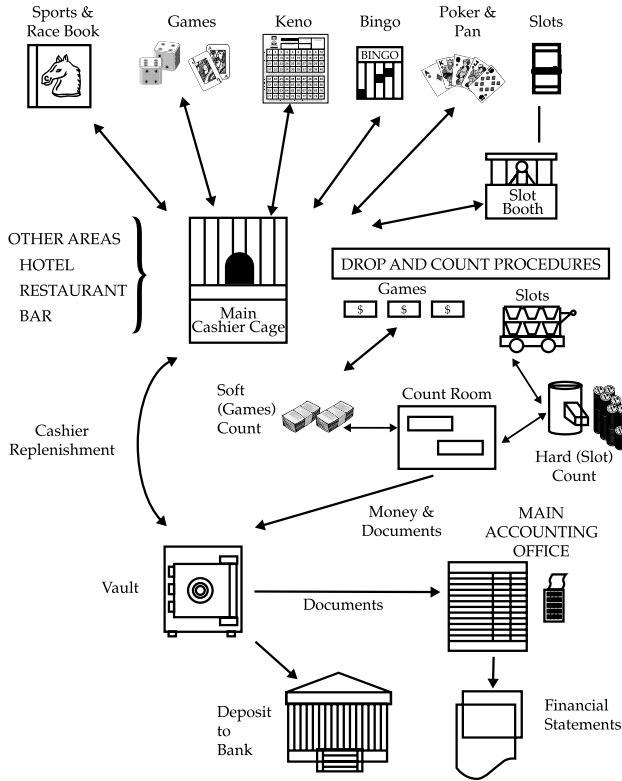


Fig. 4-2. Principal Revenue Flows in the Casino

DESCRIPTION OF PRINCIPAL REVENUE FLOWS IN THE CASINO

The principal revenue flows in the casino are illustrated in figures 4-2, 4-3, and 4-4. This diagrammatic representation allows the various parts of the accounting process in the casino to be drawn together into one cohesive illustration. The three main components are cashiering transactions, drop and count (revenue collection) and revenue completion.

The principal components of revenue flow in the casino also recognize a primary separation between the flows into the revenue stream from slot and game operations. Each of these revenue areas has separate and distinct operating characteristics, staff, and procedures.

CASHIERING TRANSACTIONS

In addition to the two principal revenue flows that exist between the customers and the casino, there are also large numbers of cashiering transactions. These transactions are indicated by the two-headed arrows in figure 4-2. These

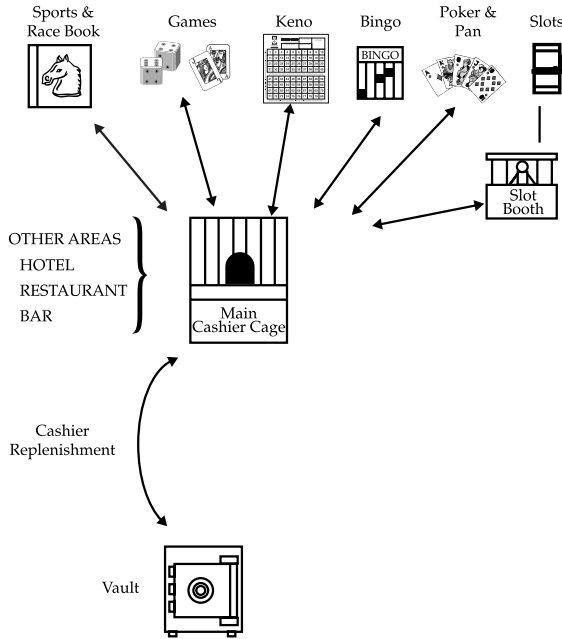


Fig. 4-3. Cashiering Transactions

flows show not only revenue flowing into the casino, but also the exchange or cashiering transactions that occur in the casino. These activities are of somewhat less significance, since the balances in various areas are maintained on an imprest basis. Also, these cashiering flows do not have any impact on casino revenue, but are only transactions of changing money from one form to another. However, to the uninformed observer, they can be misunderstood for revenue transactions and may distort some of the control procedures.

It is important to realize that these cashiering functions must not interfere with the process of revenue generation, nor should they be included in the revenue flow so as to distort the actual operating results or the statistical reporting derived from the revenue reports. In order to clarify these cashiering transactions, they are discussed in each major area where they occur.

Slot Machine Cashiering

The principal cashiering activity in the slot machine area revolves around the exchange of currency for coins and tokens that can be played physically in the slot machines. With the advent of currency or bill acceptors attached to most slot machines, the amount of this cashiering activity has decreased significantly. Occasionally customers will want large-denomination currency

changed into smaller bills and, in limited cases, will want coin in exchange for currency. These exchanges, or cashiering activities, take place between the gaming customer and the central cage personnel, or between the customer and the change personnel located on the floor of the casino, or between the customer and the slot booth personnel.

The cashiering activity is a critical function for the slot department for two reasons. First, the change person is the first line of public relations for the casino. If this individual is not personable and pleasant, then the customer may be somewhat less inclined to play the slot machine. Second, the slot person must be physically present and conveniently located in order to assure that the customer has a ready supply of coins that can be played in the slot machine. Casino customers have indicated that as long as they have coins, they are likely to play the great majority of them in the slot machines and will not carry them home or exchange minor amounts of coin into currency when they stop playing. Casino customers tend to play the slot machines until all their coins are gone—at which point the decision is made either to stop play or to change more currency into coin and continue playing. The introduction of currency acceptors has changed this dynamic somewhat, as customers do not have to wait for coin in order to start playing. The phenomenon of the customer playing until the coins (or credits) are used up has been modified somewhat, with increasing numbers of customers requesting cash-outs from the slot machines. This has altered both the short pay and coin-fill operations, but has also driven the move to new coinless or ticket-in-ticket-out technology for slot machines. These features are discussed in detail in chapter 5, which focuses on slot machines and gaming devices.

From time to time, the change persons on the floor are not justified from the standpoint of the volume of business, and the slot booth becomes the sole area of exchange. In addition to the customary exchange of currency for coin, the slot booth may also perform various other minor duties, such as recording and paying out promotional items, and/or serving as a security point for control over the slot machines. Also, the slot booth serves as a secondary bank or storage area for coins, at which floor slot change persons can exchange their excess currency for additional coins, which are in turn sold to customers of the casino.

Table Game Cashiering

The cashiering function of the table game is much more straightforward. The cashiering usually takes place between the customer and the dealer on a 21 game, or a boxman on a crap game. In this exchange process, the customer offers currency, markers, or other denominations of chips, which are exchanged for gaming chips. On the table games, the currency is deposited in the table drop box, where it is counted along with the other items in the drop

and count procedures. Chips exchanged are merely added to the table game inventory.

Keno, Bingo, and Race and Sports Book Cashiering

In these game activities, the interaction between the customer and the casino usually does not involve a lot of cashiering. The only thing approaching it would be the situation where the customer pays for a sports bet, keno ticket, or bingo game with a bill of larger denomination and change is returned to the customer. This operation is more of a sales transaction than a true cashiering activity.

Poker Cashiering

In poker or other card room transactions, the cashiering activity is very significant. Chips may be bought and sold from the customer at a separate cashier's cage located in the immediate vicinity, or cashiering activity may take place in the poker game itself.

These separate card room cashiers exist for several reasons. Since card rooms are often located in portions of the casino away from the central cashier, play is facilitated by the convenience of a nearby cashier. Also, poker playing customers are often different than traditional slot or 21 players, and they may wish to exit from the casino after cashing in chips, without the bother of moving to the main cashier cage to exchange their chips. Also, since card rooms often use smaller denomination chips—or specialized and separately identifiable chips—than other casino games, they can be controlled more effectively through a separate cashier. Finally, since card rooms typically operate on a commission basis called the *rake-off*, it is easier to control dealers' banks if most of the customer cashiering activity is directed to the cashier and not to the dealer.

Main Cashiering

Many of the exchanges of a cashiering nature take place at the point of sale—on the table game or at the slot machine. However, it is common practice, particularly in smaller casinos, to have most if not all of the cashiering transactions occur at the main casino cashier. The cashier's cage is a central point for most of the recording of the activities in the casino.

For example, if the slot booth is depleted of coins, the coins from the reserve vault storage area are first transferred to the cashier's cage and then exchanged with the slot booth. All fills and credits, either to reduce or to increase table game inventory, also originate in the cashier's cage or a separate fill/credit cage closely associated with or connected to the main cashier's cage.

The casino cashier may be a part of exchange transactions of special types.

Examples in this area include issuance of casino credit, check cashing of both personal and payroll checks, reimbursement of customer expenses, or issuance of various promotional items. For accounting purposes, these are considered only an exchange transaction or a cashiering activity. In the case of casino credit, the document (a counter check or a marker) is exchanged for coins or chips or, in rare instances, for currency. These exchanges are most frequently handled by a main cashier. If the casino has a large volume of credit issuance, then there may be a special cashier or area of the main cashier's cage designated for that purpose. These areas are also typically semiprivate in order to accommodate this type of credit customer.

Cashiers also have a role in the cashiering transactions with the central vault (or main bank). In these transactions, various coins or chips are exchanged from the vault and are put back into the cashiering stream of the casino after they have been counted and deposited in the vault.

REVENUE TRANSACTIONS

The revenue collection transactions are illustrated in figure 4-4. This figure shows the distinction between the slot machine and the table drop. The drop procedures (more fully described in chapter 6) move the revenue from the slot machines and tables on the floor to the secure storage located close to the main vault. The related count of the coin and currency is reflected in the reporting of the casino revenue. Once the coins have been counted and sorted and the currency counted and sorted, these items are transferred to the coin vault and the main bank, respectively. In smaller casinos, there may be only one vault area which stores both coin and currency.

The transfer of the revenue to the vault is then reconciled with the documents of the various exchange or cashiering transactions from the first step. Thus in a casino, the coins will be used to reimburse the slot booths or other areas in exchange for currency or customer checks returned to the vault. One of the key points in the revenue flow is that within a casino, the coins and much of the currency never leaves the building, but rather is recycled or reimbursed through the main bank and vault much like a large petty cash account! There are many items of paperwork or documents which are also transferred to the vault in order to calculate the income and to assure proper control over the various exchange transactions. Once the amounts are reconciled, only the excess currency is transferred out of the casino in the revenue completion phase of the accounting process.

REVENUE COMPLETION

The final phase of the overall accounting flow within the casino is the revenue completion. This area is illustrated in the lower right-hand section of figure 4-4. The revenue completion is performed on a daily basis, with identification

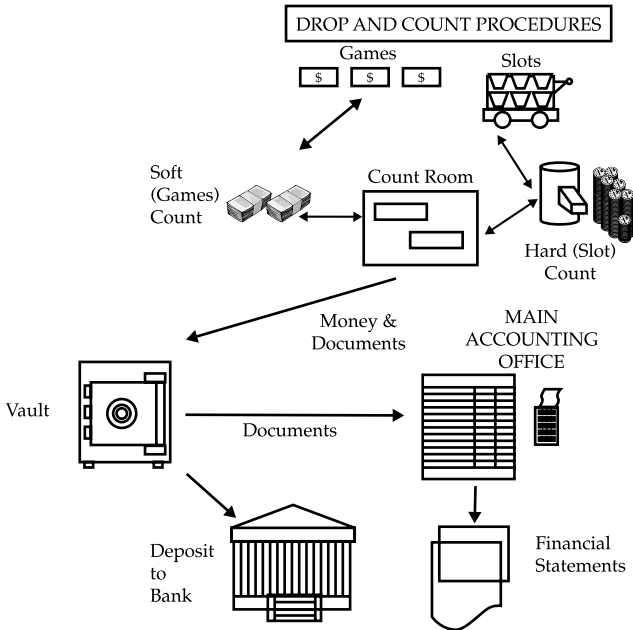


Fig. 4-4. Revenue Drop and Count Flow

of the overall casino win by shift and summarized by area of the casino. The amount of funds that represent the win or casino revenue is summarized on a worksheet, which includes both casino and noncasino revenue. The documents are then sent to the accounting department, while the checks from customers and other sources along with excess currency are deposited in the bank. The accounting department subsequently reconciles the bank deposits and prepares appropriate daily reports and interim and annual financial statements.

ACCOUNTING FOR CASINO REVENUE—TERMS AND DEFINITIONS

This discussion of casino revenue flows is broken into two distinct parts. The first is devoted to explaining the various operating definitions and procedures used to compute casino revenue. The second is an explanation of the detailed accounting procedures of the revenue flow for each type of game. The flow of the accounting details is discussed in a logical procedure from the game to the drop and count procedures and finally to the vault.

Casino Win: In casino revenue accounting, the key definition is that of *win*, defined as the total amount of casino income.² Win can also be defined as the difference between the total amount wagered or played and the amounts re-

paid to winners. The concept of win is similar to that of net sales revenue for a commercial business.³ Win is often referred to as gross gaming revenue after the legal definition originated in Nevada for revenue taxation purposes.

The win definition can be expanded and described as the difference between the total amount wagered or played (often referred to as the *drop*) and the amounts repaid to winners (often referred to as *payouts*). Technically, then:

$$\text{WIN} = \text{DROP} \text{ minus } \text{PAYOUTS}$$

Drop: A second definition of use in understanding casino revenue flows is that of *drop*. Drop is a measure of the total wagering activity in a casino. The term is reserved for table games. When used in connection with a slot machine, drop refers to the number of coins in the collection bucket located under the slot machine plus the value of all currency in the bill acceptor/validator device. This is called the *slot drop*. A closely related concept to drop in slot machines is the *handle*, which measures the total amount of money deposited into a machine. The handle can be measured by the use of meters in the slot machine, and is sometime referred to as *coin-in*.

However, in the case of table games, the winning and losing bets are determined by the dealer; either the winners are paid or the losing bets are collected. The losing bets are returned to the table tray if the bets were placed in chips. If the bets are made with something other than chips, then the losing bet in the form of currency, foreign chips (where permitted), or coupons are deposited in the drop box. There is no simple and effective way to measure the total wagering activity on a table game, and only the net effect of the wagering—that is, the win—can be measured. In most situations, the true drop cannot be accurately determined. It can only be estimated.

In recent years, several firms have invented mechanisms that measure the amount of wagering. These systems combine various forms of sensors or mechanisms to determine the amount bet by each player and, when combined with card readers, can actually track and accurately measure the amounts bet on a table game—the “handle” of a table game. Examples of these real-time table monitoring products include the Safejack system by Mikon Gaming and the Table Track system by the Mindplay division of Bally/Alliance Gaming systems.

Drop (for table games) can be a confusing and often misleading measure. The reason for this is that in some casinos it has come to mean the total amount of money, foreign chips, and other documents placed in the table drop box. In other casinos, drop is interpreted to mean the total amount of only money in the drop box. Drop, however, is a widely used measure of total gaming activity and should be used with extreme care. Various interpretations of drop,

and some of the limitations on the use of this concept, are discussed in the next section of this chapter.

Hold and Hold Percentage: *Hold* and the related concept of *hold percentage* are defined in a somewhat less precise manner. *Hold* is the total amount retained by the casino and actually represents the same concept as win.

Hold percentage is the percentage of gaming revenue retained by the casino, divided by the total amount of casino gaming activity. Thus, the hold percentage can be used to determine overall gaming efficiency, but it is also used to compute the performance of various games, both by shift and by table. It is also used to calculate the performance of slot machines. Hold percentage could be calculated and presented as:

$$\text{HOLD PERCENTAGE} = \text{WIN} / \text{DROP}$$

The hold percentage is a calculation that allows the casino to compare the actual percentage profit margin on games or slot operations with the theoretical percentages that should be retained or held, given the statistical and odds structure of the game. The problems and limitations of hold and hold percentage are discussed in more detail in later parts of this chapter.

Slot Machine Revenue

In the slot machine area, the computation of the various items of revenue is fairly easy. This is primarily due to the fact that the electromechanical nature of the slot machine, together with various internal and external measuring devices called meters, allows an accurate recording of the different components in the computation of slot machine revenue. These various forms of meter measurements also form the basis for many of the slot machine reporting system controls and reports.

Coin-In: The first measure is the total amount of money played in a slot machine. This measure was previously thought of as the total amount of money put into the machine. However, this concept has changed slightly in the past few years, since the introduction of bill acceptors now allows patrons to instruct the slot machine to return all or a portion of unplayed money. Thus the relevant measure is not money put into the machine (coins plus currency) but the amount actually played by the patron. Some slot machine reporting systems do track the total amount of money inserted into bill validators in an attempt to measure and track the relationship of cashiering-type transactions in the casino in relation to the amounts actually played. These measures can identify inappropriate cashiering activity or situations where the slot machine may attract players but not retain them. The terms *slot handle* and *coin-in* are still used interchangeably, however.

The amount of coin-in can be metered and measured. Coin-in is the most

important control reading utilized by the casinos in their slot machine performance reporting. In multiple-coin slot machines as many as five coins can be inserted for each play or physical pull of the handle. In cases allowing multiple coin play, the number of handle pulls does not equal the number of coins put in.

Paid-Outs: The second measure of slot machine activity is the money that is paid out. These paid-out amounts are defined in several different parts. First, there are the coins paid out directly by the machine. In this situation, the amounts of money paid out can be monitored by the use of meters, just as in the case of coin-in. Second, there are amounts paid out in forms other than coin. This may include printed vouchers, either in a form similar to a cash register receipt or in the form of a specialized voucher that can be used in place of currency and inserted into a bill validator in another slot machine. Third, there is money paid out by hand to patrons by various slot personnel. These can be made by a variety of authorized persons, including change persons, special jackpot payoff staff, slot booth personnel, or cashiers. These paid-out items typically are for larger amounts and may have to be accompanied by other documents or procedures necessary to verify the identity of the patron accepting the *paid-out* and to document the propriety and accuracy of the winning event.

This category of paid-out item may or may not include amounts used to refill empty hoppers, commonly referred to as *short pays*. Some casino procedures identify these items differently than amounts paid to customers, and some casinos merely combine them into the general category of paid-outs.

In recent years, in an effort to control the labor costs in the slot operation, the size of automatic machine paid-out has risen, and the capacity of the slot hoppers has been increased. Typically, the slot hopper pays any amount up to 200 coins automatically. After this level has been reached, a form of manual payoff is required. There is also a general trend away from coin hoppers and toward increased use of tickets to pay large jackpots.

Slot Drop: The third measure of slot machine activity is *slot drop*, or the amount of money that is retained by the slot machine. Typically, this money is deposited and retained in the drop buckets or the bill acceptor storage cans. Slot drop is the amount of money (coins plus currency) inserted into the machine. The coin amount of the slot drop is actually minus the amounts that are automatically diverted by the slot machine to refill the payout hopper. This diversion is accomplished automatically when the machine senses that the number of coins in the payout hopper is too low. At that time, coins inserted are diverted to the hopper, rather than going to the drop bucket directly.

Slot Win: The fourth and final measure of slot machine revenue is the key summary concept, *slot win*. The slot win can be defined as the total amount of money retained by the machine minus any paid-outs. Since the slot drop has already taken the coins paid out automatically by the machine into account, the computation of slot win is as follows:

$$\text{SLOT WIN} = \text{SLOT DROP} \text{ minus } \text{MANUAL PAID-OUTS} \text{ minus } \text{HOPPER FILLS}$$

Table Games Revenue Definitions

Table games unfortunately do not have a parallel to the simplicity of the revenue definitions and calculations for the slot machine operations. The first concept of table revenue measurement that is more difficult in the table games area is the total handle or drop of a table game. The concept of total handle on a table game, where handle represents the total betting activity, is very desirable from a management control standpoint, but is extremely difficult to measure. To track this number would require some form of reporting on the amount of each and every wager placed on a table game. This reporting has been attempted in the past in various ways. There is limited observation by pit supervisors as part of their overall general duties, but this is only an estimate and not sufficiently accurate for accounting and control purposes. Specific observation of table betting was found to slow the process of the game so badly that it reduced the overall profitability of the game. These observations were not sufficiently accurate to warrant the high cost of staffing to gather the information and record the transactions. As previously mentioned, new computerized methods of tracking the amount of play using chips with imbedded electronic sensors, or with pattern recognition or weighing mechanisms, has substantially improved the process of automatic wager recording activity.

Since the total amount of wagering activity is still largely unrecorded, various casinos have developed what could be called a surrogate measure of total casino betting activity. This measure is still called drop, but is defined as the total amount of money found in the table drop box when counted. The table drop box is a money receptacle attached to each table, which contains currency, accounting documents, and other items saved for record keeping for the table game. In most jurisdictions, each shift and each table has a separate drop box. However, in some situations a single, somewhat larger drop box is used on a 24-hour basis to hold all the game items.

The concept of drop as a measure of total casino activity would be valid if the results of all betting activity were reflected in the contents of the drop box. In other words, if the drop box held the working cash fund for the table, then the results at the end of the shift would represent the total sales of the table, in the same way that a restaurant or bar cashier's bank represents the total sales.

This is unfortunately not the case. Only if the operating procedures of the casino are stable over time, and if the same items are consistently placed in the table drop boxes, can the computation of table drop figures be of any use as an indicator of total volume of betting activity in the casino. However, it should be stressed that drop is only one component of the calculation of table win and is not a primary indicator of total game income.

COMPLICATIONS OF TABLE REVENUE CALCULATIONS

In the case of table games, several additional factors complicate the calculation of revenue. They include the following:

1. Fluctuations in table game chip inventories
2. Fill and credit activity between the table and the cashier or fill bank
3. Other miscellaneous items in the drop box

These factors and the impact that they have on the process of table revenue measurement are discussed in detail below. Let us initially assume a situation that is very simple to gain an understanding with respect to table revenue.

Table Inventory Fluctuations: Most table games contain a *working bank* (or *table inventory*) of a specified amount. This table bank usually consists entirely of chips from the casino, together with a minor amount of silver currency or \$1.00 slot machine tokens. For a typical 21 game, the amount of the bank could vary from \$1,500 to \$6,000. For a craps game, the bank amount could vary from \$10,000 to \$25,000. This table inventory of chips is sometimes known as *cheques* and is used in the cashiering functions that the dealer performs. The customer's money is converted into casino chips, which the customer then uses to play on the tables. The use of currency for play on the tables is usually discouraged. As a result of this currency to chip cashiering activity, the table inventory may fluctuate, even though no playing activity has taken place.

Table Inventory: In order to portray accurately the win activity of the table game, the inventory fluctuations from the beginning of the shift to the end of the shift must be recorded and taken into account in the computation of the win or loss for the table and for the particular shift. Recording the table inventory is accomplished by the use of a document called the table inventory card. This two-part form is sometimes known as an opener or closer because of the functions that it performs: recording the inventory on the table bank at the close of one shift and at the opening or beginning of the next shift. The amounts of chips of each denomination are counted and recorded. The first copy of the document is placed in the table drop box before it is removed from the table. The second copy of the two-part form—the opener, which was recorded at the same time as the closer—then is deposited in the table drop box for the new shift as the first transaction of the oncoming shift. When the

EXAMPLE 1 Table game entirely in cash, with no use of chips and no table game inventory

Cash Count	Drop	Game Win
\$500	\$500	\$500

EXAMPLE 2 Table game uses a table tray inventory and is conducted in both cash and chips

Game Bank		Cash Count	Drop	Game Win
Begin	End			
\$1,000	\$900	\$600	\$600	\$500

drop box is opened for purposes of counting, the opening and closing inventory documents are then present, allowing the determination of opening and closing inventory for the shift. In this way, the process of merely cashiering chips for cash on the table can be taken into account and does not distort the results of the game.

For example, without the inventory records, the appearance of a \$100 bill in the drop box would apparently indicate that the game has won \$100 for that shift. However, if the customer merely stopped at the table to exchange the money for chips, decided not to play, and moved on to another table, the real operating result would only have been zero, not \$100 won.

For the win computation to be accurate, the change in the inventory of the table tray would have to be taken into account. When the inventory changes are computed, the true amount of the win or loss could be determined. This example underscores the importance of the concept of win as the key accounting determinant. Notice that the drop is indeed \$100, but it was merely the result of cashiering activity and not the result of table play activity. If a gaming table is subjected to a lot of cashiering with little play activity, the relation of drop to win, as expressed in the hold percentage, is very low. This indicator could lead to concern regarding the operation of the game that might be totally unfounded.

The impact of these inventory fluctuations can be indicated in the following example:

The game bank inventory fluctuations (increases or decreases) must be added to the cash count in order to determine the proper game win figure. In general, the computational flow of the game win can be summarized from the foregoing elements.

$$\text{GAME WIN} = \text{DROP}$$

$$\text{plus CLOSING INVENTORY minus OPENING INVENTORY}$$

In our example #2, note that the total amount of cash in the drop box (\$600) is the composite of two factors: the cashiering activity of \$100 plus the game win of \$500. Thus, in this case the game has exactly the same profit as was indicated in example #1.

Fill and Credit Activity: From time to time, the working inventory of the table either becomes depleted or builds up to unnecessarily large amounts. There may also be too many chips of a particular denomination on the table. In order either to replenish the tray (inventory) or to redistribute the denominations, a fill (addition to) the table or a credit (subtraction from) the table is made. The detailed handling of these types of transactions is discussed at considerable length in later chapters. For the present discussion, the impact of adding chips to the table or removing them from the table must be taken into account so that the measurement of the table inventory and table win is not distorted. For example, without the consideration of the fill and credit activity, a table game could be losing a considerable amount of money, but the drop box might still contain some money (from cashiering activity) and the table inventory count could be about the same at the end of the shift as it was at the beginning of the shift (because chips have been added to the table through a fill).

In this situation, another dimension must be added to the computation of game win. The effects of the fills and credits on the table game inventory must be measured. Example #3 shows the expanded computation.

Now, the computation is expanded.

$$\text{GAME WIN} = \text{DROP}$$

$$\text{plus CLOSING INVENTORY minus OPENING INVENTORY}$$

$$\text{plus CREDITS minus FILLS}$$

If a substantial amount of money is added to the table, then the cashiering amount must be very large if the table still reflects a win. Thus, if the cash count rose to \$1,600, the game win remains at \$500.

The computation of fills and credits can be further illustrated in the case where the game was a large winner and as a result, the chip inventory built up on the table. In this circumstance, one of two things could take place. First, the table inventory could be left to build up, and the increase would be reflected on the table inventory card. Second, the excess chips could be removed from the table by a credit. In practice, the table inventory is usually kept close

EXAMPLE 3 Fill and credit activity is reflected in game results

Game Bank		Cashier		Cash Count	Drop	Game Win
Begin	End	Fills	Credits			
\$1,000	\$900	\$1,000	\$0	\$1,600	\$1,600	\$500

EXAMPLES 4 AND 5 Table inventory buildup is reduced through use of a credit

Game Bank		Cashier		Cash Count	Drop	Game Win
Begin	End	Fills	Credits			
\$1,000	\$1,300	\$0	\$0	\$200	\$200	\$500
\$1,000	\$1,000	\$0	\$300	\$200	\$200	\$500

to a standard or par amount, and the excess chips are customarily removed with a credit to the table.

In these cases, the game bank fluctuations (increases) must be added to the cash count in order to determine the proper game win figure, as well as considering the impact of adding money to the table (fill) or removing it from the table (credit).

In general, the computational flow of the game win can be summarized from the foregoing elements in the following manner:

$$\text{GAME WIN} = \text{DROP}$$

plus CLOSING INVENTORY minus OPENING INVENTORY

plus CREDITS minus FILLS

Complications of Drop Box Counts

In all of the previous examples, drop has been regarded as the total cash count of all currency contained in the table drop box. There are other components of the drop that can cause complications to the win computation if not clearly understood. Also, from time to time, the drop box may be used as the repository for other items of accounting significance. Some of these can cause distortion of the drop count and the resulting game win computations.

The first example of an addition to the drop box is that of foreign chips which were bet and lost on the table game. The customary procedure is to put these foreign chips in the drop box. Foreign chips are chips from other casinos, usually restricted to well-known casinos in the immediate area. For example, a Reno chip could probably not be played on the table in a Las Vegas casino, unless it was from a sister casino. It is customary to allow a limited amount of gaming on the table using chips that may belong to another casino.

In the situation where these chips are played and lost, the dealer deposits them directly into the drop box. They are separated during the count process and redeemed from the issuing casino at some later date. When the contents of the drop box are counted, the foreign chips are considered to be the same as cash, with the face value (denomination) of the chip included in the count of the currency in the drop box. Accepting foreign chips directly on tables is increasingly prohibited by various casino control laws. These rules may require redemption at the casino cage, or in some cases may totally prohibit the use of foreign chips in the casino.

Another example of an item that may distort the drop box is the issuance of credit instruments and check cashing, both of which may take place at the table. In both of these situations, chips from the table are usually given to the gaming customer in return for a credit instrument (marker) or a personal check. Thus, the table inventory is depleted by the cashiering transaction without any form of document or reimbursement to indicate that the change was due solely to a cashiering activity.

The solution to this dilemma is twofold. First, some casinos utilize a special type of cashier credit, similar to a regular credit slip for chips, to indicate these transactions. The marker or check is transferred directly back to the central cashier in exchange for the table credit. Other casinos utilize a separate parallel reporting system, where the chips are only temporarily advanced to the customer at the table, and the table is subsequently reimbursed from the cashier in exchange for the marker instrument or check. In some situations, the marker is held in the pit until the end of the shift and then forwarded to a central cashier for recording. In these cases, the pit cashier issues the credit slip to the table.

In the first instance above, the marker is treated as money and is included in the drop count figure. In the second case, the item is treated as a special form of credit slip and is included as a separate item along with more customary fill and credit activity. Since the handling of these marker instruments is largely under the control of management, this serves to illustrate the fact that the amount of the drop can be changed by the type and definitions used in the revenue accounting system in the casino. This is controlled by management's decision to count or not to count certain items.

The differing impacts on the cash count and drop of the alternative handling of credit instruments in the drop box are indicated in examples 6 and 7. In example 6:

$$\text{DROP} = \text{CASH COUNT}$$

If the situation in example 6 assumed that the check cashing credits were to be included in the drop, then the revised drop figures would be as shown in example #7:

EXAMPLE 6 Marker Activity reflected in drop results

Game Bank		Cashier		Marker and Check Cashing	Cash Count	Drop	Game Win
Begin	End	Fills	Credits				
\$1,000	\$900	\$600	\$0	\$1,000	\$200	\$200	\$500

EXAMPLE 7 Marker activity with cashier credit included in cash count

Game Bank		Cashier		Marker and Check Cashing	Cash Count	Drop	Game Win
Begin	End	Fills	Credits				
\$1,000	\$900	\$600	\$0	\$1,000	\$200	\$1,200	\$500

$$\text{DROP} = \text{CHECK CASHING PLUS CASH COUNT}$$

THE FALLACY OF DROP AND HOLD PERCENTAGES

Notice in all the examples that the amount of game win—the gross revenue produced from this particular game during this shift—is a constant \$500. Because of various factors, mainly different types of cashiering activity, as well as managerial definition of what should be counted in the drop, the drop figure could fluctuate from a high of \$1,200 to a low of \$200. These examples serve to indicate how reliance on the drop figures can yield differential indications of game performance.

If we return to the definition of hold percentage—

$$\text{HOLD PERCENTAGE} = \text{WIN divided by DROP—}$$

then for the various example situations, the drop and hold percentage could have fluctuated as indicated below.

It should be stressed that, under certain conditions, the use of drop figures and hold percentages can be an aid to the management of the casino. Where the casino has stable operating procedures and experiences with no substantial changes in the definition of what is included in drop, the measure of drop can be a useful indicator of the total activity in the casino. In this situation, severe fluctuations in the drop or the hold percentages can signal that something has changed. The discovery of the reasons for the change is left up to management. Also, drop can be used as a way to measure the aggregate volume of activity in the casino. Under most circumstances when the hold percentage remains fairly constant with increased volume of betting activity (assuming a consistent drop definition and consequently a constant hold percentage), then the gross gaming revenue of the casino is increased.

EXAMPLE 8 HOLD PERCENTAGES

Example	DROP	WIN	HOLD	Explanation
1	500	500	100%	All Cash Transactions
2	600	500	83.33%	Table Inventories Used
3	1,600	500	31.25%	Cashiering Activity
4	200	500	250%	Inventories Not Adjusted
5	200	500	250%	Inventories Adjusted
6	200	500	250%	Marker Activity
7	1,200	500	41.66%	Redefine Drop to Include Marker Credits

THEORY AND PRACTICE OF HOLD PERCENTAGES

House advantage is often utilized to indicate the odds structure on a particular game.⁴ For example, it has been widely calculated that the hold percentage on a keno game is approximately 28%–30%. The house advantage on a craps game (assuming only pass or don't pass bets) is as little as 1.6%. A 21 game is assumed to hold about 5% (not taking into consideration card counting or differential betting strategies). These theoretical computations of the house advantage for various games in the casino are based on statistical analysis of the odds structure. However, they make three significant assumptions.

Assumption One: The gaming activity is limited to a single transaction. That is, only one person is playing the game. In reality, there may be any number of persons playing a single game. Typically, there may be four to five players on a 21 game, with approximately seven to nine persons at a craps table during a busy game playing period. This level of activity can vary from day to day, from shift to shift, and from season to season.

Assumption Two: The odds are calculated based on a single bet, with the odds determining the payoff and the house advantage. The best example here is the pass (don't pass) bet on the craps table where the house advantage is 1.6%. In reality, however, there may be a wide variety of bets placed on any single roll of the dice, and the actual house result over time is not determined by a single bet but the weighted average of the different types of bets placed on the table. For example, the *hard-way* bets in the center of the layout have different odds structures than the number bets and also have different payoffs, as well as a different house advantage.

Assumption Three: The third assumption is that the amount of betting activity is known and can be measured. In reality, for most table games, the total amount wagered cannot be determined accurately and cannot be tracked for any extended period. Thus, the aggregate hold percentage for the craps table can be a bewildering array of several factors, including the total amount of money bet on the table. While percentage figures are supposed to be immune

to dollar fluctuations or larger dollar volume, these issues also have a significant impact on the final hold percentage. The hold percentage tends to increase as the volume of dollars placed as bets increases. This seems to be the rationale for explaining reduced casino income as a result of lower hold percentages. The lower hold percentage is the result of lower betting activity or lower overall betting volume.

In practice, then, the amount of money held by a craps game or hold percentage can be portrayed not merely as 1.6% house advantage of the amount bet, but rather as the complex weighted average of the following factors.

TOTAL WIN = the theoretical odds on different types of bets (house advantage)

WEIGHTED BY the amount of betting activity for each type of bet

TIMES the impact of multiple players

In reality, it is assumed that a 21 table will hold about 18%, while the craps and other games are assumed to hold about 15%–20% over the long period.⁵

An interesting counterexample exists for a keno game. In the operation of a keno game, the total amount wagered is recorded and is known. Based on the known amount of wagers and the recording of the amount of money bet in each of the various categories allowed, a theoretical yield for the game could be computed. Experience has shown that the actual hold percentage is approximately 28%–30%, which is very close to the theoretical percentage based on the structure of the game.

Validity of the Hold Percentage

Hold percentage comparisons are often performed by various casino managers as well as by regulatory agencies. The results of this type of analysis should be interpreted very carefully. First, as noted in the discussion of drop, this key component of the hold percentage is subject to wide fluctuations depending upon how the internal management defines drop and the internal accounting procedures for various types of table transactions. Second, the hold percentage can vary on an individual game according to the number of persons playing and the mix of the bets placed on that game, as well as the length of player stay.

At best, an analysis of drop percentages is meaningful to discover any changes in game performance over time, with the assumption of long-term statistical stability underlying all of the analyses. Thus, if a game has held 20% consistently for all shifts, for all seasons, then a decrease to 15% could be viewed as a serious problem that should be investigated. However, there are many factors that could have caused the drop, and each should be carefully examined to assure the correct identification of the problem.

If a significant increase in the size of the bets made occurred on a table

game, for example, due to the presence of a single high roller, then the hold percentage would probably go down. If the player was at the table for a substantial period of time, the hold percentage on that table would decrease significantly. In the past, the decrease in hold percentage would simply have been called a losing shift and, if serious enough, occasionally the dealer or boxman would have been dismissed—often for unspecified reasons. But the tacit understanding was that the reason for the poor hold percentage on the losing shift was probably employee inefficiency or theft. Today, however, we know that the real reason for the reduced hold percentage in spite of the high-dollar betting activity was the impact of the changing pattern of betting on what was otherwise a stable process. The employees most likely were not stealing, but were merely the victims of a changed statistical measure—the lower hold percentage.

ILLUSTRATION OF CASINO REVENUE FLOWS

Once the basic terms, definitions, and flows of revenues for slots and games are understood, all of the revenue flows in the casino can be summarized in flowchart form. Figures 4-5 to 4-10 present the individual revenue flows for slot machines, table games, keno, poker and card rooms, bingo, and race and sports books, respectively.

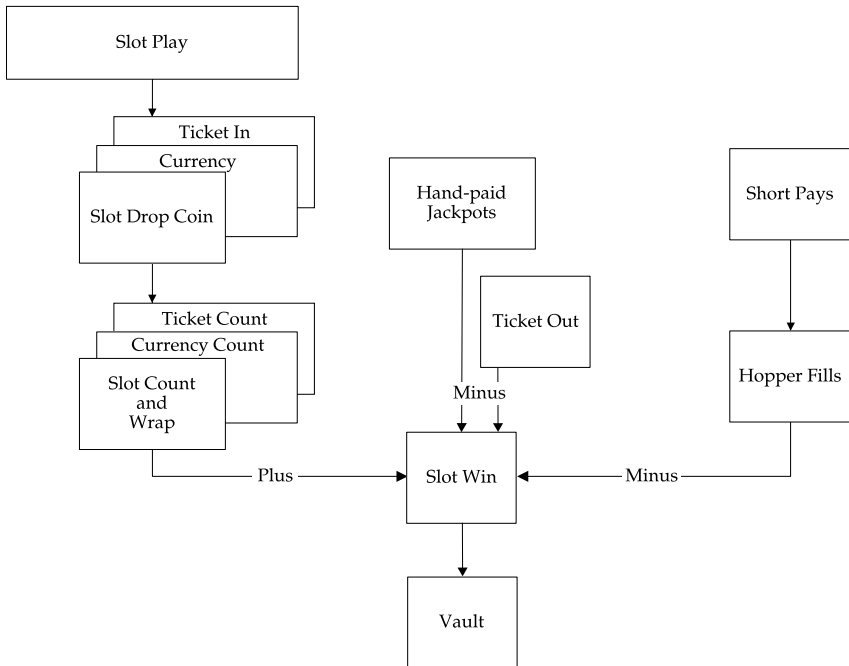


Fig. 4-5. Slot Machine Revenue Flow

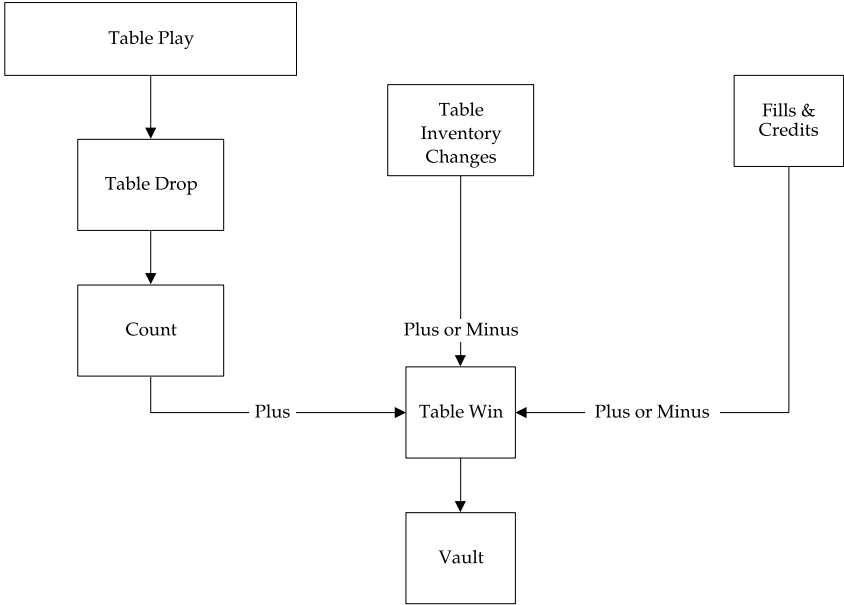


Fig. 4-6. Table Games Revenue Flow

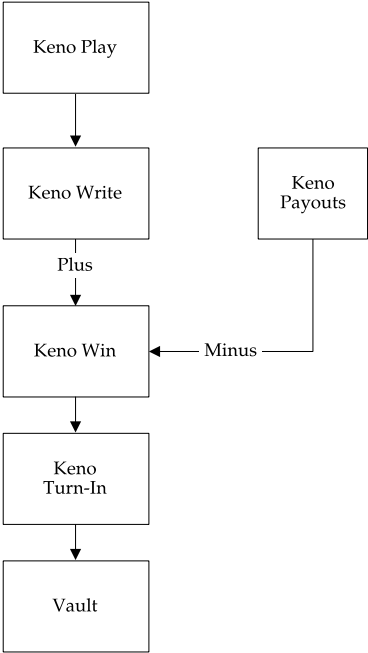


Fig. 4-7. Keno Revenue Flow

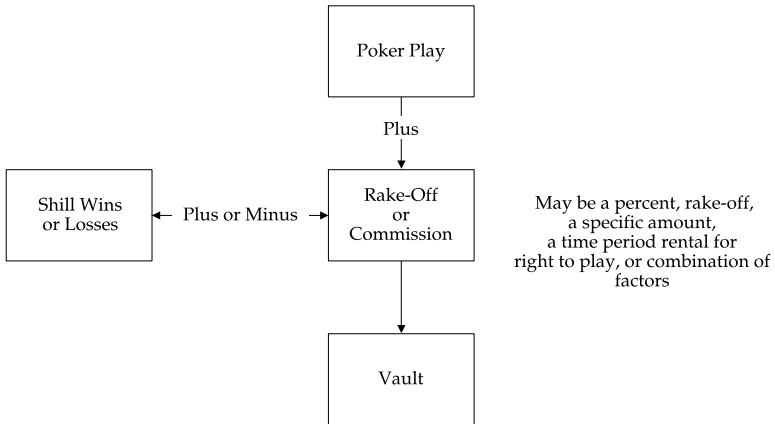


Fig. 4-8. Poker Revenue Flow

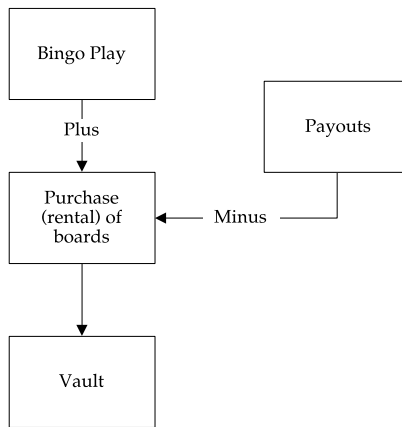


Fig. 4-9. Bingo Revenue Flow

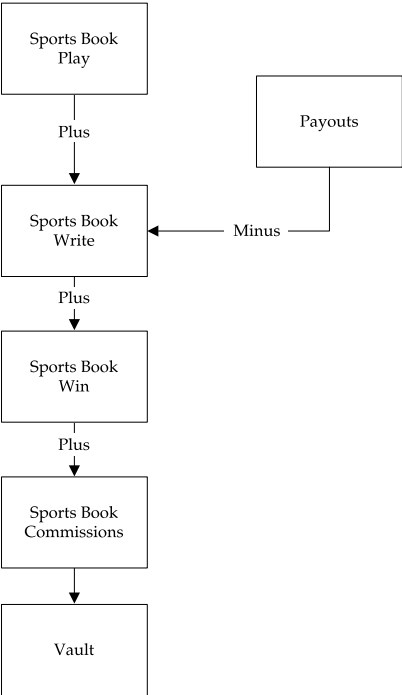


Fig. 4-10. Sports and Race Book Revenue Flow

After removing the effect of the cashiering activity, the remaining revenue flows for all types of games are quite simple. All of the revenue transactions begin with the play and conclude after appropriate count and recording in the casino vault. The various components that constitute additions to or deductions from revenue are presented on the flowcharts.

Slot Machines and Gaming Devices

This chapter describes the development of slot machines, some of the important historical developments, along with the current status of the slot machines in various casino-like settings. The components of slot machines, their operation in a casino environment, and the procedures relating to slot machine accounting are discussed in the next chapter. That chapter also examines in detail the process of revenue determination for slot machine operations.

DEFINITION OF A SLOT MACHINE

The term *slot machine* is a broad catchall term which encompasses many forms of electronic gaming devices. "Slot machine" generally includes traditional reel-spinning slots, machines with video screens, progressive jackpot machines, video lottery terminals (VLTs that are owned and operated by state lotteries), and electronic forms of keno, poker, roulette, or other casino games. Table 5-1 illustrates the major developments in modern slot machines.

In recent years, particularly for the tribal gaming market, there has been an emergence of electronic bingo games. These games look and feel like slot machines but, due to unique technological features, are subject to somewhat less stringent regulations as so-called Class II machines.

TYPES OF SLOT MACHINES

Reel Spinners

A reel-spinning machine is the traditional type of slot that most people think of when they envision a slot machine. A traditional reel spinner has three spinning mechanical reels. The reels indicate the results, including win-

TABLE 5-1 Significant Developments of Modern Slot Machines

Date	Invention	Description
1963	Electromechanical circuitry, motorized hopper pay	Bally introduced a spinning-reel slot machine that featured innovations such as an electrical bell, electromechanical circuitry, and motorized hopper pay.
1970	Three-line progressive pay	Bally introduced the Model 889, a three-line progressive, with each coin played adding to the jackpot's value.
Mid 1970s	Microprocessor	Bally first introduced gaming machines that used microprocessors to control the game and determine the payouts.
Late 1970s	Video poker machines	IGT created and marketed the first video poker machines.
1982	Bally video slots	Bally introduced its first video slot.
1983	Stepper motor	Universal Distributing became the first machine manufacturer to run slot reels with a computerized stepper motor. The stepper motor machine used a random number generator to run the reel strips instead of a less accurate timing machine.
1984	Bally video poker	Bally introduced its first video poker machine.
Mid 1980s	32-symbol reel	In the mid 1980s Universal, IGT, and other manufacturers began producing machines with 32 symbols on a reel strip, producing 32,768 different possible game outcomes in the pay line of a three-reel slot.
1986	Wide-area progressive system	IGT introduced the first wide-area progressive system capable of building very large jackpots when it unveiled Megabucks in 1986.
1989	Early cashless gaming	VLC introduced ticket-out games for use in bars in slot routes in Montana, Nevada, and other states.
1993	Early cashless gaming and bill validators	This early system was capable of accepting paper currency, preprinted coupons, or "cash-out" slips. Sigma Game was the first manufacturer to include the embedded bill validator in its entire line of machines.
1999	Ticket-in-ticket-out (TITO)	In 1999, IGT unveiled its EZ Pay Ticket System technology. EZ Pay combined ticket printers with bill validators that accept tickets.

ning combinations such as three bars, three cherries, or some other combination of symbols. In recent times, mechanical reel stops have been replaced with stepper motors that are controlled by an electronic random number generator. These electronic reel spinners also feature high-tech sound and visual graphics to enhance and replace what used to be just the sound of the reels

spinning and the coins clanking in the tray. Reel-spinning machines presently comprise approximately 45% of slot machines in the U.S. This market percentage is gradually eroding as new display features are added to the all-electronic machines.

Video Slot Machines

Video slot machines display spinning reels on a monitor, which replaces the actual physical spinning reels. The electronic representation presents the opportunity for easy customization of the reels, and can also be used to expand the number of reels and the number of reel stop possibilities. Typical video machines utilize five reels rather than three, and offer extended reel sets. Video machines are also often combined with video game-like bonus features that enhance the excitement of the game and allow the player additional payoff opportunities. Video slots comprise approximately 26% of the installed slot machines in the U.S. and are expected to slowly increase in market share.

Video Poker

Video poker is a specialized type of gaming device that offers interactive features which add a skill component to the game. Many sophisticated players typically play video poker because the house advantage can be razor thin if the game is played properly. Video poker commonly simulates a typical five-card draw poker game, although other games are available. Some models of the game allow players to play multiple hands at once and to play in bonus rounds with increasingly attractive payoffs. Video poker machines comprise about 28% of the slot machines in the U.S.

Video Lottery Terminals (VLTs)

Video lottery terminals represent an electronic version of an online lottery game. Instead of a group of numbers, the outcome of the lottery game is displayed as symbols on a reel, or a combination of images on a video screen. While traditional online lotteries have one drawing per day, video lottery machines can have thousands of “drawings” per hour. Unlike a regular slot machine, video lottery terminals do not contain a random number generator to determine the outcome, but rather the outcome of the game is determined by a central computer server.

Class II Machines

The term *Class II* refers to the classification of certain types of slot machines that are offered in Native American tribal gaming markets. Class II games were originally bingo and pull tab games which tribal operations had been offering for many years prior to the adoption of the Indian Gaming Regula-

tory Act in 1988. When that act was passed, there were three classes of games specified. Class I games were traditional social contests (such as stick games) and were largely unregulated by the law. Class II games were games that had been used in tribal gaming for some time, including bingo, pull tabs, and punch boards. These games were subject to controls and limitations imposed by the NIGC and the tribes. Class III games were characterized as Las Vegas-style games, all games other than Class I and Class II, and were much more stringently controlled. Class II games evolved essentially as electronic bingo machines, where the winning outcome of the bingo game is displayed as a series of combinations of reel stops or a video display but feature the central determination aspects of single or multiple bingo games.

Participation Slots (Recurring-Revenue Slots)

This broad category of slot machines is defined as any game where the manufacturer or owner of the machine (other than the casino location) receives a portion of either the coin-in (amount played) or net win (amount left in the machine). Participation games are really a business arrangement rather than a unique type of slot machine. Participation machines can be reel spinners, video machines, or video poker machines.

Participation games are unique in that they represent the most popular types of machines. The game manufacturers, realizing the popularity of these new machines, often have made them available to casinos only as participation machines, and have tried to capture a continuous revenue stream from these highly popular devices. Participation machines also include wide-area progressives, which have multimillion dollar jackpots, like IGT's Wheel of Fortune, or daily fee games where the game is put on the floor for free and the manufacturer receives a daily fee from the casino for each machine. These transactions may actually represent a machine on lease to the casino. The manufacturer owns and carries the game on its books and is responsible for the machines. Participation games are estimated to comprise approximately 5% to 7% of all slot machines, regardless of the machine type. Daily fee machines are estimated to comprise about 2% to 3% of total slot machines. Detailed discussion of participation agreements and the accounting for participation slot machines is discussed in the next chapter.

Progressive Slot Machines

Progressive slot machines are those that have several distinctive features. These machines typically have one or two meters prominently displayed above the slot machine (or group of machines). The meters are linked to the individual slot machines, so that for every coin inserted or amount played, the meter amount increases at a small percentage of the value of the amount played. The progressive meter total may also increase by some fixed amount,

usually based on the denomination of the coin used in the machine. These progressive slot machines have meters that show increasingly higher amounts until the major jackpot is won. Progressive slot machines may use the progressive meter as a bonus feature to encourage play during certain periods of time, to encourage multiple coin play, or to provide a chance at a very large lottery-style payout based on regular slot play.

The progressive slot machine accounting procedures are particularly important since these machines usually have money amounts that are many times the maximum jackpot available in other slot machines of the same denomination. The accounting and control procedures for progressive machines are discussed in detail in the next chapter.

SLOT MACHINE LOCATIONS

Commercial Casinos

Commercial casinos include both privately owned and publicly owned casinos. The principal commercial casino markets in the United States include Nevada, Atlantic City, Colorado, Iowa, Illinois, Indiana, Michigan, Missouri, Mississippi, Louisiana, and South Dakota. There are several Canadian commercial and charity casinos, although they are customarily either governmentally owned or operated. The size of these casinos ranges from less than one hundred slots to several thousand machines. Slot machines are also operated in many international locations throughout the world. Estimates are that there are approximately 400,000 slot machines in commercial casinos in the United States, as well as another 77,000 at commercial and state-owned or charity casinos in Canada. Commercial casinos comprise approximately 52% of the installed base of machines in North America—still the majority, but down from an estimated 81% in 1991. Tribal casinos constitute the balance.

In terms of the total number of slots in North America, the Harrah's-Caesars group has the largest installed base with approximately 87,000 machines (owned and managed or joint venture), followed by MGM, Mirage, and the Mandalay Bay group with close to 50,000 machines. Other large slot operators are shown in figure 5-1.

Large Slot Locations: Of the top twenty-five largest nontribal slot properties indicated in table 5-2, the top five are all located in Atlantic City or other eastern locations. Interestingly, however, the two largest slot facilities in North America—Foxwoods (6,587) and Mohegan Sun (6,170)—are both tribal locations in Connecticut. This is in response to the concentration of population in the immediate market area for these casinos.

Interestingly, Penn National's Charles Town Facility and Mountaineer Park are both racinos located in West Virginia also within the East Coast population cluster. Both racinos operate in excess of 3,000 machines. The largest tribal ca-

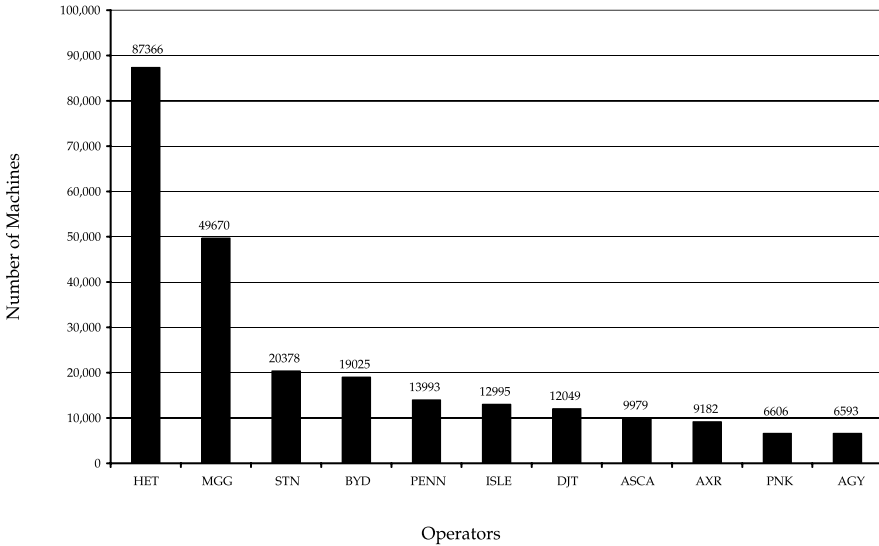


Fig. 5-1. Top Slot Machine Operators

TABLE 5-2 Top 25 Nonnative American Slot Locations

Property	Location	Units
Bally's Park Place	Atlantic City, N.J.	6,154
Trump Taj Mahal	Atlantic City, N.J.	4,670
Tropicana Atlantic City	Atlantic City, N.J.	4,397
Harrah's Atlantic City	Atlantic City, N.J.	4,238
Showboat Atlantic City	Atlantic City, N.J.	3,970
The Borgata	Atlantic City, N.J.	3,650
Charles Town Complex (a racino)	Charles Town, W. Va.	3,450
Caesars Atlantic City	Atlantic City, N.J.	3,337
Casino Windsor Ontario	Ontario, Canada	3,309
Ameristar St. Charles	St. Charles, Mo.	3,306
Mountaineer Park (a racino)	Chester, W. Va.	3,175
MGM Grand Las Vegas	Las Vegas, Nev.	3,090
Boulder Station Casino	Henderson, Nev.	3,070
Harrah's Maryland Heights	Maryland Heights, Mo.	2,989
Trump Plaza Atlantic City	Atlantic City, N.J.	2,947
Ameristar Kansas City	Kansas City, Mo.	2,828
Grand Casino Biloxi	Biloxi, Miss.	2,809
Sam's Town Las Vegas	Las Vegas, Nev.	2,800
Texas Station Casino	Las Vegas, Nev.	2,775
MGM Grand Detroit	Detroit, Mich.	2,696
Resorts Atlantic City	Atlantic City, N.J.	2,611
Motor City Casino	Detroit, Mich.	2,501
Caesar Indiana	Elizabeth, Ind.	2,501
Bellagio	Las Vegas, Nev.	2,454
Trump Marina	Atlantic City, N.J.	2,434

sino by comparison is the Soaring Eagle Native American facility in Michigan, with over 4,000 machines. All top locations can demonstrate access to strong population demographics in nearby population concentrations.

Slot Routes

Slot routes include slot machines installed in taverns, bars, airports, truck stops, or other convenience locations. Generally, a slot route machine is a slot machine not installed at a casino, racino (racetrack), or tribal gaming facility. Typically, an operator will service a route consisting of several thousand machines. In most cases there are a mix of reel slot machines, video machines, and a substantial number of video poker machines. In some cases the slot routes service VLT machines. There are three major slot route jurisdictions in the United States—Nevada (20,000 machines), Louisiana (14,000 machines), and Montana (19,000 machines). Oregon also has around 9,200 VLTs in bars and taverns, while South Dakota has around 8,200 machines. The total number of slot machines in slot route operations in the U.S. is around 75,000, an amount that has doubled in the last ten years.

Cruise Ships

The growth in the number of slot machines on cruise ships has been very substantial in the last decade. The increase in numbers of slot machines mirrors the tremendous growth of the cruise industry itself and the growth in total rooms (or berths) available on cruise ships. The growth in cruise ship slot machines has been about 10%, while the berth growth has been slightly less with 8.1% over the same period.

Racetracks/Racinos

This classification includes slot machines located at horse- or dog- racing tracks in the U.S. and Canada. These have become known as racinos, and may or may not also include table games at these locations. There are approximately 26,000 slot machines and VLTs located at racetracks/racinos throughout the United States. There are approximately another 9,600 games in Canadian racinos.

In the racino operations, there are two broad classifications of machines—those that are owned and operated by the racetrack (similar to traditional slot machines) and those that are owned and operated by the state lottery (video lottery terminals). Under this latter arrangement, the horse track receives a share of the revenue from the state lottery, such as in West Virginia. Also, in some arrangements, the slot manufacturers may receive a portion of the revenues similar to a traditional participation game. The breakdown between track-owned and state-owned slots at racetracks is about half-and-half.

Whether the racetracks own and operate the machines or whether they

become an extension of—or partner with—the state lottery system is a function of legislative intent. In states where there are constitutional bans against games of chance with the exception of operating the lottery, the machines are owned and operated by the lottery. Under the lottery-ownership model, a higher percentage of the revenue is typically retained by the lottery.

Tribal Gaming

Native American tribal gaming has grown very substantially over the past ten years. Total gaming revenue has grown from about \$5.4 billion in the mid-1990s to over \$22 billion today. Estimates are that slot machines and other gaming devices account for as much as 85% of that revenue on a national basis. Table 5-3 presents the largest tribal slot machine operations in the U.S.

The overall revenue growth has been derived from a dramatic increase in the number of slot machines installed. In 1991, there were about 16,000 tribally owned machines in the U.S. By 2003, there were over 164,000 machines. Of this total, 31% of the machines are in the California market alone. The next largest state, Minnesota, has about 12% of the machines.

NUMBER AND LOCATIONS OF SLOT MACHINES

The spread of gaming throughout the United States has driven dramatic growth in the number of slot machines. There are approximately 650,000 slot machines currently installed in the United States, as well as approximately 21,000 slot machines categorized as Class II machines in tribal gaming op-

TABLE 5-3 Largest U.S. Native American Tribal Facilities

Property	Location	Number of Slots
Foxwoods Casino Resort	Mashantucket, Conn.	6,587
Mohegan Sun	Uncasville, Conn.	6,170
Soaring Eagle Casino & Resort	Mt. Pleasant, Mich.	4,300
Grand Casino Coshatta	Coshatta, La.	3,200
Silver Star Casino	Philadelphia, Miss.	3,100
Ho-Chunk Casino	Baraboo, Wis.	2,700

TABLE 5-4 Number of Slot Machines by Type of Facility

1991	Number	Percent	2003	Number	Percent
Commercial casinos	161,138	81	Commercial casinos	397,197	52
Racinos	0	0	Racinos	36,159	5
Slot routes/bars	29,971	8	Slot routes/bars	115,407	15
Cruise ships	6,800	3	Cruise ships	20,780	3
Native American Class III	16,000	7	Native American Class III	163,863	22
Native American Class II	3,000	1	Native American Class II	20,872	3
Total	216,909	100	Total	754,278	100

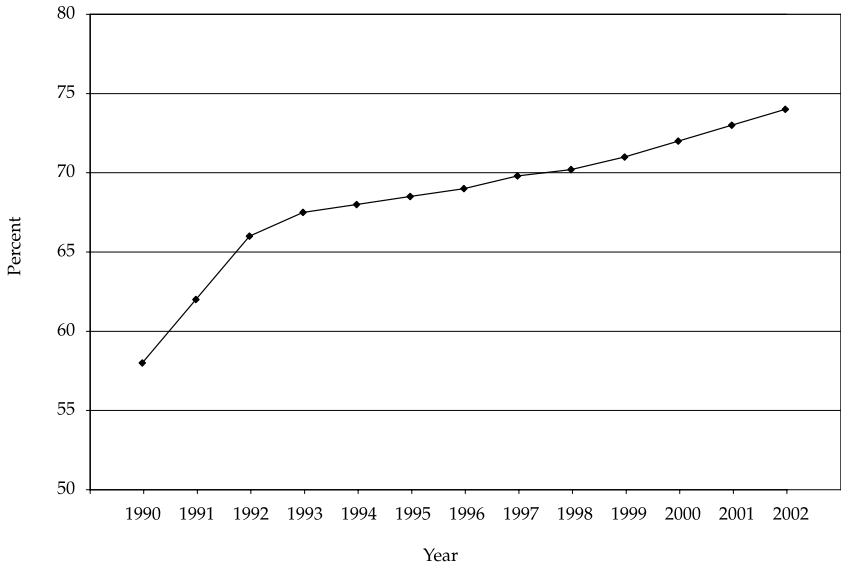


Fig. 5-2. Slot Win as Percentage of Total Win—Atlantic City

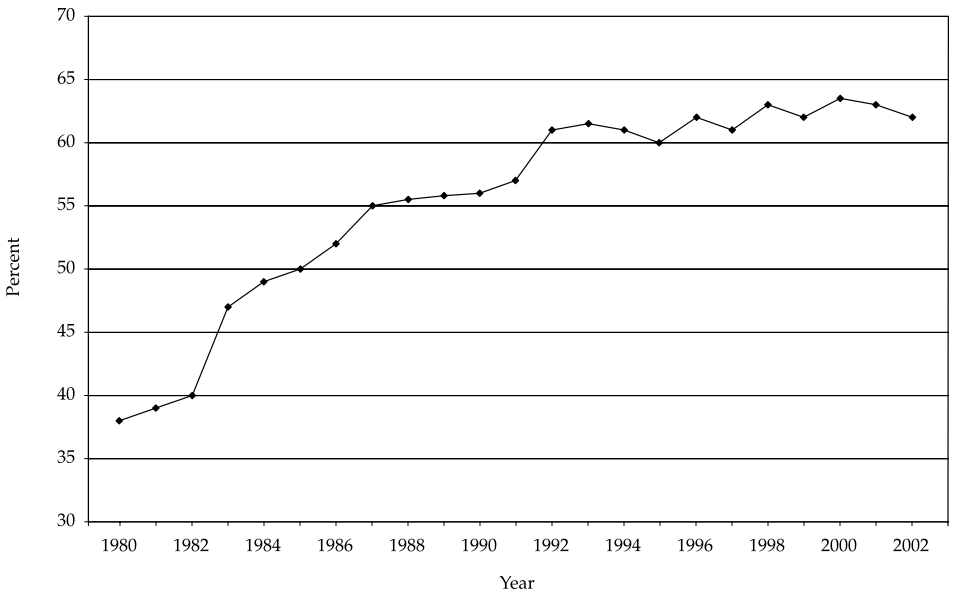


Fig. 5-3. Slot Win as Percentage of Total Win—Las Vegas Strip

erations. There are an additional 80,000 machines in Canada, bringing the total installed base of gaming machines in North America to approximately 750,000.

This is nearly a fourfold increase from an estimated 217,000 machines in North America in 1991. This represents an annual compound growth rate in excess of 10% per year. The number of slot machines in use by category is shown on table 5-4.

The slot machines referred to above are found in a variety of venues. All locations have grown along with the overall growth in the numbers of slot machines. The other dramatic feature has been the shift in the distribution of the slot machines by type of facility. Commercial casinos have grown 146% over the twelve-year period, but have decreased in relation to the market as a whole. Racinos and tribal slots have gained both in overall size and have become very significant portions of the overall market.

Slot machines are also widely distributed on a geographic basis throughout the United States and Canada. Table 5-4 presents the distribution of slot machines by type of casino operation. The geographic breakdowns of the various categories of slot machines are shown in appendix 10.

TABLE GAME TO SLOT MACHINE MIX

One of the most dramatic changes in the past few years has been the disruption of the traditional balance of slot machines to table games in various markets. In virtually every major gaming market, the number of slot machines has grown significantly in absolute numbers, the ratio of slot machines to table games has increased, and the proportion of total gaming revenue derived from slot machines has also increased.

For example, figure 5-2 indicates the long-term growth in slot win in Atlantic City as a percentage of total gaming wins from 1990 to 2002. Figure 5-3 shows the same trend for the Las Vegas Strip for the period 1980 to 2002. Since 1980, the contribution of table games to total revenue has dropped from 62% to 38%. The percentage of revenue from slot machines is in the 75% range for Atlantic City, and about 62% for the Las Vegas area. In other markets, the contributions of slot machines range from over 90% in Iowa to a low of about 60% in Las Vegas.

Figure 5-4 shows the percentage of total gaming revenue derived from slot machines in the major markets from 1998 to 2001. The increase in slot machine and other gaming device revenues is matched by a decline of table games revenue.

Customers in all markets seem to prefer slot machines for three main reasons. First, slot machines provide good value for money. The inherent smaller stake at risk by the customer in a slot machine is also an attractive feature as the machines maximize the enjoyment (length of play) for the estimated cost

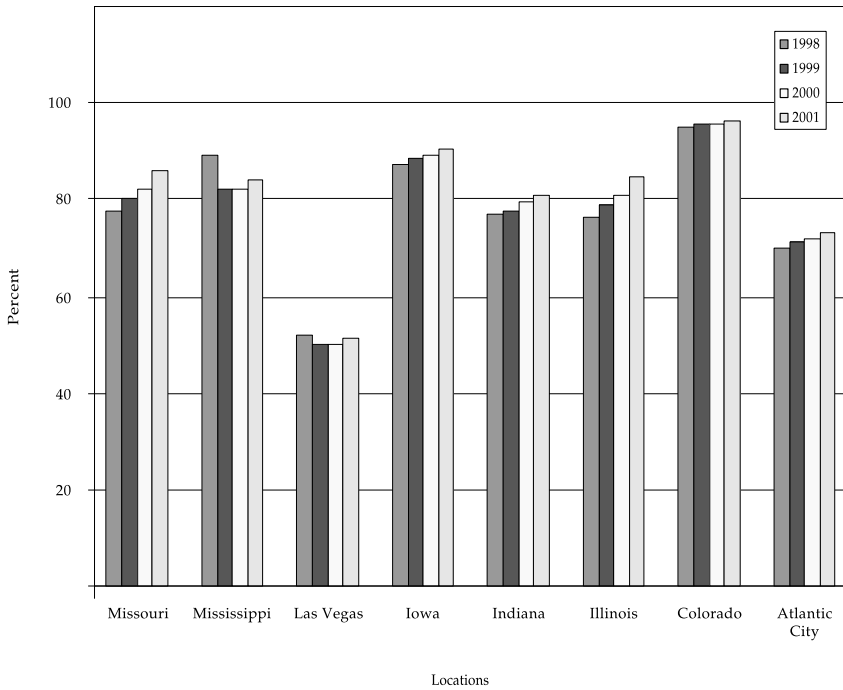


Fig. 5-4. Slot Machine Revenue as a Percentage of Total Revenue, Various Locations

(amount of money played). Second, through a combination of attractive marketing and game features, slot machines are very interesting to large numbers of players. Game payoff features such as increased win frequency, increased availability of bonus rounds, and very large potential bonus or multiplier jackpots all increase play. Also, the increasing use of themed machines and attractive or familiar brands, characters, and topics help to drive slot play. A third factor that explains the shift to slot machines includes a changing demographic of older and somewhat less-experienced players who gravitate to slot machines. Finally, not to be overlooked are some of the changes being made to the casino operating and regulatory environment of table games which may also drive customers to slot machines. Increasing table minimums and the use of dealing shoes have made table games less desirable to some customers. Increases in taxes on gross revenue and a concern for bottom-line profitability (through control of labor costs) have resulted in some casinos actually reducing the number of table games available for customers. This shifts the revenue from lower-profit table games to higher-profit slot machines in jurisdictions like Illinois.

SLOT MACHINE COMPONENTS

Physical Appearance: Slot machine cabinets are customarily 20 to 24 inches wide, 16 to 18 inches deep, and 36 to 48 inches high. They come in many configurations, with high-profile, round-top and even flat-top units. They are usually built as tabletop units and weigh about 100–150 pounds. Although they are relatively portable, slot machines are usually attached to a base cabinet that is used to both raise the slot to a convenient playing height, as well as to store the drop buckets that collect the coins played in the machine.

Operational Components: The principal components of a slot machine are described below and are illustrated in figures 5-5, 5-6 and 5-7. Figure 5-5 shows a conventional coin-operated machine. Figure 5-6 shows a more realistic video poker machine (one of the video adaptations of traditional slot machines). Figure 5-7 shows an example of the new generation of electronic slot machines, including the computerized game board.

1. The first major component is the coin receptacle. This is a slot into which the coins or tokens used by the slot machine are inserted. The mechanism is the same as used in a multitude of other coin-operated devices throughout the nation. The coin receptacle can handle multiple coins, which can be inserted sequentially. It used to be a fairly expensive proposition to change the coin denomination of a slot machine by changing out the coin acceptor mechanism. Estimates indicate that the cost for parts and labor would be approximately \$200 per machine. This high cost was cited as the primary reason for the widespread adoption of \$1 slot tokens in the casinos of Nevada following introduction of the downsized Susan B. Anthony dollar, which replaced the larger Eisenhower dollar. To avoid the great expense of changing the coin receptacle on their \$1 machines, various casinos applied for and received permission from the U.S. Treasury Department and the Nevada Gaming Control Board to mint tokens and use them in their \$1 machines.¹

2. The second component, which is functionally related to the coin receptacle, is the bill acceptor or bill validator. These devices also serve as the means by which currency is inserted into the machine, validated, and played on the machines. The success of the introduction of bill acceptors has substantially changed the nature of play of slot machines in casinos. In some jurisdictions, slot machines can only accept currency, with no coins being used in the slot machines. Other machines have bill acceptors with dual functions, which can serve to accept printed tickets from other slot machines in lieu of currency.

3. The third component of a slot machine is the play mechanism. This is the method by which the play of the machine is initiated. In most older slot

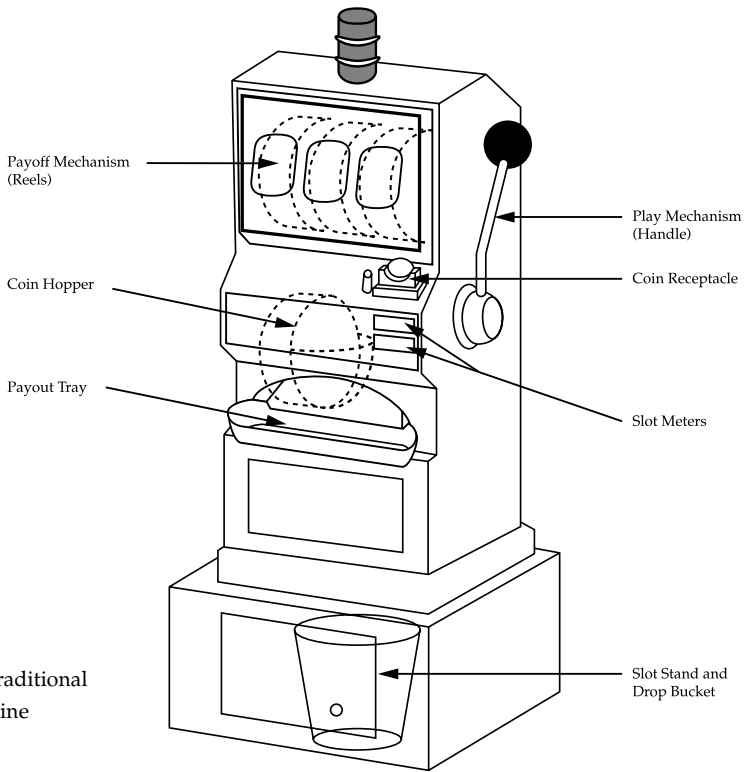


Fig. 5-5. Traditional Slot Machine

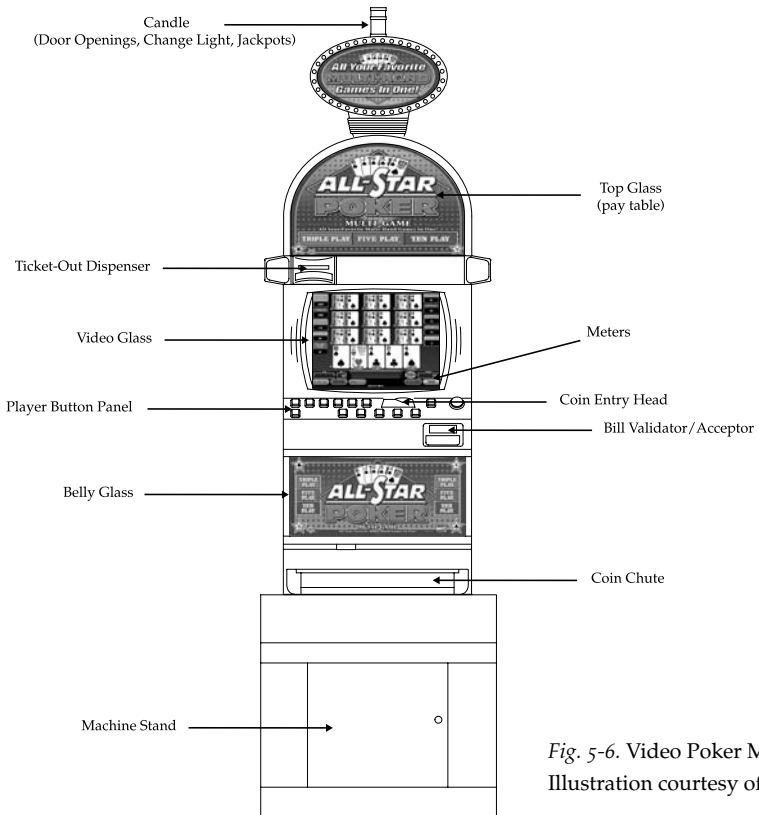


Fig. 5-6. Video Poker Machine. Illustration courtesy of IGT

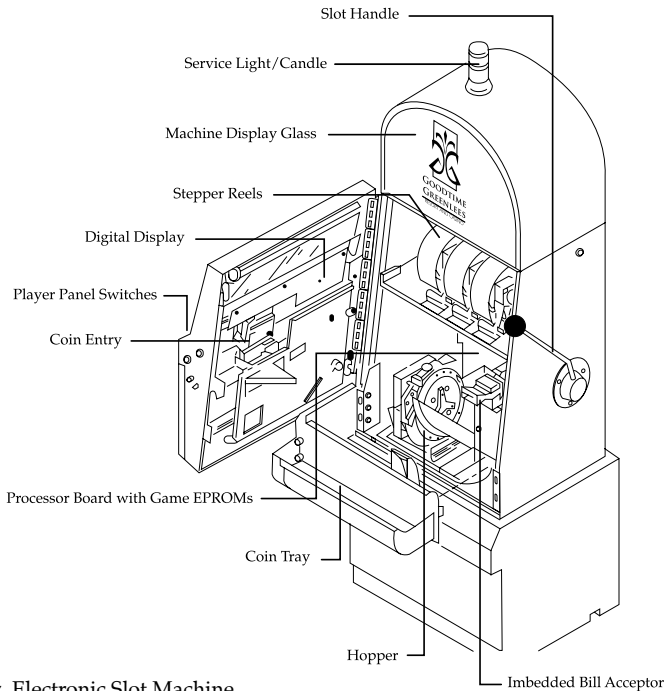

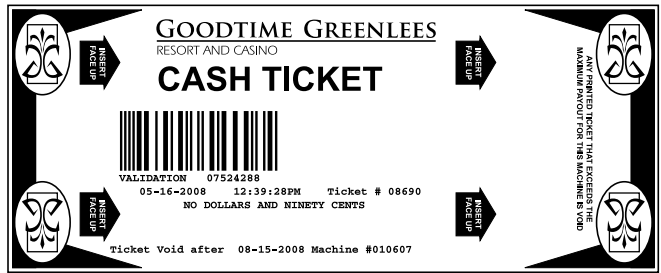


Fig. 5-7. Electronic Slot Machine

machines this is accomplished by pulling the handle. Other play mechanisms for various coin-operated devices include a button that must be pushed to initiate the play electronically. In a few cases, the play mechanism is automatically initiated by the mere insertion of a coin. In traditional, older slot machines, the slot machine handle was designed as the way in which the mechanical reels were put into motion. However, with the advent of the new electromechanical and all-electronic slot machines, the slot handle is more important in its function of tripping a switch that initiates the physical or electronic movement of the reels—impelled by a motor rather than by the mechanical action of the handle pull. Many new slot machines—even if they have a handle—may or may not have the handle physically connected to the inside of the machine. Some handles exist on machines merely for the psychological or historical effect. It is interesting to note that in order to preserve the “psychological integrity” of these new slot machines, the handle mechanism is often manufactured in such a way as to duplicate exactly the feel of a tried-and-true mechanical slot machine handle.

4. The fourth element of the slot machine is the payoff determination mechanism. In a traditional slot machine, this is made up of the reels and the specification of the sets of symbols and combinations on the reels. It is this play mechanism that determines the payout to be made by the machine.

 GOODTIME GREENLEES RESORT AND CASINO	
MACHINE NO:	36521
DATE:	06/24/04
TIME:	15:24:03
AMOUNT:	\$*****36.00
THIRTY-SIX DOLLARS AND NO CENTS	
PAYMENT EXPIRES:	06-30-04 15:24:03



Left: Fig. 5-8. Slot Machine Payout Slip

Above: Fig. 5-9. Slot Payout Ticket

These reels typically are set three, four, or five on a common axle and are put into motion either electronically or mechanically. When the reels stop, they are locked into place by a series of ratchets, one per reel. Once the reels are locked in place, there is a sensing device, such as a metal rod or a light beam, that tells if a predetermined payoff has been achieved. At this point, the payoff mechanism (the slot hopper) is set into action to deliver the coins of the payoff. Modern slot machines (including video-based slot machines) all rely on a microcomputer located inside the machine to provide the payoff mechanism. In machines of this type, there is a stepper motor that moves the reels into alignment. The reels are actually set by the slot machine's internal computer program. On a video slot, the video representation of the slot reels is also determined by the computer program. In these machines, the computer program is deemed to be the primary determinant of the winning payoff combinations—not the reel positions. Various regulatory judgments and lawsuits have confirmed this approach to determining the accuracy and propriety of the payoffs.

5. The next component is a slot hopper and/or printer by which the actual slot payoff is achieved. The slot hopper is a money storage area, which is located within the machine. It should not be confused with the display hoppers that may be shown on the front of many machines. This display hopper does not have anything to do with the operation of the machine, but is used as a device to attract customers with displays of coins or other valuable items such as diamonds. Again, traditional coin-in/coin-out machines rely extensively on hoppers to dispense coins won by patrons.

Some (usually newer) casino jurisdictions have used different internal arrangements for the payoff mechanism which replace coin hoppers. In some

casinos that do not use coin-in but rely on bill acceptors alone, the only item that is dispensed is a printed receipt showing the amount won by the patron, together with other key identifying information. These receipts must be converted to cash by various casino cashiers. Figure 5-8 shows a typical slot machine payout slip. Figure 5-9 shows a modern slot machine ticket used by a ticket-in-ticket-out system.

Some casinos have gone to a mixed hopper system where a limited amount of coin is dispensed (say up to 50 coins in the denomination of the machine) and any payout exceeding that amount is evidenced by a printed payout receipt.

If slotoppers are used, the hopper is customarily filled at the beginning of casino operation or whenever a new slot machine is put on the floor. The average slot hopper load, in terms of the amount of money, depends on the denomination of the machine, the nature of the payoff schedule, and other factors. Once the initial slot load has been placed in the hopper, the slot machine begins operating.

Most typically, the machines are filled with the minimum amounts necessary to commence operations. For a 5¢ slot machine, the standard slot load is \$30–\$50; for a \$1 slot machine, the standard slot load is \$200–\$300. Table 5-5 illustrates the standard slot loads for various denominations of slot machines together with the actual amounts taken from the physical count of machines that have been on the casino floor for a number of years. The periodic sampling of slot loads and the adjustment of reported win amounts is an important step in the internal control procedures of the casino. These detailed accounting procedures are discussed in chapter 6.

These standard loads are based on long-standing industry practice in Nevada. Sampled loads are based on audit sampling procedures for a major Nevada casino. The differences show the stability and lack of long-term changes in slot loads.

When a payout is indicated by the slot computer program or by mechanical reel positions, the hopper automatically pays out the number of coins necessary. If the payouts from the hopper are too numerous, the slot hopper may become depleted. A low hopper level is usually determined by a mechanical or electronic sensing arm located inside the machine. When the sensing arm

TABLE 5-5 Typical Slot Machine Hopper Loads

Denomination	Standard Load	Sampled Load
\$1.00	\$300–400	\$334
50¢	200–300	331
25¢	100–200	208
10¢	80–200	162
5¢	40–50	35

is too low, it automatically causes a diverter to come into place. When subsequent coins are put into the slot machine, instead of falling directly into the drop bucket (which is usually located in the cabinet below the slot machine), they are diverted into the slot hopper to replenish it. Once the hopper level has been restored, the diverter arm moves back, and the coins are once again directed into the drop bucket.

6. The next component is the coin tray or slot payout tray. This is a metal tray that holds the payout of coins from the slot machine. The trays are usually specifically designed to provide maximum resonance when the coins are dropped into the tray. This noise is to create the impression of a large payout, regardless of the number of coins actually dumped into the tray. For coinless slots, the slot payout tray is where the payout receipt slip is dispensed. In some machines that utilize a printed ticket, the ticket printer mechanism may dispense the ticket in the center of the slot machine and not in the coin tray. If there are no coins used in the casino, the slot manufacturers have created resonant sounds which simulate the sound of coins falling into the payout tray.

7. The next component of the slot machine is a group of measuring devices called slot meters. The slot meters described in this section are the meters that are internal to the machine and not the meters visible to the public which indicate the amounts of jackpot payoffs that could be won on a particular machine. The purpose of these meters within the machine is to enable the casino and the gaming regulatory authorities to measure the amount of slot machine activity. Nevada law requires any machine manufactured after 1965 to be equipped with meters. The meters typically come in one of several forms. They can be mechanical meters or electronic meters external to the game board. In fully electronic games with video screens, the meters can be integrated with the slot machine microprocessor and can be displayed on the game screen by using special diagnostic routines. A slot machine customarily contains a minimum set of two meters: the coin-in meter and the coin-out meter. Of the two, the coin-in meter is more important, since it measures the total amount of actual play on the slot machine. In today's bill acceptor environment, this includes the amount of currency credits played on the slot machine as well. In the process of accounting for slot activity, the meter readings are taken on a regular basis in conjunction with the slot drop. The meter readings are collected automatically by the slot monitoring system, which electronically receives the meter data from the slot machine in almost a real-time manner. Meter reading can also be taken manually by going to the machine and initiating diagnostic routines, then manually recording the results. The actual coin count results from the slot machine are compared to the meter readings. Any significant discrepancies between the actual result and the metered result must be investigated and reconciled. If necessary, the meter readings can be adjusted. Early slot meters were mechanical in nature and tended to be

very inaccurate. The reliability of the meters has greatly improved recently with the advent of all-electronic machines. In most systems today, the reliability of the meters is taken as a given, and meter reading adjustments should be very infrequent. When the slot meters are reliable, they can be a very powerful method of controlling and reporting on gaming activity. The coin-in meter allows recording of the total number of coins played in the machine. The coin-out meter allows a careful record of the jackpots that have actually been paid by the machine. In this way, and by using the coin counts, the actual performance of the machine can be measured and compared to its expected theoretical performance.

8. The next component of a modern slot machine is an interface module for the online slot monitoring system. Newer jurisdictions require the slot machines to be connected online to a central monitoring computer system. This system is discussed in detail later in the chapter. However, each individual slot machine must have an electronic communication or interface module which provides machine identification and meter activity data to the online slot network. Initially these modules were unique to each manufacturer, but the cooperative efforts of the Gaming Machine Manufacturers Association have resulted in the standardization of the communications protocols to allow machines from various manufacturers to communicate with many different central slot monitoring and control systems.²

9. The next component of the slot machine is the stand on which it customarily sits. This slot stand serves many purposes. The first is to elevate the machine to the most convenient playing height. Second, the cabinet stand itself is used to store the drop buckets. The operation of the slot machine usually provides that the money played either goes directly to the slot hopper to replenish it, as was previously described, or into a collection area. In most modern machines, the collection area is located below the machine in the locked slot stand. The coins drop either into a canvas bag attached to the bottom of the machine or into a plastic bucket. The bucket or bag holds the money won by the machine until it can be emptied by the regular slot drop and count procedures.

10. Another component of the slot machine is the informational signage that is an important part of the point-of-sale advertising of the slot machine. These signs include the belly glass on the front of the machine and the top glass on the top of the machine. The size and shape of the top glass can vary widely, with a round-top shape being very popular. These sections of informational signs are almost always backlit with various forms of lights—some flashing, some fluorescent and incandescent, and even light-emitting diodes. This informational signage is critical to the marketing success of the many varieties of slot machines.

11. Another minor component of the slot machines which may be of im-

portance is the top light or candle on the machine. The candle is used to signal attendants that certain events are going on. For example, if change is needed, one color of light comes on. If a jackpot or other payout is needed, another light comes on. Also, if the machine is unlocked and the front door is open, another color of light comes on.

12. Finally, there are several locks located on the slot machine. There is customarily a lock on the slot stand door, a lock on the front of the slot machine door, and an internal lock on the bill acceptor box as well as a lock on the cover which secures the microcomputer to the inside of the slot machine.

ELECTRONIC SLOT MACHINES AND DEVICES

The advent of electronic slot machines and other electronic coin-operated gaming devices has created a new environment for slot operations. This has brought about a number of challenges as well as opportunities.

Electronic slot machines are the most recent development of a trend toward more electronic components within the machines. The first slot machines, popularized in the 1920s and 1930s, were totally mechanical. There are relatively few of these machines still in existence. They were manufactured by makers such as Pace and Mills Manufacturing and are considered antiques or collectable items. Virtually none of these machines are in active use in casinos today.

The first step in the electronic development of slot machines was the introduction of some electronic components. The payoff mechanisms were probably the first components to be modified. As electronic slot technology developed, machines evolved that had only three mechanical parts—the handle, the cabinet of the machine, and the reels. The rest of the parts were fully electronic. More recently, machines have been produced that could be considered totally electronic, with the reels being replaced by a television-type screen or cathode ray tube (CRT) showing the results of the play, a button in place of the handle, and a totally electronic payoff mechanism and printer controlled by a microprocessor chip. These electronic machines have given the manufacturers and the casino operators new flexibility and control over their slot operations.

Current electronic circuitry tends to be much more reliable in operation than prior mechanical machines. The lack of mechanical wear and tear results in fewer problems in the operation of the electronic slots. In addition, the use of various electronic measuring devices allows the operator to keep better control over the machine and more accurate records of what is going on in the machine. The meters are more reliable, and the microprocessor controls allow more detailed self-diagnostics of internal operating problems.

On the negative side, the electronic circuitry is very difficult to test and

validate since it involves testing the electronics and even the microprocessor itself. This testing must be done to assure that the components perform in the manner in which they are intended and that there are sufficient safeguards against either unintentional or deliberate disruption of the electronic circuitry. For example, some electronic slot machines, when first introduced, tended to pay off or empty the entire jackpot hopper whenever a certain type of walkie-talkie was used by a security guard standing near the machine. Adjustment of internal components and electronic shielding eliminated that problem, but the threat of this type of situation still exists; electronic jamming of slot machines by thieves is a problem that most design and testing facilities guard against. Computer hacking or unauthorized access to slot machine control systems continues to be an important issue of slot security.

The complexity of the necessary testing of these electronic slot machines prior to their approval and sale has created an entirely new business of game testing and validation. This niche of business is either independently owned or a function of the gaming regulatory authority. Regardless of the ownership and method of testing, the testing must absolutely be done. The game certification and approval of the new slot machines by the gaming labs is essential even before the machines can be marketed by the manufacturers to the casinos.

The final issue with regard to these electronic machines is that their repair and maintenance technology is rapidly changing. Instead of needing a skilled mechanic to repair slot machines, the new era of slot repair requires degrees and training in electronics and computer science.

SLOT MACHINE WIN PER UNIT STATISTICS

Slot machine financial performance is typically expressed as win-per-unit-per-day statistics. This figure is usually simply referred to as win per unit. Win per unit represents the long-term average revenue of a slot machine. There can be a variety of different analyses presented in order to understand the financial performance of different slot machines and slot markets.

Win Per Unit — Geographic Location

Various public jurisdictions collect slot machine revenue data and unit counts on a regular basis. Using this data, the computation of average win per unit for all slot machines can be regularly computed and compared. The trends in these win per unit amounts over time can also be useful in determining the overall health and vitality of a particular gaming market. Data is collected for about a dozen states and locations. These long-term trends are presented table 5-6. The data is presented for the years 1998 to 2002.

TABLE 5-6 Slot Win per Unit—Multiple Jurisdictions, 1998–2002

	1998	1999	2000	2001	2002
Colorado	98	96	120	120	124
Connecticut	355	360	381	375	326
Delaware	357	344	300	368	277
Illinois	290	367	383	436	442
Indiana	225	222	240	239	248
Iowa	217	200	198	189	190
Louisiana	280	209	227	230	235
Mississippi	145	135	147	129	149
Missouri	130	144	155	140	175
Nevada	78	80	86	73	92
New Jersey	208	216	232	232	237
So. Dakota	—	50	55	57	59
West Virginia	—	—	—	222	217

Life Cycle

The trend in win per unit in most jurisdictions follows a life cycle. When the jurisdiction is first open to slot machines, the win per unit is very high. The win per unit grows dramatically for the first few years, and then stabilizes as the market reaches a degree of maturity. This trend was observed in the early years of legalization of gaming in Mississippi, and was observed both in the Tunica area (northeastern Mississippi) and in the Gulf Coast region around Biloxi. The general growth pattern is followed by a maturity stage where the growth in win per unit is quite modest. In some markets such as Illinois, Louisiana, and Iowa, regulatory changes combined with maturity of the markets has resulted in longer-term declines in the win per unit for slot machines.

Market Structure

Another factor influencing the slot win per unit appears to be the overall regulatory structure of gaming within a jurisdiction. This could be referred to in traditional economic terms which divide markets into monopolies, oligopolies, and pure competition markets. The highest win per unit ever recorded was in the Windsor, Ontario, Canada, market. This market showed win per slot unit in excess of \$450 per machine per day. At the time there was only one casino within a 200-mile radius which included the Detroit metropolitan area. Similar results have been reported from Casino Montreal where it is also the only casino in the city. Monopoly markets also tend to exist in many Asian countries as well as most locations in Australia.

Oligopoly markets: There are limited locations existing in Illinois, Indiana, Connecticut, and New Jersey. These casino markets are characterized by any-

where from two casinos in Connecticut, to thirteen in New Jersey. These oligopoly markets are created by legislative and regulatory action, and are not created to protect the revenue base of the casino operator, but are usually created to control the number of casino locations and to limit access to legalized gaming. Win per unit for slot machines in these markets tend to be lower than in monopoly markets but still range from \$200–\$300 per unit per day.

Pure Competition Markets: These markets are those with virtually no barriers to entry into the casino market. There are some limits regarding location in these jurisdictions, but these are not overly restrictive. Examples of pure competition states include Nevada, Mississippi, and to a degree Colorado. The win per unit per day in these markets tends to be substantially lower—usually less than \$100 per day for the overall market.

Population, Casino Size, and Ease of Access

The final factors that have an influence on the win per unit for a particular location are related to the population in the surrounding market area, casino size, and the detailed issues involving the accessibility of the casino. The population factor usually is expressed in terms of the relevant market for the casino. Most rough estimates draw a circle of about 200 miles from the casino location, and that is considered the relevant market population for the casino. Sometimes, the circle is translated into those areas within a two- to three-hour driving distance of the casino.

This recognizes the differences in accessing some casinos, and is a particularly important factor in describing the market for tribal casinos, which are often in inconvenient or remote locations. When these two factors are combined, the casino located closest to the population center will generally draw more customers and have a higher win per unit than a more distant or remote casino location.

A minor factor in describing the market for the casino or the size of the population circle depends upon the size of the casino operation itself. Larger casinos or concentrations of casinos will tend to draw people from a greater distance than a single casino. A single larger casino will draw people from a further distance than a single smaller casino. This is a modification of a gravitational theory of site selection often used in shopping center location.

When all these factors are combined, the overall impact on win per unit seems to be the number of competitors, the available market size (population), and the details of the casino location—in that order.

TABLE 5-7 Nevada Median Slot Machine Daily Win per Unit

Location	Selected Denominations		
	5¢	25¢	\$1
Downtown Las Vegas	\$21.24	\$43.42	\$78.16
Las Vegas Strip	25.98	49.66	99.27
Laughlin	33.56	156.07	137.34
Reno-Sparks	22.56	41.96	74.21
Douglas County	23.53	53.21	81.13
Elko	17.77	32.98	69.31
Balance of State	19.91	42.12	65.93
Statewide	21.58	43.54	81.13

TABLE 5-8 Illinois Slot Win per Unit

Property	Revenue per Day (in \$)	Machines
Grand Victoria	767	1072
Harrah's Joliet	665	1138
The Empress—Joliet	523	1138
Hollywood Aurora	615	1105
Chicago average	642	
Casino Queen—E. St. Louis	355	1088
Alton Belle	278	1066
St. Louis area average	316	
East Peoria	310	1150
Metropolis	261	1198
Rock Island	140	706
Other average	237	
Average statewide	435	

TABLE 5-9 Indiana Slot Win per Unit

Property	Revenue per Day (in \$)	Machines
Argosy Casino	389	2147
Caesars Indiana	238	2486
Hyatt Grand Victoria	210	1448
Aztar Evansville	192	1357
Belterra Casino	178	1444
South average	241	
Harrah's E. Chic	378	1986
Horsehoe Hammond	518	1594
Blue Chip	341	1539
Trump Casino	184	1744
Majestic Star	633	542
East Chicago average	410	
Average statewide	305	

Win per Unit—Detailed Location

Where multiple casino locations exist, more detailed statistics regarding slot machine win per unit can be presented. Data from Nevada clearly indicates the differences and relative strengths of the various Nevada markets. Table 5-7 indicates the median win per unit for the popular denominations of slot machines located in the different geographic areas of Nevada. It is interesting to note that for any given denomination, there is a wide variation in the win per unit—clearly indicating that each market has different earning potential for the typical slot machine.

For example, a 5¢ slot machine earns from \$17.77 in Elko County, Nevada, to a maximum of \$33.56 in the Laughlin, Nevada, area. This difference seems to be very small when compared to the fluctuation that occurs in the earnings of a \$1 slot machine. The low for these machines is \$69.31 in Elko, with a maximum of \$137.34 in the Laughlin area. These figures seem to be a reflection of the differences that occur on a national basis among various gaming jurisdictions.

Since the regulatory requirements vary widely by state, this type of win per unit data is sometimes available in other jurisdictions. When the data is available, it may be expressed as an average for all slot machines, and is not often broken down to the level of detail available in Nevada statistics. Table 5-8 and table 5-9 indicate the win per unit for 2003 for Illinois and Indiana, broken down by individual casino. From the location data, details are available for each submarket in Illinois and Indiana. The same pattern of differences in slot machine win per day is clearly demonstrated in these markets as well as the traditional Nevada differences. However, no data is available on win per unit by denominations in these two markets. There is apparently some difference in slot performance attributable to the size of the casino. In general, the larger casinos tend to have higher wins per unit than the smaller casinos.

Win per Unit—Slot Denomination

This difference in earnings, both from the various geographic areas and for the different slot machine denominations, is due to a number of factors. With respect to the denominations, the superiority is based solely on the volume of money that can be played on a \$1 slot machine. (It takes twenty handle pulls for a 5¢ machine to equal just one handle pull for a \$1 slot machine.) This increased volume of money is offset by having the \$1 slot machine set at a payoff rate much greater than the 5¢ slot machines. The combination of better return to the customer, coupled with the attractive locations of the \$1 slot machines in high-volume or high-traffic areas, tends to result in very high rates of play, which in turn means increased earnings for the casino.

Denomination has become somewhat less important since the introduc-

TABLE 5-10 Median Win per Unit by Denomination—Nevada Statewide

Type or Denomination	Win per Unit
Nickel	\$74
Quarter	82
Multi-denomination	99
50-cent	110
Dollar	121
5-dollar	202
25-dollar	284
100-dollar	335
Other coin-operated	98
Average statewide (all machines)	92

tion of bill acceptors on slot machines and, to a limited degree, the use of multicoin and multidenomination machines. In modern slot machines, a \$20 bill can be inserted, and the amount played entirely in nickels. This elimination of the coin handling has made even 5¢ and penny machines a more viable part of the overall slot mix by eliminating the problems of coin handling. Most nickel machines in use today are multicoin machines, where the average amount wagered per handle pull is approximately 35¢ (the equivalent of seven coins in). In these situations, a traditional nickel machine is acting more like a 25¢ machine in overall profitability. Table 5-10 indicates a comparison of win per unit for various kinds of slot machines, on average, across all of Nevada. Note that the multidenominational machines are performing as explained above. Also, the very high win per day for large-denomination slot machines is moderated by the relatively low number of these machines.

It should be stressed that the figures in table 5-10 are the median win per unit figures. There are some casinos that operate various slot machines in each geographic area that have performance results both better and worse than those indicated. The Nevada Gaming Control Board Abstract indicates these higher and lower levels of earnings as upper and lower quartile win per unit, respectively.

Win per Unit—Casino Size

Table 5-11 indicates the differences that exist in the win per unit for all denominations of slot machines when categorized by the size or gross revenue of the casino in Nevada regions. In Nevada the results are quite dramatic, and are demonstrated to a lesser degree in Illinois and Indiana. For all locations, the larger casinos tend to have better slot revenue than smaller casinos. These property size differences can affect win per unit as much as 300%. Win per unit in large properties is better than win per unit in smaller properties in the same geographic market. The differences in revenue per machine and property size are less pronounced in the Reno-Sparks market.

TABLE 5-11 Win per Unit by Casino Size—Nevada

Size/Location	Win per Unit
Downtown Las Vegas	
1-10 M	\$54
10-20 M	83
Over 20 M	134
Las Vegas Strip	
1-10 M	48
10-20 M	84
20-60 M	104
Over 60 M	158
Reno-Sparks	
1-10 M	60
10-20M	89
over 20 M	138

In markets outside of Nevada, the casinos tend to be much more homogeneous in terms of size. This is particularly true in New Jersey and most other states that limit the overall number of casinos. In these areas, the differences in revenue per machine, by size and denomination, tend to be much less significant but are still noticeable.

SLOT MACHINE MIX

Slot machine mix is a general term that describes the physical layout and denominations of machines, as well as the exact types of machine in the casino. The primary objective of the slot mix is to have a successful slot operation. This section is concerned with describing and examining the factors that underlie this success.

The basic variables that are crucial to the overall success of slot machine operation are: floor location of the slots, coin denomination mix of the slots, and popularity (largely determined by the pay schedule of machines and hold percentage).³ Other miscellaneous factors might include a balance of new games and old standby games. This may mean a mix of some reel-spinning machines and some all-video games. Another minor factor is the necessity of including some specialty machines, some progressive machines, and some regular slot machines. In the final analysis, the best slot mix will maximize the return on the floor area.

Floor Location or Floor Plan

The floor location of the slots is perhaps the most important factor in determining the success of the slot operation. The first element of the floor location is to plan the casino so that service facilities such as restaurants and show-

rooms are in the center of the casino. In this way, customers coming into the casino for many purposes will pass the gaming areas.

The next layer outside the service core is the pit area, with the outside layer being the slot operations. This circle theory of location also uses the idea of interception, with very few direct routes being available from the center of the casino (and the primary service areas) to the exits and entrances. With these deliberately circuitous paths, the flow of customers can be directed around the slot machine area without easing their exit from the casino. The longer the patrons stay in the casino, the greater the likelihood that they will spend some additional money.

Other features of floor location include having a choice or mixture of slot denominations available. There is no single rule in this area. Some casinos mix the denominations of slot machines so there is no uniform pattern. Harrah's pioneered the "block style" of locating the slot machines in orderly rows—or blocks—of machines of the same denomination.

Another concept of slot location is the use of carousels or groups of machines located in a certain area of the casino. These slot carousels have distinctive signage and may have specific grand prizes such as specialty cars, boats, or even snowmobiles. These carousels may even be staffed by a separate change person who may also act as a carnival-style barker to attract people to play these machines.⁴ Carousels were originally started as \$1 machines, but are now found in quarter and nickel denominations.

The final aspect of floor location in the slot mix is the concept of service and security control over slot areas. It is desirable to utilize every square foot of space in a casino to produce revenue. This can be accomplished by putting slot machines in every conceivable nook and cranny. However, when the casino is busy, the ability of the slot service personnel, slot change personnel, and security and surveillance to oversee these nooks and crannies is significantly reduced.

Coin Denomination

The coin denomination of the slots in the casino is a second major factor in the success of a slot operation. There is a conventional attitude that to be successful in a certain area, you simply install the slot machines in the ratio that has already been demonstrated to be effective in your market (an imitation strategy). This is nothing more complicated than looking at reported statistics or surveying existing operations and then choosing the ratio or proportion of various denominations of slot machines indicated.

This procedure does not always work satisfactorily. While this procedure is a safe one, it will not reward innovation. The rise of popularity of \$1 machines in the late 1980s was an example of the potential for missing a sig-

nificant change in consumer tastes for different types of machines. Recently, more sophisticated marketing techniques, such as psychometric analysis and focus groups, have been combined with use of historic performance data to analyze the demand for slot machine play of a certain denomination and in a certain area. The available supply of machines is then compared to the ideal demand; if necessary, new machines are introduced or machines are removed in order to adjust the slot mix to meet the player demand.⁵

Other Denomination Issues: The overall numbers of slot machines in different geographic markets and for different types of casinos were presented earlier in the chapter. However, within market areas, there is a mix of slot denomination that typifies that local market. What is considered the ideal or appropriate mix of machines by denomination for each local market varies widely. Within Nevada the percentage distribution of northern Nevada (Reno-Sparks) as compared to the Las Vegas Strip and downtown Las Vegas is indicated in table 5-12.

The differences in the mix of machine denominations can be explained very easily by the varied marketing emphasis in each of these areas. The casinos are merely providing the mix of machine denominations desired by their unique customer group. Since the customers are very different between Las Vegas and Reno, it is reasonable to expect considerable variations in the machine denomination mixes of the two locations.

Mix of denomination differences also show up in other gaming markets. In recent years, the growth of nickel slots in many jurisdictions has been the first major shift in slot denomination patterns. Atlantic City nickel slots grew from only 3.8% of the total in 1998 to almost 21.8% in 2002. In general, this growth has also taken place in virtually all other jurisdictions. Only Iowa has reduced the number of nickel machines. In Las Vegas, the growth was more modest, with nickel machines increasing from 16.7% of the total in 1998 to 23.5% of the total in 2002.

TABLE 5-12 Slot Machines—Nevada Statewide

Casino Location	Percentage Distribution of Machines				
	5¢	25¢	\$1	Other	Total
Las Vegas Strip	30.4	41.0	22.9	5.0	100.0
Downtown L.V.	36.8	38.9	18.3	6.0	100.0
Laughlin	37.7	42.6	16.2	3.5	100.0
Reno-Sparks	34.5	33.6	22.8	9.1	100.0
Douglas County	31.1	36.1	20.5	12.3	100.0
Elko	42.4	34.6	16.2	6.8	100.0
Balance of State	39.1	38.7	15.7	6.5	100.0
Statewide	34.4	37.9	20.4	7.3	100.0

TABLE 5-13 Slot Machine Distribution Percentage, by Casino Size

Casino Location	Percentage Distribution of Machines				Total
	5¢	25¢	\$1	Other	
Las Vegas Strip					
Small	37.9	40.3	15.5	6.3	100.0
Medium	26.9	44.9	23.8	4.4	100.0
Large	26.6	36.4	29.9	7.1	100.0
Downtown Las Vegas					
Small	40.1	33.5	20.5	5.9	100.0
Medium	34.4	42.7	17.3	5.6	100.0
Reno-Sparks					
Small	38.6	28.9	24.4	8.1	100.0
Medium	28.6	38.1	24.6	8.7	100.0

The conventional wisdom in the gaming industry is that table games appeal to high-dollar players, while slots (including dollar slots) appeal to a less sophisticated and lower-dollar player. By looking at the slot to game mix, usually at any point in time, the essential marketing emphasis and customer characteristics can be determined.

The slot denomination mix as well as the slot to game mix in a casino is also an indicator of the quality of gaming customer; you would expect fewer slot machines and more table games in a high-quality market. You would also expect more \$1 slot machines and proportionately fewer quarter and nickel machines in a high-quality area. Similarly, in a lower-quality customer market there would be more slots—relative to the number of games—and the slot denomination mix would emphasize lower-value (nickel and penny) slot machines.

Other differences in the denomination mix also appear when the size of the casino is considered. Table 5-13 shows a more detailed analysis of the number of slot machines in three selected Nevada markets compared to the size of the casino. The pattern seems to indicate that casinos with greater annual revenue generally tend to have fewer 5¢ machines and more \$1 machines.

An interesting question arises here. Is the greater number of \$1 slot machines in the larger casinos a cause or effect? That is, does the greater earning power of the \$1 slot machine create a situation where the casino revenue is significantly greater, or is the greater number of \$1 slot machines the natural result of having players in these casinos that have more money to spend?

Finally, denomination mix is influenced by the maturity of the gaming market and the degree of similarity in the structure of the gaming industry. Some individual location or casino differences are to be expected in markets such as Mississippi and to some degree in Colorado, where there is a higher level of competition among casinos. Fewer differences are likely to ex-

ist among casinos in oligopoly states such as New Jersey, Illinois, Indiana, or Missouri, where the casinos are likely to be smaller in number and there is less individuality in the market.

Payoff Schedules, Slot Volatility, and Hold Percentage

The third set of factors influencing the slot mix is a combination of payoff schedule and the frequency of payoffs (volatility) with the casino hold percentage. In the structure of payoffs of the various machines there are two extremes. The first is what could be called a jackpot-only machine, which pays only if a single jackpot sequence is achieved. These are high-volatility machines. This single jackpot is sufficiently large enough to outweigh the lack of small payoffs. The second type of machine is called a multiple-payoff machine, which may have much more frequent, but smaller, payoffs. This is a low-volatility machine. The proper mix of these machines is essential since they seem to appeal to vastly different groups of players. Although psychological literature suggests the concept of selective reinforcement in small, frequent payoffs is preferable to most persons, the casino must have all types of machines in order to accommodate all types of player preferences.⁶

The payoff schedules also relate to the use of casino hold percentages, a widely accepted procedure to be able to determine what a slot machine should theoretically hold, based on a given number of plays and the known reel patterns and payoff schedule. The computation of the hold percentage on a multiple-jackpot machine is shown in figure 5-10. Figure 5-11 shows a payoff analysis for a poker machine. Note that on this machine the payoff percentage is approximately 95%, with a hold percentage of 5%. The casino must make the initial determination of the hold percentage for the slot machine at the time the machine is ordered from the manufacturer. Making subsequent changes to the slot machine may be very difficult, depending on the type of machine. Once the machine is ordered with the reel strips (symbol strips) in place, and the corresponding electronic determination of the payoffs determined by the game EPROM chipset, it is a very significant effort to change the reel strips and circuitry in order to alter any aspect of the game or the payouts. The casino must therefore decide ahead of time, based on its judgment of the competitive environment, just how much of the customers' dollar it's going to retain for itself. These hold percentage calculation sheets are also called PAR sheets (PAR = Pay Analysis Report), and are often supplied by the game manufacturer when the machine is purchased. The importance of keeping good records of these PAR sheets in order to reflect changes is an important part of maintaining minimum internal control systems over slot machine operations. These issues are discussed later in the chapter.

DEALT	BUILT	TOTAL	ONE-COIN		5TH COIN BONUS		
			PAYS	COIN-OUT	PAYS	COIN-OUT	
ROYAL FLUSH	4	60,7141	64,7141	250	16,178.5250	4000	258,856.4000
STRAIGHT FLUSH	36	244,1679	280,1679	50	14,008.3950	250	70,041.9750
FOUR-OF-A-KIND	624	5,515.0034	6,139.0034	25	153,475.0850	125	767,041.9750
FULL HOUSE	3,744	26,172.3687	29,916.3687	7	209,414.5809	35	1,047,072.9045
FLUSH	5,108	23,230.2802	28,338.2802	5	141,691.4010	25	708,457.0050
STRAIGHT	10,200	19,120.9469	29,320.9469	4	117,283.7876	20	586,418.9380
THREE-OF-A-KIND	54,912	138,532.4912	193,444.4912	3	580,333.4736	15	2,901,667.3680
TWO PAIR	123,552	211,745.0154	335,297.0154	2	670,594.0308	10	3,352,970.1540
JACKS OR BETTER	337,920	221,091.8658	559,011.8658	1	559,011.8658	5	2,795,059.3290
TENS OR BETTER	422,400						
Less than pair 10s	1,640,460						
TOTALS	2,598,960				2,461,991.1447		12,487,919.4985
				COIN-IN	2,598,960.0000		12,994,800.0000
				COIN-OUT	2,461,991.1447		12,487,919.4985
				WIN	136,968.8553		506,880.5015
				%ADV.	5.27%		3.90%
				%RETURN	94.73%		96.10%

DEALT	PAYS	10's or Better		9/6 Schedule		8/5 Schedule				
		BUILT	TOTAL	PAYS	BUILT	TOTAL	PAYS	BUILT	TOTAL	
ROYAL FLUSH	4	300	70,8500	74,8500	250	60,4542	64,4542	250	60,7141	64,7141
STRAIGHT FLUSH	36	50	259,7616	295,7616	50	248,0663	284,0663	50	243,9080	279,9080
FOUR-OF-A-KIND	624	25	5,442.7523	6,066.7523	25	5,516.0430	6,140.0430	25	5,517.0826	6,141.0826
FULL HOUSE	3,744	9	25,894.2799	29,638	9	26,175.7473	29,919.7473	8	26,179.6458	29,923.6458
FLUSH	5,108	6	23,559.0486	28,667.0486	6	23,518.2449	28,626.2449	5	23,224.8223	28,332.8223
STRAIGHT	10,200	4	24,213.3492	34,413.3492	4	18,984.7614	29,184.7614	4	18,999.5755	29,199.5755
THREE-OF-A-KIND	54,912	3	135,487.5497	190,399.5497	3	138,577.1934	193,489.1934	3	138,613.5788	193,525.5788
TWO PAIR	123,552	1	208,022.2722	331,574.2722	2	212,438.6899	335,990.6899	2	212,489.3697	336,041.3697
JACKS OR BETTER	337,920				1	219,777.8316	557,697.8316	1	221,039.8866	558,959.8866
TENS OR BETTER	422,400									
Less than pair 10s	1,640,460	1	232,260.3511	654,660.3511						

Fig. 5-11. Poker Payoff Analysis

Minimum Hold Percentage: Different states like New Jersey and Nevada have adopted vastly different attitudes toward this problem. In New Jersey, the casinos are required to have no machines that hold in excess of 15% of the customers' dollar. In Nevada in the early days, there was no specific limit of that nature, and the state depended on competition and marketing pressures to assure that the hold percentages were at a reasonable level. The only formal requirement in Nevada was that the payoff schedule must be prominently displayed on the front of the machine. The current law in Nevada uses the same 15% hold limit.⁷ The hold percentage varies widely by denomination, with the majority of the \$1 slot machines holding between 5% and 10% (considerably less in percentage terms than other denominations, but considerably more than other machines in terms of total dollars held). Another issue involves the time period over which the minimum hold percentage should be calculated. Is this intended to be an annual requirement ending with the standard fiscal accounting period, or should it be a twelve-month rolling average calculation?

Table 5-14 indicates the approximate range of hold percentages for various

TABLE 5-14 Slot Hold Percentages—Nationally

State	Slot Hold (%)
Nevada	5.2
Missouri	6.0
Colorado	6.1
Illinois	6.1
Mississippi	6.6
Indiana	6.9
Iowa	7.0
Connecticut	8.3
New Jersey	8.5

jurisdictions across the country. The amounts tend to be higher in newer jurisdictions, and gradually will be reduced over time. More mature markets tend to have lower overall slot hold percentages.

OTHER FACTORS INFLUENCING SLOT WIN

Casino physical design, interior design, and slot operation often go hand-in-hand. An understanding of the traffic flow in and around slot machines in the casino can be critical to the success of the machines. If the casino is catering to slot machine customers, and particularly if it is handling large numbers of organized bus tour customers, then particular attention must be paid to the flow from the buses into the casino with a minimum of difficulty.

Other factors of casino physical design—signage and colors—also affect the psychological feelings of the customer, and indirectly effect the slot revenue. An excellent discussion of the impact of casino design is presented by Bill Freidman in his book *Designing Casinos to Dominate the Competition*.⁸

There is a final slot machine fallacy that must be put to rest which involves the changing of the payoff structures on slot machines. Various stories circulate that there are summer and winter sets of reels for slot machines and that they are changed during the off-season to increase the payout to the customer during these slow business periods. The reality is that the process of payoff changing is long, difficult, and expensive, and is only done as part of a major shift in attitude or management style in the casino. Much more frequent is the process of moving the various slot machines from location to location in the casino. It is quite common to have a machine that does not perform well in a certain location moved to another location; due to the different environment, it may become a productive machine.

SLOT MACHINE PERSONNEL

Slot personnel, essential to the effective operation of the slot department, are divided into three categories: slot management, repair and maintenance, and

change persons. Each of these groups has a unique contribution to the operation of the slot department and plays a role in the internal control over the slot machine accounting system.

Slot Management

Slot management is usually limited to one manager per casino, who has exclusive responsibility for the slot operation, and reports to the casino manager or general manager. Unfortunately, most slot managers are repair and maintenance personnel who have been promoted. They usually do not have a keen sense of slot marketing or of what appeals to customers. This often results in a technically strong slot department with the latest machines in excellent repair, but the marketing of the machines and the related activities such as organization and layout of machines are left to chance.

Slot Repair and Maintenance

Slot maintenance is usually staffed with a minimum of one person per shift for approximately every 100 machines in the casino. The slot repair personnel are responsible for the maintenance and repair of the slots on the floor, for handling inspections if there is a short pay or improper jackpot payoff, and for assisting management in verifying the jackpots. They are also responsible for various maintenance and repair functions in the slot repair shop.

There are two very significant problems with respect to the slot maintenance function. The first is that the maintenance personnel must, of necessity, have the keys to all the slot machines in the casino, giving them instant access. Coupled with this condition is the fact that the average slot mechanic is not highly trained or highly compensated. This creates a very difficult situation where the incentive to steal (arising from low wages) and the opportunity (having key access) are frequently present on the slot floor.

The second problem arises from the present shortage of skilled slot machine repair personnel. As a result, casinos are less and less selective about their hiring, causing the quality of personnel to suffer. In addition, the new demand for electronics training has created a situation where the shortage of skilled, reliable staff has been further accentuated.

Slot Change Personnel

These individuals are the closest to the slot machine accounting functions. Slot personnel typically consist of change persons on the floor of the casinos and persons located in slot booths. The slot change floor personnel perform two separate and distinct jobs, which are often combined for ease of execution but are radically different from an accounting standpoint. These dual roles are those of slot change and jackpot payoffs. From the viewpoint of accounting complexity, as well as exposure to loss in the casino, the major emphasis

must be on the function of jackpot payoffs. In this area, the personnel must be trained not only to record the transactions correctly, but to be aware of potential irregularities in the payoff procedures. They must also be carefully trained in the approvals that must be secured for jackpots of any major size.

Slot booth personnel can act independently of the floor personnel, or they can be their supervisors. Depending on the size of the casino slot area, the volume of operation, and the number of floor personnel, the number of slot booths can vary widely. A minor activity of slot booth personnel can be to act as a coupon redemption center and a place where give-away coins can be obtained. Finally, the slot booth can provide some security and surveillance from its elevated position on the slot floor.

The change function of the slot personnel can be controlled very well by the use of the concept of imprest balances, both for individual change persons and for the various change booths located throughout the casino.

With the continuing growth of ticket-in-ticket-out technology, many casinos have developed methods of ticket redemption that involve less slot labor and less change personnel. Typically, the first step is to reduce the floor change personnel and have a specialized slot ticket cashier in a central location. A second step is to install automated cashier machines or kiosks in several locations throughout the casino. These machines can perform bill-breaking functions, issue tickets for use in slot machines, and most importantly, exchange cash to the customer in exchange for slot payoff tickets.

Slot Machine Accounting

This second chapter on slot machines expands the discussion of the detailed accounting and control procedures which casinos use in this important revenue area.

SLOT MACHINE ACCOUNTING DEFINITIONS

The definitions that are used in conjunction with slot machine operations are straightforward, since the electronic nature of a slot machine allows for the precise measurement of the various betting transactions. This measurement is much less precise for other casino table games. For this reason, the accounting definitions are not only important for understanding the operation and revenue of the slot machine, but they form the basis for understanding revenue concepts for the casino in general.

Slot Handle

Slot handle is the total amount of money played in the slot machine. It is customarily measured by the coin-in meters and is also known as the *handle pulls*. It is also referred to as *credits played* where the slot machine has a bill acceptor. If the number is expressed in handle pulls, then it must be converted to a dollar amount according to the machine's denomination. Some confusion may arise in the case of multiple-coin machines, where up to five coins can be played on a single physical pull of the handle. In this case, the handle figure would be the five-coin total amounts. Multidenominational machines generally record the coin-in amount for each denomination played.

Slot Drop

Slot drop was originally defined as the total amount of money in the drop bucket. With the advent of bill acceptors, this definition has been broadened to include both the amount of coin in the drop bucket plus the amount of currency in the bill acceptor. In a coin-in only machine, the money goes through the coin-in mechanism and is usually deposited in the drop bucket located in the cabinet underneath the slot machine. The slot drop is the amount of money put into the machine less two items: the amount of money diverted to refill the slot hopper, and any jackpots paid automatically by the machine. The bill acceptor amount is added to the coin drop to arrive at the total drop amount. The slot drop is a close measure to the slot handle or total gaming play on the slot machine with the advent of ticket-in-ticket-out technology. Slot drop also includes the value of tickets in the bill acceptor.

Slot Win

Slot win is the net amount won by the machine. It is the revenue of the slot machine. In various operating situations, there are many different elements that enter the calculation of the win amount. These various calculation methods take into account the presence of currency in bill acceptors, the use of various types of tickets for payouts, and the role of manual or hand pay jackpots.

For example, in coin-only machines where all payouts are made in coin automatically by the machine, the win simply equals the amount in the drop bucket or the slot drop. This computation assumes that there are no inventory changes in the amount of money in the slot hopper. If there are material changes in the amount of money in the slot hopper, then the win must account for changes in the inventory level in the slot hopper.

$$\text{WIN} = \text{DROP} \text{ Plus or minus INVENTORY CHANGE IN THE SLOT HOPPER}$$

In a machine with ticket payouts or jackpot players that are paid both by the machine and by the slot personnel (so-called hand pays or hand jackpots), the amount of these hand-paid jackpots tickets and slot-dispensed tickets must be deducted from the total drop to arrive at the win. The computation then becomes:

$$\begin{aligned} \text{WIN} = \text{DROP plus or minus INVENTORY CHANGE IN THE SLOT HOPPER} \\ \text{minus PAID-OUT TICKETS minus HAND-PAID JACKPOTS} \end{aligned}$$

or, more simply stated, if slot hopper inventory changes are not material:

$$\text{WIN} = \text{DROP minus PAID-OUT TICKETS minus HAND-PAID JACKPOTS}$$

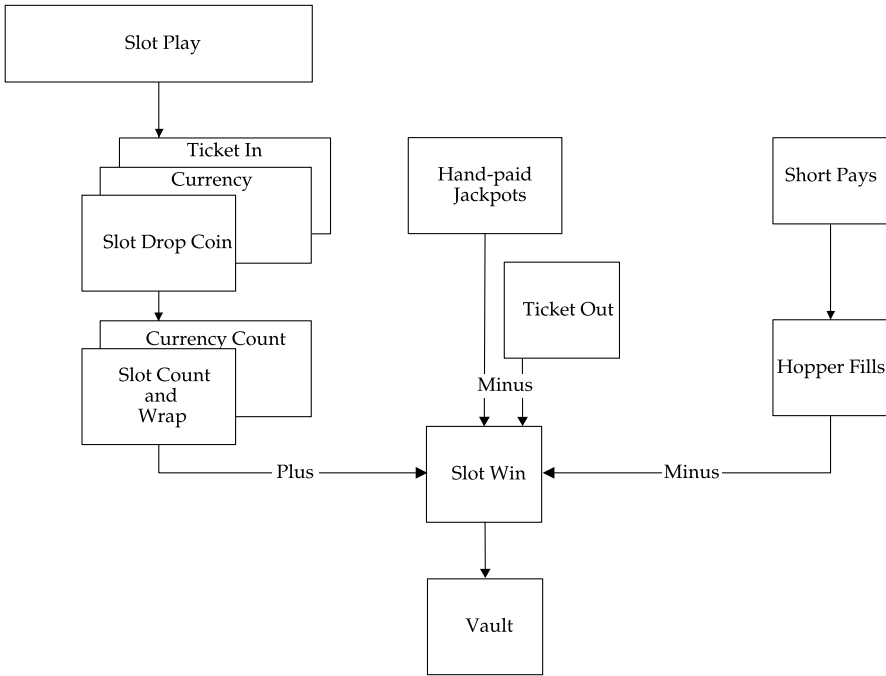


Fig. 6-1. Slot Revenue Calculation Example

Finally, there is one other alteration to the process of computing the win. In some circumstances, a jackpot of a machine that is supposed to be paid automatically in coin may be short a certain amount. This is known as a *short pay*. In this situation, two complementary actions take place. The first is that the patron who won the jackpot must be paid the total amount due. This creates a hand-paid jackpot. In addition, the reason for the short pay is either because of machine malfunction or because the slot coin hopper is empty and must be refilled before it can be put back into service. In this case, an additional element in the computation of win is introduced. This element is called a *slot machine fill*.

$$\begin{aligned} \text{WIN} &= \text{DROP plus or minus INVENTORY CHANGE IN HOPPER} \\ &\quad \text{minus PAID-OUT TICKETS minus HAND-PAID JACKPOTS} \\ &\quad \text{minus FILLS MADE TO THE SLOT MACHINE} \end{aligned}$$

Again, if the inventory change in the hopper is not material, then a simple expression of the relationship is:

$$\text{WIN} = \text{DROP} \text{ minus PAID-OUT TICKETS} \text{ minus JACKPOTS} \text{ minus FILLS}$$

For all practical purposes, the hopper levels are not measured to determine the amount of win on slot machines during the year. However, it is a customary year-end audit procedure to test sample some of the slot hoppers in order to assure that the hopper fills are close to the standard slot loads. Depending upon the results of this year-end sampling procedure, the reported slot machine win for the year can then be adjusted either up or down to match the actual amount contained in the slot machine hopper.

The slot revenue calculation flowchart is presented in figure 6-1. It shows the method of calculation of slot win based on the factors described above.

HOLD PERCENTAGES

Hold percentage is a vital management concept and a key operating statistic used throughout the casino. It is critical in the slot machine area. The hold percentage is theoretically expressed as the percentage of the money that is held by the slot machine (slot win) when divided by the total money put into or played on the machine (slot drop, coin-in, or credits played).

The hold percentage includes the win dollars divided by the total play dollars. In a pure coin environment where the machine calculations are based only on the number of coins, the hold percentage can be expressed as the number of coins won divided by the total coins played. With the introduction of bill acceptors and various forms of ticket-out technology, the more common calculation of the hold percentage is based on total dollar amounts.

$$\text{HOLD PERCENTAGE} = \text{WIN \$} / \text{TOTAL PLAY \$}$$

The hold percentage is a particularly powerful measuring device in the case of a slot machine. Because of the ability to measure the total amount played, there can be a meaningful analysis of the comparison of the theoretical hold percentage and the actual hold percentage. The machine performance can compare the actual performance to the expected standard performance.

Comparison of Hold Percentages

The comparison of theoretical hold percentage and actual hold percentage can form the basis for diagnostic and managerial analysis of slot operating results. From slot meter readings and machine specifications, a theoretical hold percentage can be calculated. With this measure, it is possible to compare actual hold results to the theoretical hold. One of the most common slot monitoring reports identifies those machines that have actual operating results substantially different than what was expected, and are listed on what is commonly called a winner and loser report. This report is then used to investigate the reasons for these significant differences.

Date	Coins In	Drop	% of Coins In	Regular Jackpot	Fills/ Shorts	% of Coins In	Win	% of Drop	% of Coins In	Par	Diff.	Confidence Level
\$1 MACHINE NO. 112 TYPE 3 PAY O PLENTY												
CURR	6388.00	2104.00	32.9	-	100.00	1.6	2004.00	95.2	31.4	22.3	9.1	W 95
W 060880	5035.00	2345.00	46.6	-	-	0.0	2345.00	100.0	46.6	22.3	24.3	W 99
W 061580	3933.00	1150.00	29.2	-	200.00	5.1	950.00	82.6	24.2	22.3	1.9	-
W 062280	2272.00	502.00	22.1	-	200.00	8.8	302.00	60.2	13.3	22.3	-0.9	-
\$1 MACHINE NO. 820 TYPE 9 THREE LINE \$ SIGN												
CURR	16720.00	2249.00	13.5	26.00	200.00	1.2	2023.00	90.0	12.1	4.6	7.5	W 85
W 060880	40496.00	2056.00	5.1	-	-	0.0	2056.00	100.0	5.1	4.6	0.5	-
W 061580	30617.00	2087.00	6.8	-	-	0.0	2087.00	100.0	6.8	4.6	2.2	W 70
W 062280	20800.00	1443.00	6.9	-	-	0.0	1443.00	100.0	6.9	4.6	2.3	W 70
\$1 MACHINE NO. 827 TYPE 8 THREE LINE PAY												
CURR	66849.00	1946.00	2.9	-	-	0.0	1946.00	100.0	2.9	6.1	-3.2	L 75
W 060880	31074.00	2790.00	9.0	-	-	0.0	2790.00	100.0	9.0	6.1	2.9	W 70
W 061580	13421.00	2098.00	15.6	-	-	0.0	2098.00	100.0	15.6	6.1	9.5	W 90
W 062280	22871.00	1235.00	5.4	-	-	0.0	1235.00	100.0	5.4	6.1	-0.7	-

Fig. 6-2. Slot Performance Report

The deviation of the actual hold percentage from the theoretical hold percentage could be a sign of external or internal slot operating problems. Externally, the machine could have been cheated or improperly manipulated, or simply have paid a large jackpot. Internally, the machine could have some form of mechanical, electrical, or other performance problems. When these winner and loser reports are reviewed, the manager must be careful to consider the level of play. Some short-term fluctuations in the slot machine performance may simply occur as a statistical anomaly. The necessity of having a large coin-in number to compare cannot be overemphasized since the inevitable long-term nature of statistical measures may make the short-run variations appear erratic and potentially misleading. However, if the coin-in amount is sufficiently large, a valid comparison of these two measures (actual and theoretical) can be made.

Figure 6-2 indicates a sample winner and loser report, where the theoretical hold percentage (called the par) is compared to the actual hold percentage (percentage of coin-in), with the positive and negative differences identified. The last column on the report, Confidence Level, indicates the precision of the measure of deviation between actual and par. Higher precision—closer to 100—is better.

METER RELIABILITY

As a result of the increasing use of electronic slot machines and the aggressive replacement cycle of slot machines in most casinos, the historic problems of slot meter reliability have largely disappeared. However, in the situation where coin-in meters cannot be relied upon, the comparison of theoretical to actual hold is more difficult. In these situations an estimated measure of hold percentage can be used. One such after-the-fact measure is expressed as:

$$\text{HOLD \%} = \$ \text{ AMOUNT WON divided by } \$ \text{ DROP AMOUNT}$$

Although this number is an approximation, and assuming that the hopper levels are largely unchanged, then the drop amount should be closely related to the theoretical measure of coin-in. The effect of this changed formula is to use a more reliable counting basis (the actual physical count of the coins and currency) rather than the possibly unreliable meter measurement to determine the actual hold percentage. Although the hold percentages may vary from the theoretical setting of the machine, the long-term stability of this new estimated measure of hold percentage can be used as an indicator of the performance of the slot machine.

SLOT ACCOUNTING PROCEDURES

There are two main flows of accounting information in the slot machine area. The first is the cashiering function, as typified by the various change personnel or change functions in the casino. The second includes the casino revenue flow procedures—encompassing the drop, the jackpot, and other payout procedures—and revenue count activities.

Cashiering Functions

Figure 6-3 indicates the general nature of money flow in the casino slot machine operation. The cashiering flow is illustrated around the outside of the diagram. Most of the money transaction flow is between the customer and the machines and from the customer to and from the various change personnel. The customer interacts with change personnel in the slot booth and the slot booth personnel interact with the vault personnel.

Since most of these transactions are made on an even-money exchange basis, they are referred to as cashiering transactions. Each cashiering function can be accounted for and controlled on a fixed or imprest balance system. At any time, the cashier is responsible for a sum of money plus paid-out documents which represent their accountability.

The only changes in the amount of money are for shortages or other irregular transactions. For virtually all of the other transactions, the amount of money on hand at any point is constant, with only the physical composition

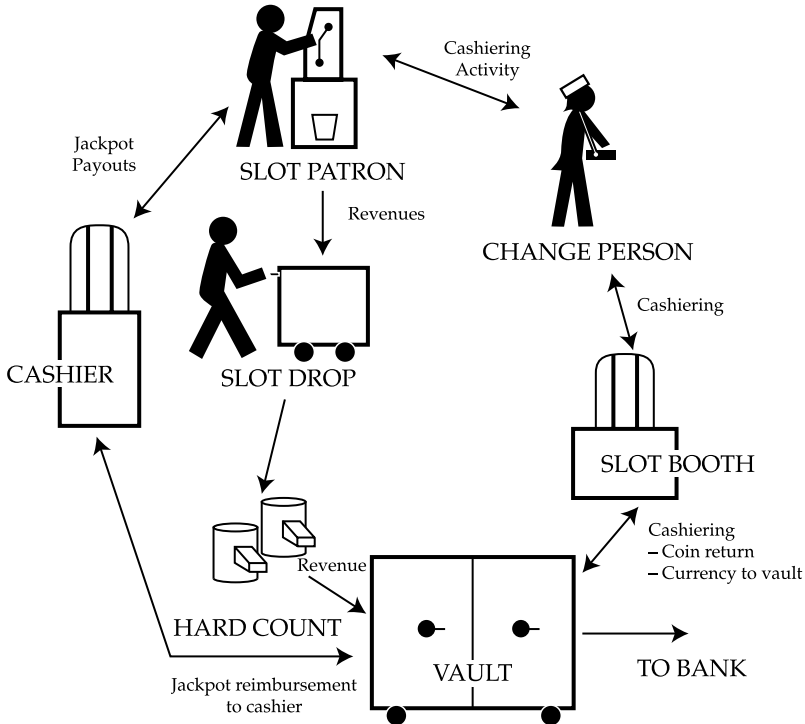


Fig. 6-3. Slot Machine Accounting Flow

of coin or currency changing. When the amount of currency builds up, either with the change person or in the slot booth, the currency is exchanged for coins from the other sources such as a coin vault.

In a coin environment, it is important to note that the coins are derived from the count and revenue cycle of the slot. It would be an enormous physical task to transfer that much coin to the bank. Instead, the coin is exchanged for currency in the vault, and the currency is deposited in the bank. The coin is held in the vault to be recirculated back to the slot booth and, in turn, is sold back to the patrons.

Revenue Functions

The second major flow in the slot area relates to the revenue function of the slot operation. This flow is indicated as the revenue portion of figure 6-3, and is shown in the center of the diagram. The principal component of the revenue flow in the slot area is the action of the patron inserting a coin or currency into the slot machine or bill acceptor. The coin, if won, drops into

the machine then finds its way to the drop bucket in the cabinet beneath the machine. Similarly, the currency is retained in the bill acceptor until it is later removed as a part of the slot drop and count procedures.

At the proper time designated for the slot drop (discussed in detail later), the coins are removed from the drop bucket and are physically transported through the casino to the coin counting room. The currency is also removed from the bill acceptors at this time. The bill acceptor cash boxes are removed with the currency locked inside. The locked boxes are held in secure storage until the slot count process begins. Currency is not accessed directly while on the casino floor. These procedures are accomplished under very tight security and controlled conditions. Once the coins and currency are in the coin count room, the process known as the *hard count* commences. The count process utilizes sophisticated high-speed counting machines for both coin and currency. Once the amount of coin and currency is determined, it is wrapped in standard denominations and is transported to the vault. When it arrives in the vault, the revenue reporting is completed by the reconciliation of various paid-out documents, such as jackpots. At this point, the final slot win or slot revenue is determined. The coin is either held in the vault or transferred to the coin storage area (or the slot booth) in exchange for currency. The currency from the coin exchange and the currency from the slot count are combined, and the total amount of the slot win is then deposited in the bank.

In some casino accounting systems, the amount of slot win is recorded for each slot machine automatically by an interface with coin and currency counting equipment. In other systems the amounts are entered into computerized spread sheets which automatically record and transfer the amounts to the accounting system.

Slot Hopper Accounting

A significant accounting issue arises when a new slot machine is put into operation or when the casino first opens with all new slot machines, and money must be put into the machine hoppers. With some new machines that utilize ticketing technology, the payout mechanism may be a ticket printer, and there may not be any slot hopper in the slot machine.

If hoppers are present, the most important thing is to account for the amounts of money that are put into the slot hopper initially (the initial hopper load) as capital transactions (and a part of the overall casino bankroll), and not to record them as offsets to the initial calculation of slot revenue.

The initial slot hopper loads should be carefully recorded and observed by the independent accountant in order to verify their amounts. This eases the subsequent auditing process since the amount of fluctuation in the slot hopper load can be accurately determined. The amount of money that is placed in the slot hoppers is accounted for as a deduction from the accountability (the

cash balance) of either the vault or the cashier's cage, depending upon the preference of the casino management. From a formal accounting viewpoint, the journal entry to record initial slot hopper loads at standard fill amounts would be:

DR Cash on Hand—Slot Hoppers	\$999,999
CR Cash on Hand—Cashier's Cage	\$999,999

Slot Hopper Load Problems: There are three main problems associated with the process of slot hopper loads. The first is the concept of slot load creep. In this situation, the amount of the slot hopper load tends to increase over time. This increase may be the result of several factors: (1) poor record keeping, so that the amount of the original load is unknown; (2) deliberate underfilling of the hoppers when the casino is opened, and; (3) as an unintentional result of machines getting out of adjustment and overfilling the slot hoppers.

The problem of slot hopper load creep arises from the fact that if the original slot load is lower than the amount in the hopper at the end of the fiscal period, the amount of revenue that was truly earned by the machine during that time is not in the drop bucket and most likely is not reported as income. The amount of slot creep can be significant as experience has shown that slot loads tend to increase over time.

Accuracy of the revenue reporting process can be achieved by having the amounts of the slot loads reviewed periodically by physical inspection and counting the amount of money actually contained in the slot hopper. If the amounts of money in the hoppers have increased significantly above the standard amounts or the original slot loads that were recorded, an appropriate adjustment should be made to the revenue figures to reflect this hopper creep. Another alternative would be to physically reduce the amount of the hopper load back down to the original amount of the slot load and to indicate the difference as additional revenue.

The second issue is determining the operationally appropriate amount of the hopper load. If the slot load is substantial in terms of dollars, then the casino has a higher level of exposure to slot cheats. If the machine was emptied or dumped improperly, the amount of the loss could be significant. The opposite side of the issue is that most machines can pay the majority of the day-to-day jackpots automatically to minimize labor costs. Thus, in an effort to keep the short pay and hand-paid jackpots to a minimum (to minimize labor costs), the slot loads in the machines may be increased in order to pay most jackpots automatically.

Examples of typical slot loads for each denomination of machine are indicated in chapter 5, table 5-5. Those amounts indicated are the standard hopper loads, compared with the amounts actually in use in a casino. The actual

beginning amounts were the result of sampling the loads in slot machines at year-end. The figures seem to indicate a moderate amount of hopper creep.

A second set of problems affecting coin hoppers is the introduction of bill acceptors into slot machines. The bill acceptors have become the major portion of the revenue input for slot machines, while the actual coin-in has become much less important. As a practical matter, casino patrons may want to cash out from a slot machine (for example this may require a \$19 cash-out when a \$20 bill was inserted into the bill acceptor). In these circumstances, the coin hopper will become quickly depleted. This has two adverse effects on the casino operation. The first result is a rapid rise in the frequency and amount of short pays (not enough money is dispensed by the slot machine) and corresponding hopper fills to the machine. There is also a problem of inconveniencing the casino customers by having them wait while the hopper load is processed and the machine is restored to full operating condition. The second is that with fewer coins going into the slot machine, the amount of coin available to replenish the coin hopper is reduced, and the amount of slot load creep is substantially reduced. The amount of coin actually in the drop bucket under the machine (which must be counted) is also reduced. Some casinos have decreased the frequency of coin drop and count due to the reduced coin revenue. They still drop and count the slot currency in the bill acceptors on a daily basis, however.

SLOT MACHINE MINIMUM INTERNAL CONTROL PROCEDURES

The detailed procedures outlined below are typical of a small- to medium-sized casino, operating in a coin and ticket environment. Various regulatory bodies have promulgated certain minimum standards of internal control. These procedures are considered the basic minimum required to achieve good control over the revenue reporting procedures in the casino. Some guidelines, such as those promulgated by the National Indian Gaming Commission, call for different procedures based on the size of the casino and varying aspects of the operation (that is whether the casino uses only ticket printers for paid-outs or whether coins are used in conjunction with ticket printers). These minimum internal control standards (often referred to as MICS) often call for additional steps that may not be included in the following basic procedures. Finally, individual casino operations may use different processes to address unique operating needs or circumstances. In general, these differences and extensions of procedures are satisfactory as long as the minimum standards continue to be met. The slot revenue procedures could be described in four distinct phases:

1. Slot drop—the physical removal of the coins and currency from the machines

2. Slot wrap and count—the count of coins and currency in exact amounts and the preparation of the coins for reuse in the casino
3. Revenue accounting—the computation of revenue offsets and computation of win, including entering of amounts into the revenue ledgers of the casino
4. Recirculating the coin and currency—the transfer to the vault and cashier's cage for subsequent reuse

Slot Drop

Scheduling: The first element of the slot drop is the scheduling of the times and personnel involved in the drop procedure. First, the days of the week on which the drop will be performed must be determined. There are several considerations. Depending upon the size of the operation and the volume of activity, the drop may have to be done on a daily basis. However, most casinos use a schedule of two or three times a week. The twice-a-week schedule is keyed on what times are most suitable to have the machines empty and the coin counted and wrapped so that it will be ready for operation again during the busiest time of the week. For this reason, casinos usually schedule the drop on Monday or Tuesday, coupled with another drop immediately before the weekend, usually early on Friday morning. In some casinos there may be a different time specified for the drop of the coin from the slot machines, and a separate time for the drop of the currency from the bill acceptors. In some casinos, the bill acceptors are dropped daily, while the coin drop is done once or twice a week. Finally, some denominations of slot machines may be dropped more or less frequently than others.

A second factor is the time of day the slot drop. For most casinos, the slot departments are quiet during the early morning hours, and the slot drop is scheduled at this time for several reasons. First, the security problems are lessened if fewer people are around, and the inconvenience to customers is minimized if the drop is done during the early morning, typically from 2 AM until 6 AM. Another factor may be that the slot drop is scheduled so that the early morning drop team can transfer the coin drop buckets and bill acceptor storage cans directly to a separate count team who will count beginning around 8 AM, which is typically the start of a regular working day.

There is a requirement that the time selected for the drop of the slot machines be specified to the regulatory authorities. Also, once the time of the slot drop is set, it cannot be changed without notifying the authorities. The slot drop must thereafter be performed during the time specified by the casino. (In some instances, casinos run short of coin during the weekend and have to schedule a special slot drop to clean out their machines with the permission of the gaming regulators.)¹

Slot Drop Team: The slot drop team, as previously mentioned, usually consists of three members, two of whom remove the drop bucket contents and empty them into another bucket or into numbered bags. The third person is a security guard who may perform some of the slot machine meter reading functions.

The membership of the count team is very restricted by regulation. The general rule is that no owners of the casino can participate in the drop procedures, and the members of the drop and count team must be independent of the slot operations and slot management. In most instances, the work of emptying a large number of slot machines (anywhere from 150 to 1,500) can be a strenuous, back-breaking job in which very few owners would be interested in participating. People with exceptional physical stamina are usually recruited for this job and are supervised by the cashier or vault personnel, or specially designated drop and count personnel. Again, where there are separate coin and currency drops, a separate team may be designated by the casino for each type of drop.

Slot Drop Procedures: The slot drop must be accomplished according to the operational and control guidelines provided by the regulatory authorities. Since the drop is one of the key areas of control and since there are usually carefully written guidelines for the conduct of the drop, drop procedures tend to be highly standardized from casino to casino. The slot drop occurs in the following sequence.

1. The supervisor of the count team gets the key to the coin count storage room from the responsible person. The key is usually kept in or adjacent to the main cashier's cage. This person signs out the key by filling out a key control ledger or recording the key-out time and approval on a computerized record. It is important that the record indicate the time the key goes out.
2. The count team gets all necessary materials, including a set of numbered drop buckets and/or a set of numbered bags. These numbered buckets or bags keep the drop from each machine separate. The revenue can therefore be traced to a particular machine in order to meet the regulatory reporting requirements.
3. The keys to the slot machines and the slot stands are signed out.
4. Each machine and drop stand is individually opened. Again, the contents of the drop bucket are kept separate among machines. This rule is important because it is the only way that management can subsequently determine how much each machine has won or lost.

These segregation procedures vary widely. One system is to empty the buckets into a series of coin sacks, each with an identifying number, or else into unmarked bags or buckets, with some form of identification such as a disk or tag indicating the machine number added to each bag. Other count

systems utilize duplicate sets of buckets, with each bucket numbered for the machine. The full bucket is removed and the corresponding empty bucket replaced in the slot drop stand. The same identification procedures are used for the bill acceptor canisters. Each canister must be kept separate from the others. This can be accomplished by having a duplicate set of canisters, or by attaching some form of identification to each canister when it is removed from the machine. The coin buckets and canisters are loaded on a cart and moved among the machines until all machines are emptied.

Another procedure is to take the money out of the drop bucket and count it immediately, usually by use of a sensitive scale or portable counter located on a cart that is moving through the slot area. Once this count has been done for the machine, the drop is recorded, and all the coins of a certain denomination are then dumped into a large bucket on the coin cart. The individual machine coin amount is captured at this stage and the accounting and control requirements met.

5. Before moving to the next machine, another member of the slot team opens the slot machine itself and records the meter readings on a special reading sheet. In some Native American jurisdictions, the meter information is collected by a member of the internal audit staff. This sheet must be completed in ink. The meter readings for both coin-in and coin-out are recorded if available. Meter readings from progressive slot machines are usually required to be done on a daily basis, and can be done at this time or as a separate procedure at a later time.

6. When the cart is full, or all the machines have been emptied or dropped, the count team moves the slot cart to the slot count area where the next phase of the process, the slot wrap and count, takes place.

7. The keys to the slot machines and the slot stands are returned to the safekeeping of the main cashier's cage. The main cashier records the time of return and signs the ledger, thereby acknowledging return of the keys.

The essential control elements in this process can be briefly summarized as follows. First, the keys to open the stands where the drop buckets are located are subject to a high degree of control. Second, drop bucket and bill validator contents are carefully segregated by machine number for subsequent managerial review and detailed revenue reporting. Third, the use of the count team, with no members who hold slot managerial positions, creates a control through the segregation of duties. Fourth, the recording of the slot meter readings provides a backup measure against which the actual coin drop results can be evaluated.

Slot Wrap and Count Procedures

Currency Count: The currency count team takes all the bill acceptor canisters and removes the bills from them. Each canister has its own identification number and the number of the machine from which it was removed. The currency is put into a high-speed bill counter, and the various denominations separated, counted, and stacked. The amount from each slot machine is recorded. Depending upon the degree of automation, the currency might also be bundled and strapped into correct denomination bill packages.

With the increasing use of ticket-in-ticket-out technology, the bill acceptors may contain tickets from other slot machines. These tickets must also be separated and separately recorded as revenue to the slot machine. The ticket is the same size as a bill, but has variable value, so the amounts must be separately calculated.

Coin Count: The problems of the slot count procedures can be likened to counting the kernels of corn in a grain elevator. There is an avalanche of coins to be counted because of the periodic drop procedure. In an attempt to simplify this measurement process, the initial count of coins is usually established by weight. This initial count by weight is used by management as a preliminary indication (or flash figure) of the operating results. It is required to be followed by a more accurate physical count and wrap.

The use of only a weight mechanism to account for the slot drop is to simplify the count procedure. As a result of the 1979 Argent slot fraud in Las

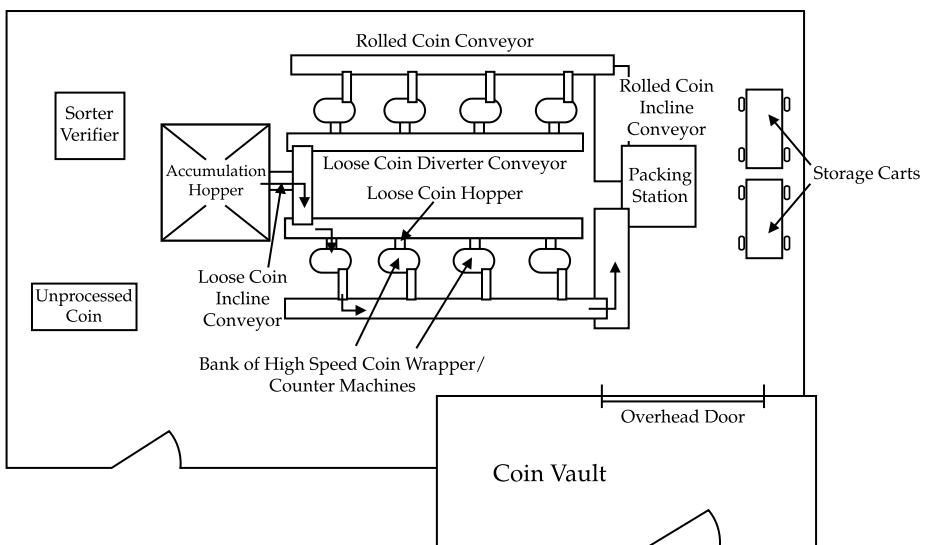


Fig. 6-4. Slot Coin Count Room Layout

SLOT DROP COUNT					
Date _____		Count Team _____			

MACHINE NO.	OUT	IN	DROP	COUNT	EXTENDED

Fig. 6-5. Slot Count Summary Sheet

Vegas, which had its root in inaccurate weight counting of coins, there have been new and improved calibration and testing procedures over weigh scales used in the casino count rooms.² There continues to be close oversight of the weigh processes by casino regulators.

Some of the Nevada casinos have what could be categorized as very unusual layouts for their hard count rooms. A typical slot count room layout is indicated in figure 6-4. The amount of the coin is first determined by weight. The coins are then transferred by automatic conveyor to a bank of high-speed, wrap and count machines. The coins are counted and then physically transferred to the slot coin vault area.

The coin vault, along with other vault and cashier activities, is under the administrative control of the controller's office, thus representing another important separation of duties in the slot count process.

Detailed Count Procedures: After the slot drop has been accomplished, the first step in the count is the recording of the individual slot drop by machine and by each machine's denomination. The results of the individual machine counts are then consolidated into a count of all coins or bills of a single denomination. Thus, for example, all 5¢ coins or \$20 bills are counted together. The results of the individual machine counts and the summary within denominations are then recorded. The results of the count are usually recorded on the slot drop record sheet. A sample form (for a manual system) is shown in figure 6-5.

The same machines that count the coins by denomination also wrap the coins automatically. The wrapped coin is then put into metal boxes (referred to as cans) in standard denominations. (For example, a can of nickels holds fifty rolls of nickels, each worth \$2, for a total value of \$100.) These cans are then stacked in the counting area; when the count for all the coins has been completed, the coins are physically transferred to the vault with the accompa-

nying paperwork. Similar standard bundles of currency for each denomination are counted and strapped by the currency counting machinery.

There are important reconciliations made between the initial coin weigh count (if used), the summary of the count by machines, the denomination count, and the total count. These amounts must agree throughout the process to assure good accounting control over the slot drop. At the completion of the count and the reconciliation process, and after any and all differences have been identified, the members of the count team all sign the documents attesting to the correctness of the amount of money, and the physical transfer to the vault takes place. At this time the vault cashier signs a transfer sheet, witnessing the transfer of the drop to the vault.

FINAL COMPUTATION OF SLOT WIN

The counting of the slot drop is physically the most difficult part of the process of determining the slot win, but it is only one part of the total process. All the other elements of the slot win must now be brought together.

The other elements of the slot win are the various paid-out documents. This includes jackpot paid-out documents, slot fills, slot short pay documents, and machine ticket paid-outs that were not inserted back into a machine. Again, various casinos have different procedures, but the essential elements are common to all. This process of combining slot win components can be accomplished in several ways.

The first alternative is for the slot personnel to take coin from the slot drop and actually "buy back" the fills and paid-out jackpot documents from the cashier's cage. The second method is a more indirect exchange in which the paid-outs and the fills are transferred from the cashier's cage to the vault, and the cashier's cage is replenished with coin. The vault cashier then assumes the responsibility for combining the paid-out documents with the drop calculations in order to determine the overall win. It should be noted that in casinos with no coin, or casinos with substantial ticket printer activity, there may be separate procedures, including computerized or automated equipment used to add up the total amount of the paid-out tickets. In casinos with highly integrated slot accounting systems, the redemption of slot paid-out tickets and other items may be already entered into the system, and a running total is kept of paid-out items. This record keeping may also identify the machine that issued the paid-out ticket.

The process of calculating the slot win, including detail by machine, is usually done by the computer system. The vault cashier is responsible for total verification and completing the necessary input forms for the data processing department. The completed documents are sent to the accounting department, where all the computations for the slot win are combined with overall casino revenue reports.

Accounting Department Role

In order to complete the necessary statistical reporting required by the regulatory authorities, the accounting department combines the following information into the computerized slot accounting system:

1. Meter readings for each slot machine
2. Slot drop figures for each machine
3. Slot paid-outs, including fills, short pays, and jackpots for each machine

This information either is entered directly into the computer via a terminal or is entered on summary sheets, from which the information is later transcribed into machine-readable formats. In order to simplify the entry of this information into the slot management system, many types of automatic data entry have been developed, including automatic meter readings taken directly from the slot machines by an online system.

At this time, the slot drop figures are also verified from the count recap sheets, jackpots are verified from the jackpot paid-out summary sheet kept in the cashier's cage, and all other paid-outs occurring during the shift are included.

After the computer run has been processed, it is distributed to the members of the slot department and general manager, and copies are retained in the accounting department. The slot win figures, after the slot reporting system computer run has been completed, are then transferred to the revenue system via summary general ledger postings. The format and the use of the various forms of the slot reporting system are discussed in detail later in the chapter.

SLOT OPERATIONAL TRANSACTIONS

The operational transactions in the slot department that require documentation for accounting and procedural purposes revolve around transactions occurring in the change booth and made by the various change personnel. The basic control element in the slot area is the maintenance of an imprest balance or fixed control total for virtually all change funds. Under the imprest system, the change booth is operated exactly like a large petty cash fund, although it may contain as much as \$25,000 to \$50,000. At any time, the total of all cash, coin, and paid-outs should equal in total the imprest balance. At the end of the shift, or whenever the amount of money available is insufficient to meet the operating needs of the slot booth or cashier, paid-outs are cleared and the coin levels restored. In some control systems the amount of the change fund is not a fixed amount, but may fluctuate to meet operating results. The process of reimbursing or clearing paid-outs from other sources is exactly the same, regardless of whether a fixed or floating amount is used.

The process of clearing the paid-outs takes place between the slot booth and the cashier's cage. It could also occur between the slot booth and the main vault, depending upon the flow utilized in that particular casino. The process is uniquely simple: the cashier or vault buys back all the paid-outs of the slot booth. For simplicity, there may be some formal recap or summary sheet prepared to attach to the various paid-out forms. The exchange process is usually verified by having both the slot cashier and the vault cashier sign for the accuracy of the coin exchange. These exchange documents are subsequently audited by the internal audit staff or by the accounting department.

Finally, each of the slot booths has end-of-shift checkout procedures and a summary coin count form that must be completed. The purposes of these forms are to record the ending balance and composition of the cash and coin in the slot booth and to serve as a transfer-of-responsibility document to the oncoming slot booth attendant.

The operational transactions between the change persons and the slot booth are the exact parallel of the operational transactions between the slot booth and the cashier. In the case of slot personnel, when the coin levels get too low the change person can buy coin from the slot booth to replenish the stock. This purchase can be accomplished by some combination of paid-out vouchers, such as jackpots, and cash.

There are different organizational philosophies as to the responsibilities of the change persons for jackpots. In some casinos, the slot change persons have authority to pay only certain jackpots, and all jackpots over a certain amount must be paid from the slot booth or the cashier's cage. In other casinos, all jackpots must be paid from the cashier's cage.

End-of-shift procedures of the slot change persons are not usually documented in writing, but are simply the process of mutually counting the money in the storage drawer and the change fund and handing it over to the oncoming shift person.

AUDIT PROBLEMS OF SLOT TRANSACTIONS

The audit and control problems of the slot operational transactions revolve around the validating of various paid-out items. These include slot fills, jackpots, short pay documents, paid-out tickets, and the various kinds of miscellaneous coupons that are typically redeemed at the slot areas.

Paid-Out Procedures—Generally

The slot paid-out procedures are of basically three types: (1) promotional items such as free nickels; (2) jackpots paid to players; and (3) fills of machines that require the hopper to be replenished, or short pays where the contents of the hopper were insufficient to pay the required jackpot.

Types 2 and 3 are treated as offsets to the slot win, while promotional items

such as type 1 are not usually accounted for as an offset to slot win, but are considered a promotional expense. This separate treatment means that the later accounting for these types of promotion items must be separated from the other paid-out items.

Jackpot Paid-Outs: Whenever a player wins a jackpot that is not automatically paid directly by the machine, the following detail procedures come into play. The first consideration should be for the security and propriety of the jackpot—is it legitimate?

The legitimacy of the jackpot can be assured by answering the following questions. First, is the machine operating properly? Has the machine been cheated or altered in any way to produce the jackpot, or has the machine been manipulated in some improper manner? In some high-value jackpot situations, this might even call for a review of surveillance videotapes for the past 12–24 hours to see if any improper activity may have occurred at the slot machine.

The second consideration is whether the amount of the jackpot is correct for the reel setting or machine readout that appears. This question must be answered because there are many opportunities for errors in paying jackpots caused not just by cheating, but also by inattention of the jackpot personnel to the correct amount to be paid. In electromechanical machines, there may occasionally be a situation where the reels appear to line up for a jackpot, but the internal electronic logic of the machine indicates that no jackpot occurred. In these cases the casino should have in place rules, including a customer dispute resolution procedure. It is common practice to rely on the internal circuit logic of the microcomputer controlling the slot machine, and *not* to rely on the reel settings. Some casinos have gone so far as to state this rule on some part of the slot machine display glass, or post placards in the slot area. This should help to resolve some customer disagreements. Finally, there may be an internal casino policy stating that questionable payouts will be made if the amount involved is small, if the customer is a known customer, or if other extenuating circumstances occur.

The third element in a good slot payoff policy is to consider what approvals may be necessary in order to pay the jackpot. Depending upon the size of the jackpot, various casinos have different levels of necessary approval. Table 6-1 indicates the typical approval schedule for jackpot payouts in a casino.

TABLE 6-1 Slot Jackpot Approval Schedule

Jackpot Amount	Responsibility
All hand pay	Slot manager Change employee Security
Over \$500	Games shift manager

Fourth, a jackpot must have appropriate documentation. This documentation may vary by the size of the jackpot, and must serve to accomplish at least three purposes. The accounting forms must capture the amounts to serve as inputs to the revenue determination process. The forms must verify the propriety of the jackpot, and the form may have to serve as external documentation such as for IRS or currency transaction reporting.

Correctness of the Jackpot: The issue of the correctness of the jackpot can be determined easily by consulting the payout schedule displayed on the machine. Nevada law and many other state rules provide that the machines must prominently display the payouts appropriate to the various winning reel symbol combinations. The jackpot payoff person has to be very careful to pay only the correct amount. Overpaying jackpots can be a major source of revenue loss for a casino and can occur either through carelessness or through a deliberate attempt to cheat the casino. Overpaying could also be an attempt by the change person to curry favor with the customer, in the hopes of gaining a generous gratuity.

Documentation of the Payout: The documentation of the payout includes a jackpot payout ticket, which is a multipart form listing a variety of identification information. Typically; the information includes the following:

1. Machine number and location
2. Denomination of the machine
3. The winning combination of reel symbols that constituted the jackpot
4. The time and date of the jackpot
5. The amount of the jackpot
6. The signature and employee ID number of the jackpot payoff person and at least one supervisor (if the amount of the jackpot is large, additional information and the signatures and identification number of supervisory personnel may be required)

In addition to preparing a jackpot payout form for each jackpot, the cashier or the slot booth personnel usually prepare a summary form listing all jackpots paid during a shift. This serves as an ongoing control to prevent successive cheating of one machine or group of machines. The presence of repeated entries on the summary sheet will serve as a warning signal, since a pattern of large jackpot payoffs would be indicated.

Another simple control feature that could be used to document the payout of a jackpot is taking a picture of the face of the machine. Also, surveillance could be requested to capture video to document large jackpots. This would verify that the payout was made for the actual winning combination, not merely a situation where the jackpot payoff person was paying a con-

federate. Finally, documentation of large payouts may require specific types of customer identification, both for casino control purposes and for required regulatory reporting. If the jackpot is very substantial, some casinos impound the machine and have a slot mechanic or the regulatory agency personnel inspect the machine for any evidence of faulty operation or tampering. The maintenance report of the slot mechanic might also be filed with the jackpot payout ticket.

INCOME TAX WITHHOLDING RULES AND IRS REPORTING

There are specific rules regarding the withholding and reporting of slot machine jackpot winnings to the IRS. The rules in place could be organized around three main areas. The first is the necessity of reporting large slot machine winnings to the IRS. The second includes the various rules regarding proper identification, and the third area relates to a series of special circumstances and issues.

IRS Reporting of Slot Jackpots: The general rule here is that if the slot jackpot meets or exceeds \$1,200, the winnings must be reported to the IRS on the form W-2G. This \$1,200 threshold is the amount of win. Some casinos have begun to promote “tax-free” slots, where the maximum payoff is set at \$1,199, which presumes that the net amount is still below the \$1,200 reporting threshold.

With modern slot machines with bill acceptors, it is not unusual for a customer to accumulate credits on the machine in excess of the \$1,200 amount. When the customer requests a cash-out of these accumulated credits, the law is less clear since the payout may not be the result of a single wager, but rather an accumulation of winnings, and may even include the refund of some of the customer’s own money which had not yet been wagered. In these cases, the solution is usually an expedient one. Most slot control systems have automatic settings that lock up the machine when any payout of \$1,200 or more is triggered. Thus, the cash-out of accumulated credits usually triggers a lock-up, followed by a visit from a slot attendant, and the completion of a W-2G for the customer. While this is a conservative action on the part of the casino to avoid penalties for noncompliance to IRS reporting requirements, it is sometimes a problem with customer relations.

A second approach to reporting jackpots is to provide a tracking of the play of a customer and an accumulation of the amounts won through the slot reporting system or the slot club identification process. In this situation, the casino may issue a single “combining” W-2G in the amount of the sum total of all \$1,200 jackpots won by a customer in a business day.

When a slot jackpot award includes merchandise other than money as part of the jackpot (such as diamonds, a motorcycle, a boat, or a car), the reporting procedure is much the same. The amount reported on the W-2G indicates the

fair market value of the merchandise. That amount usually approximates the average retail or “street” price of the merchandise.

In the case of multihand video poker or multiline slot machines, the question is whether the W-2G reporting threshold is the total payout of at least \$1,200, or is the reporting threshold the win on the individual hand or line of the game. The best interpretation is that the total win per wagering event—including all hands played at one time, or all lines played at one time—would govern the reporting threshold.

Finally, where other merchandise is given away as part of a slot machine promotion within the casinos, and if those giveaways are not directly tied to a wagering event on a slot machine, the IRS reporting requirements change slightly. The procedure is usually to record those “giveaways” when they meet or exceed \$600 in value (aggregated over the year to one individual). Those amounts are reported on the IRS form 1099 Misc.

IRS Withholding Requirements: The IRS requires the withholding of monies from slot jackpots in certain circumstances. In general, slot jackpots that are reportable on W-2G are exempt from withholding if there is proper identification, and nonresident status is not involved.

The most common situation requiring withholding is where large jackpots may be won by Canadian or Mexican nationals who are not residents. In this case, the reporting takes place with IRS form 1042S, and a sum is withheld from the payout. The rate of withholding is generally 30% of the jackpot. The rate for Canadians is 15% of the jackpot. Other nonresident withholding rates may vary depending on the tax treaties between the nonresident’s country and the U.S.

Other situations that require withholding occur when a winning customer does not provide a suitable taxpayer identification number such as a Social Security number. Under these circumstances, the IRS requires a minimum withholding of 28% of the jackpot. Some casinos have adopted internal guidelines so that if no suitable identification is available, then they will withhold the entire amount of the jackpot until proper identification is forthcoming. In all cases where withholding occurs, the amount withheld is remitted to the IRS by the casino accounting department.

From a procedural standpoint, when federal form W-2G is filled out, three copies are completed. One copy given to the winner, one copy retained by the casino, and one copy filed with the IRS.

Identification Requirements: If the slot jackpot is at least \$1,200, then the identification requirements must be met. When this occurs, two forms of positive identification must be supplied by the slot winner. The two forms normally include some form of government-issued identification with a picture. At least one of the items of identification should include the Social Secu-

rity number. Examples of acceptable identification include a driver's license, a passport, a military ID, or an alien registration card (green card). In general, any identification that is acceptable for check cashing purposes could be considered adequate identification. Identification for Social Security—number purposes would include a paycheck stub, a Social Security card, or medical insurance card. As an alternative, the customer could complete IRS form W-9, on which the customer certifies a self-reported Social Security number. When a customer completes IRS form W-9 to self-report a Social Security number, there still must be a reasonable effort made to secure some identification (preferably with a photo) from the customer.

Other Special Circumstances: Occasionally slot jackpots may be won by one person, but may be split among team players or between spouses or friends. If this occurs, the casino is obligated to complete a form 5754 to indicate the identification and Social Security numbers of all persons sharing the winnings. In this case, the splitting of jackpots cannot be used to reduce the reporting threshold below the \$1,200 amount. The total amount of winnings before being split determines the requirement for IRS reporting.

SPECIAL ACCOUNTING FOR LARGE JACKPOTS

From time to time, a very large jackpot may be won. Under these circumstances, the payoff must be made in the correct manner to assure that the jackpot is properly recorded as an offset to the slot machine revenue. However, the slot payoff may exceed the amount of money available in the cage. In this case, the amount of money on deposit with the slot cage or vault is temporarily increased. This is usually accomplished by issuing a check from the accounting office and temporarily increasing the vault accountability and, in turn, the cashier's cage. Once the slot payoff is made, the jackpot payout is then cleared as a regular jackpot back through the cashier to the vault and the respective balances are reduced to their former levels.

OTHER PAID-OUTS — SHORT PAYS AND HOPPER FILLS

Two other types of paid-outs that occur in the course of slot machine operation are short pays and hopper fills. These paid-outs used to be exceptional items, but with the introduction of bill acceptors, they have become more common. They are often a source of concern for the casino, both from the standpoint of security and control, and from the standpoint of providing good customer service. Finally, these transactions must be carefully controlled to prevent abuses and cheating as well as to assure proper accounting for the payouts.

Short pays occur when the hopper of the machine is empty and the total amount of the jackpot indicated is not automatically paid by the machine. A short pay may be for the entire amount of the jackpot or for some portion of

the total jackpot. Slot machines usually have a pay meter to help in controlling the short pays by indicating if the correct number of coins was really paid by the machine. The amount of the short pay is the amount of the jackpot minus the coins already paid out.

Hopper fills are circumstances where the hopper of the slot machine is empty and requires additional coins to be put into it. In most circumstances, barring some technical malfunction, whenever there is a short pay with an insufficient jackpot, the hopper is empty and should require refilling. Therefore, it is a general (but not absolute) rule that whenever there is a short pay there should be an accompanying hopper fill.

Because of the severe control problems and the strong possibility of outside cheating, the short pay procedures should be subject to special controls. For example, if the full amount of a jackpot is properly paid by a machine, but the customer scoops some money from the tray and pockets some of the coins, a short pay claim can be made. The customer may claim that the machine has malfunctioned. It is very difficult for the casino to refuse to make the additional payment unless the act was observed by casino personnel. It is also difficult for the casino to act suspicious toward the customer if it wishes to retain the customer's goodwill.

Typical short pay procedures should include verification that the slot hopper is indeed empty. This is accomplished by having a slot mechanic or floor person examine the slot machine. One additional control technique would be for the short pay document to contain some information about the customer involved. In case of repetitions of that situation with the same customer, the likelihood of cheating could be explored. Finally, there should be some appropriate level of supervisory approval for the short pay depending upon the amount involved. Short pays for small amounts may be made by the change personnel, with larger amounts being approved by the casino cashier.

The documentation for a short pay or a hopper fill should be generated from the casino cage. The money required for a short pay could come from the change booth. It is best that hopper fills originate from the cashier, slot cashier, or cage only, and that the amounts be transmitted to the empty machine by a security guard and a slot floor supervisor. Once the fill has been completed, the documentation becomes part of the cage accountability until the end of the shift or the day, when it is then cleared back to the vault for inclusion in the hard count results.

From time to time, miscellaneous paid-outs for customer slot machine refunds may be made directly to customers. If these refunds are small in amount, they can be executed without approval directly by the slot booth or change person. However, some form of documentation should be generated. If the amounts become too large, then some form of control over the change persons could be implemented. Some casinos have a no-refund policy, but in

other casinos, the refunds are occasional and form part of the over and short calculations for change persons.

TICKET PAID-OUTS

The introduction of bill acceptors in slot machines resulted in more hopper fills and short pays, as customers requested cash back of some portion of the currency inserted into the slot machine. One solution, which became the leading edge of a new technology, was that of ticket paid-outs. The use of ticket paid-outs developed for two main reasons. First, certain tribal casinos were required by compact with the states to avoid or prohibit the use of coins in slot machines. This virtually mandated the use of ticket paid-outs as the only form of paying slot machine winnings. Second, when faced with the increasing volume of hopper fills and short pays caused by the introduction of bill acceptors on the machines, the use of ticket paid-outs simplified the procedures on a regular coin-oriented slot floor.

The development of ticket paid-outs in turn simplified the hopper fill and short pay problem, but created another problem related to customer service. When the slot customer asked to cash out, a ticket was printed. This ticket had to be redeemed manually with a slot floor attendant or at a central slot cashier. This led to long lines of people waiting for ticket redemption. While people were standing in line, they were not playing other slot machines, and the overall level of both play and customer service went down. The introduction of ticket-in-ticket-out (TITO) technology has surmounted this last hurdle. It allows the ticket paid out from one machine to be inserted into and played on another machine.

Ticket Control Procedures

The introduction of both ticket-out and ticket-in-ticket-out technology has brought a whole new set of controls over this new form of automatic payment of jackpots. These include controls over the form and quality of ticket printing, the automatic recording of ticket amounts, and controls over the redemption process.

A second major factor influencing the controls and procedures in the area of ticket printing involve the regulatory requirements imposed on these types of ticket printing systems. The NIGC minimum internal control system states that an online slot monitoring system is mandatory for any ticket printer environment, including both ticket-out and ticket-in-ticket-out. These tribal requirements are also becoming widespread in other state jurisdictions, and are expected to be the de facto national standard in the near future. The presence of the online slot monitoring system allows some control procedures which would not be available without the online system.

Any ticket which evidences a slot machine payout can vary from a simple

cash register–like receipt to a complex document resembling a bank note. The essential controls over ticket printing include five main areas: paper issues, printing issues, customer redemption issues, other procedural issues, and finally the accounting and auditing issues.

Paper Quality Issues: The ticket printing environment demands good quality printers. The printers must also rely on reasonably high-quality paper. The paper must have some unique identification items, such as a logo and perhaps even be watermarked in some way. This would foil potential counterfeit payout slips. Also, the paper stock must be relatively stable. Certain types of thermal printing paper that are susceptible to fading in sunlight should be avoided. If the paper is to be retained for long periods of time (see the discussion of records retention below), then the paper and ink utilized must be able to be read after many years of storage.

There should also be controls over the ordering, receipt, storage, and issuance of paper stocks for the ticket printers. Since the first line of defense to prohibit false tickets is the raw paper stock, it should be controlled like card or dice inventory, and segregated under lock and key until put into service on the machines. Finally, unused printer paper should be disposed of under controlled conditions to prevent misuse.

Of course, there should be particular care taken to assure troubleshooting of any printer malfunctions. Since the printer is the final link in the payoff process, the printers, ribbon, ink cartridges, and other components should be subject to periodic inspection and repair as necessary.

Printing Issues: Although not always required, it is a good policy to have all ticket printers linked to an online slot system to automatically document and record all paid-out amounts. If the ticket printer is not linked to the slot machines with an online system, there must be some procedure in place to allow tickets (which exceed a very low-level dollar threshold) to be validated before they are cashed. One simple procedure is to utilize a two-part ticket, with one copy retained in the slot machine—much the same as a detail tape retained in a traditional cash register.

In addition to general casino information, the detail ticket contents should contain identification on the payout such as machine ID number, time of payout, a unique payout code or serial number, and of course the dollar amount, both in currency format as well as the written amount. The detail ticket should also be dispensed to the customer in a convenient location, so it will not be missed, lost, or otherwise confused. Many of the early ticket printers used the coin tray as the location to dispense the payout ticket. This often resulted in tickets being left behind or misplaced by customers.

Customer Redemption Issues: When the time comes to pay off or redeem a ticket payout, certain procedures should be followed. The procedures fall into three categories. First is to provide a convenient location for paying the ticket that is easy to locate, relatively trouble-free, and, in the case of ticket-out *only*, close to the gaming area so the customer has the opportunity to put the money received back into the machine as soon as possible. Second is to assure of the propriety of the ticket, and the third is to provide for appropriate accounting and record keeping of the payout.

For small casinos, the simplest situation is to have a central cashier location perform the ticket redemption. The larger the casino, generally, the more locations or more specialized slot cashiers there are to do the redemptions. For certain shifts there may be more satellite locations or slot cashiers open to perform the redemption. This concept of using a central location for ticket redemption assures that all tickets are collected in one area and that automatic equipment such as bar scanning or automatic ticket readers can be utilized to speed the redemption process. Care should be taken to assure that the ticket redemption process simplifies what could be an avalanche of tickets. This will usually involve the use of automatic ticket reading devices, including bar coding and automatic counting of the amount of money involved in the payouts.

Ticket payouts can also be accomplished at the machines on the floor by slot floor personnel. These payouts should be limited by policy to lower dollar amounts. The payout at the machine may have more promotional value to the customer and those around them and may result in more money being more quickly available for play, thus enhancing the slot revenue. A slot customer waiting in line for ticket redemption is not a customer playing on a machine! Floor payoff requires providing slot floor personnel with mobile computer terminals which allow the validity of each of the payout tickets to be verified back to the online computer system.

If these floor personnel are performing payout redemptions, their job becomes more complex, and the accountability of the individual is more complex. This may require additional training and more supervisory follow-up to assure correct revenue reporting procedures.

There are other technical issues involved with the payout redemption process. First, given the federal income tax reporting procedures for slot machines, most machines are set to lock up when the amount of the payout is at least \$1,200. (This is the reporting threshold for form W2-G.) This procedure assures that amounts in excess of the reporting limit are identified, and accompanying procedures for securing customer identification are properly followed. The general process involves several steps.

The machine locks up and a signal is sent via the online system to a supervisor or other floor person. Depending on the amount of the payout, various

higher levels of slot personnel may be notified. In addition, there is usually a visual signal via the candle on the top of the slot machine, which notifies the slot floor personnel of the need for attention on the machine. The next step is to verify the amount of the jackpot by looking at the machine reels, consulting the online system, or by examining the machine internal computer diagnostics. Next, the winning ticket is ordered to be printed, and the machine is returned to play. At this point, the customer is asked for some key identification information that will allow the casino to properly complete the form W-2G. (Detail requirements about patron identification for tax purposes are discussed in later chapters.) The form is then printed, a copy is given to the customer, the casino retains multiple copies, and one copy is eventually sent to the IRS.

Other Procedural Issues: The ticket payout environment has several other procedural issues that must be addressed. One of the most basic is the decision whether to limit the time period over which a payout can be redeemed. Most casinos set a thirty-day time limit from the date of issuance. Unless this is done, the casino could end up with a significant potential future liability for unclaimed ticket redemption. The policy on time limits for ticket redemption should be spelled out on all tickets used by the casino.

Persons performing the procedures for redemption must guard against the potential for counterfeiting or alteration of tickets. They must also guard against simple confusion arising from reading jackpot or payout amounts.

Ordinary security and questions of possession of payout tickets must also be addressed. For example, there have been instances of paid-out tickets being stolen from customers. Casino patrons must be aware of the necessity of keeping track of payout tickets just like they were cash or currency. The original patron must be careful not to have abandoned the ticket.

Other issues involve internal and external documentation of the payout tickets over extended periods of time. An online computer system can keep transaction and payout data quite easily, but this must be organized and saved properly within the system. Again, there are questions regarding how long to retain physical ticket copies. The durability of the paper and ink can be crucial in this decision. Issues of providing backup or electronic storage must be addressed. Also, storage of tickets must comply with various regulatory standards—particularly with regard to the record redemption period.

The final procedural issue is the necessity of providing some form of diagnostic or exception procedures if the payout ticket is deemed not valid for some reason, or if the online slot validation system is not operating correctly. In order to protect the customer, most regulatory regimes provide that if the slot payout is present, but the computer system is not operating, a payout must be made. This payout is made only after all of the data on the payout,

which is normally captured automatically by the computer system, is manually recorded by the cashier personnel. Care must be taken to assure that no other exceptions are occurring with the payout. For example, a very large payout combined with a computer malfunction must be reviewed especially carefully by supervisory personnel before being paid. When the computer system is operational, the manual payouts must be entered into the system to assure overall integrity of the records.

Where payout tickets are rejected by the computer system, the nature of the rejection should be noted—stale date (too old), invalid ticket numbers, duplicate ticket of one already paid, or a difference in the amount of the payout. The casino should have procedures developed that direct the cashier whom to notify and how to properly deal with the customer in this situation.

Ticket Accounting Issues

The accounting for ticket payouts has two dimensions. First, there are precise control procedures which must be followed in order to assure the integrity of the payout procedures. Second, the correct recording of payouts is integral to the calculation of slot machine revenue, both in total and for individual machines. The accuracy of this data is vitally important.

With regard to control procedures, the only additional issue that has not been addressed above is the necessity of having all payout tickets that are subject to approval include a signature, not merely initials. Some casinos also require the signature to be accompanied by an employee or badge number. This again allows an easy comparison of signatures on forms to the signatures of appropriate employees.

The accounting procedures may vary slightly depending on whether a fully integrated online slot system is present. If an online system is in use, only a periodic comparison of the manual slot payout tickets is required. In this case, the manual payout tickets should be totaled (footed) and agreed or reconciled to the system totals. A sample of the tickets should also be traced to individual slot machines to assure the integrity of the detail reporting procedures as well. These procedures can be performed either by revenue auditors or by internal audit staff. These comparisons should be done on a quarterly basis.

It is also recommended that all exception tickets—or a summary exception report of tickets—be reviewed for proper disposition. Questionable tickets should be subject to further and more extensive investigation.

Where no online system is present, there is a more extensive and complex revenue reporting procedure required. All payout tickets must be entered into the slot reporting system on a daily basis or in a reporting cycle which corresponds to the drop cycle of the machines. These payout tickets must be entered with regard to slot machine identification, time and date, as well as

dollar amount. The regular slot system will then compile the necessary revenue reports.

SLOT PARTICIPATION ACCOUNTING

Slot participation is a situation where the slot machines in a particular location are not operated by the owner of the location but are owned and operated by another individual or group. This is equivalent to having a leased department operating within a department store. Participation slot machines have been an area of considerable change over the past few years, and manufacturers have had a significant impact on both casino and casino equipment revenue.

Slot participation originally occurred when there was a small, desirable location, which may not have been a casino (for example, a bar or other retail location). In this situation, the landlord had neither the marketing expertise nor the management ability to conduct a slot machine operation. Typically, the owner wanted a few machines, say three to six, in his location. In this case, a slot machine route operator would install, manage, and repair the machines. This would be much like any other coin-operated vending route. The revenues would be split in some proportion between the machine owner/operator and the landlord.

In casinos, leased or participation slots are increasingly common. In some circumstances, certain types of machines may be of significant cost or unusual nature so that the casino owner may not wish to tie up capital in the machine. Other reasons include giving the casino a way to try a new game machine before committing to a purchase, or simply a situation where the game manufacturer does not wish to sell the machines but only to lease the machine to

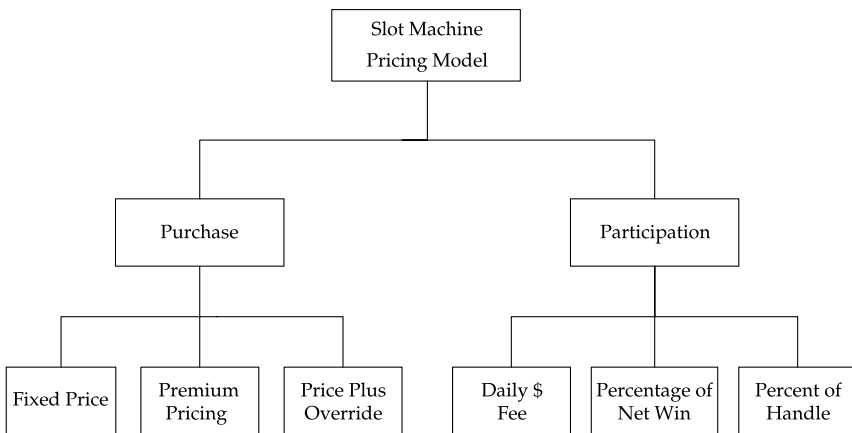


Fig. 6-6. Slot Participation Pricing Model

generate an ongoing revenue stream. Given these multiple circumstances, the casino may have several types of participation slots. In a casino setting, a generalized model of slot machine participation can be described more simply as varying models or degrees of slot machine revenue sharing. This relationship is shown in figure 6-6.

Fixed Price: The traditional and most common method of securing a slot machine is to purchase one from a manufacturer for a fixed price. This price can vary widely, from \$8,000 to \$12,000 per unit, depending on the features that are included. Once the casino operator assumes ownership, he is responsible for all costs of upkeep, maintenance, licensing, and taxes. This method of securing machines was the most common method up to the mid 1980s when different ownership or revenue sharing schemes were developed. Currently, casino-purchased machines represent 85% to 90% of the machines on the floor.

Premium Pricing: The traditional purchase model has been modified somewhat by the concept of charging a premium price for a slot machine with distinctive features or a machine with exceptional popularity and thus exceptional earning ability. This premium could be as much as 50% to 100% above the price of a normal machine.

Price Plus Override: This revenue scheme allocates the slot machine to the casino at a fixed price up front, with an ongoing additional payment due. The additional payment may be fixed as a dollar amount per day, or as a percentage of the revenue. This pricing model is similar to a fixed-price-plus-commission model.

Rental/Participation—Daily Fee: For some games, a manufacturer may charge a flat fee—for example \$15 per day. This is in effect a royalty fee. This royalty fee may be the only amount paid, or it could be paid in addition to some other form of purchase price.

Percent of Net Win: The first of the true participation arrangements is the division of net win (net revenue). This method is the most traditional method of slot participation. The percentages of revenue division vary widely. Typically in smaller retail (noncasino) locations, the split is 50% to the landlord or operator, and 50% to the game manufacturer/owner. The percentage split for casinos can range from 50% to as high as 80% for the casino, and as little as 20–25% for the game manufacturer/owner.

Percent of Handle: A relatively new method of revenue participation involves the game manufacturer taking a share of the handle (coin-in): 3–5%, regardless of the net revenue. This pricing structure was originally offered with wide-area progressive machines. The machines are typically owned by

the manufacturer and placed in the casino. These machines offer a single, large, progressing jackpot in addition to regular, smaller, operating jackpots. The manufacturer and casino take a traditional participation split based on win. However, *only* the manufacturer is responsible for funding the progressive jackpot, which is funded by the share of the handle or coin-in.

From a legal standpoint, a participation agreement is different than the mere leasing of machines from a traditional equipment leasing company. The periodic lease payments (which may be essentially installment purchases of machines) may use some revenue divisions similar to a participation agreement to guarantee the repayment of the lease costs of the slot machines.

Participation Agreements

The underlying agreement between the landlord and the slot operator is the controlling document, which in turn helps to clarify the accounting responsibilities for the operation of the participation slots. The participation agreement spells out the essential terms of the joint operation. The key ingredient is the split that should be made of the total profits generated by the slot operation. The usual split in most Nevada casinos is 50/50, with the casino receiving half the income and the slot operator receiving the other half. However, splits of 45/55 are not unusual, and some situations have resulted in the location receiving as much as 65%, while the operator receives the balance of 35%.

In addition to determining the split of profits, the agreement should spell out the responsibilities for payment of various costs incurred in the operation. These costs include the labor to supervise the slot machines, the responsibility for maintenance and repair, and, most importantly, the responsibility for payment of gaming taxes and licenses. Finally, the agreement usually calls for the adoption of a set of uniform operating procedures that are required to account for the win of the slot machines.

Participation Accounting Procedures

The basic procedures surrounding the accounting for participation slots are centered on two things. The first is the procedure used when a shared machine is dropped and the drop subsequently counted. The second is how the various payouts are documented and collected. A representative of the operator and a representative of the casino usually perform the drop of the participation machines jointly. This drop is typically done at some time other than the time when the drop of the casino's own machines is accomplished. Again, this time must be set, adhered to, and properly reported to the regulatory authorities.

Once the drop has been accomplished for each machine using identification procedures similar to those used for house machines, the drop is wrapped,

accounted for, and summarized. Next the various hopper fills, short pays, and jackpot payouts are collected, and the net win is determined. Then, based on this win figure, the various shares are allocated. In a coin environment, the usual procedure is that the entire amount of the coin is sold from the participation drop to the vault, in exchange for currency, and the split is paid to the operator in currency at that time. Most participation agreements call for the cash determination to be regarded as preliminary and subject to final accounting correction.

The various payout documents used in the participation slots sometimes require the use of forms separate from the house documents. This creates the situation where there may be two entirely separate sets of slot accounting documents present in the casino, which calls for a great deal of care. The documents must all be carefully controlled and safeguarded against loss or improper use. Also, care must be taken to assure that the correct documents are used for each machine. In the case of a jackpot, the machine must be identified as being a participation machine or a house machine using the correct jackpot payout document. Finally, there must be a careful computation of the win amount. Any errors are liable to result in the real loss of funds since there is an independent third party taking money out of the casino.

PROGRESSIVE SLOT MACHINES

Progressive slot machines are slot machines that have several distinctive features. These machines typically have one or two meters located in a prominent public display above the slot machine itself. The meters are set so that, for every third or fifth coin inserted (or as a percentage of each coin inserted) the figure indicated on the meter increases by some fixed amount, usually the denomination of the coin used in the machine. Progressive slot machines thus have meters that show increasingly higher amounts until one major jackpot is won. Other slot machines may use the progressive meter as a bonus feature to encourage play during certain periods of time, to encourage multiple coin play, or to provide a chance at a large lottery-style payout for regular slot play.

The progressive slot machine accounting procedures are particularly important since these machines usually have money amounts that are many times the maximum jackpot available in other slot machines of the same denomination.

Progressive Slot Accounting Controls

To assure the accuracy of the meter readings, gaming control regulations and casino procedures call for frequent—usually daily—readings of the meters on all progressive machines. These daily readings serve to verify that the amounts are constantly increasing, unless won, and have not been improperly

adjusted downward by the casino. Gaming regulations require the tracking of any reductions in the progressive amounts along with proper explanations. In addition, when progressive jackpots are won, the machine must be reset to a standard amount. It is customary to keep a record of each progressive machine and the minimum base or reset amount to assure the proper resetting of the progressive meters.

The win of the progressive slot machine is determined in exactly the same manner as the win of other slot machines. The drop procedures are identical to other machines and the wrap count and reporting of the win are all the same. The increase in the liability for payout of the substantial progressive jackpot at some future date, although not representing a strict liability of the present period, is usually accrued by the casino with the amount of liability recorded as an offset to the win reported on these slot machines. The issues involved in the propriety and recording of this liability, and the offsetting reduction of income, are discussed in chapter 11, which deals with income taxation issues of progressive slot machine operation.

WIDE-AREA PROGRESSIVE, REMOTE, AND LINKED SLOT MACHINES

In 1986, a special high-payoff type of slot machine was introduced in Nevada. The slot program was called Megabucks and was intended to compete against the multimillion-dollar jackpots of state lotteries. This program was unique in that it combined the characteristics of a participation slot and a progressive slot, as well as linking many machines at separate locations into one central progressive meter and central control point. The attraction of these machines was an unusually large jackpot greater than would normally be available on a regular nonlinked slot machine.

Another unusual feature of this program is that the slot machine supplier assumed the entire responsibility for payment of the large, progressive jackpot. Regular, smaller jackpots are usually split between the location and supplier in the same ratio as net revenue in most regular participation agreements.

Due to the multilocation nature of the slot machines and their electronic linkage, this slot system has intensified security as well as adding some unique telecommunication and electronic security features.³ From an accounting standpoint, there are increased controls over unauthorized access to the communication and control systems and to the central computer hardware controlling the machine. Other controls include regular recording and reconciliation of progressive meters and jackpot payouts on a central as well as a location basis. As in regular participation machines, there should be controls over the collection and drop of slot funds. Finally, in the event of a ma-

for jackpot, the large size of the payout demands more extensive and careful documentation of the jackpot.

CASHLESS GAMING

The introduction of new forms of payment has led to smart card technology, which uses a small microchip embedded on a credit card to record dollar amounts. This smart card technology is slowly but steadily finding its way into slot systems.

The basic concept is that cashless gaming uses the smart card dollar balance to fund the play on the slot machine, and amounts won are credited back to the same smart credit card. There appear to be significant advantages to the casino in reduction of labor costs, and improved customer service in the time it takes to process payoffs. The benefits to the player are less time waiting and more time playing. However, the full implementation of this technology seems to be in the future, as general customer resistance has been experienced, along with the added costs of implementing this new technology.

Cashless gaming also makes a substantial difference to the various accounting and control procedures in place in the casino. The advantage is the elimination of much of the physical presence of coins and currency in the casino. The disadvantage in particular is the lack of physical control and the tracing of money flows that are a key element of accountability in the casino. Also, external documentation of money flows for tax purposes and currency transaction reporting are more difficult in the cashless environment.

SLOT MACHINE ASSET CONTROLS, SLOT MACHINE RECORDS, AND SLOT MAINTENANCE

Other key areas involve the controls over various physical aspects of a slot machine. The concept could be explained as a life cycle of the machine. At each step, there should be appropriate accounting controls. The main steps in a slot machine life cycle for the casino include the following:

1. Approval of purchase, purchase, receipt, and installation
2. Ongoing operation and maintenance
3. Disposal

Purchase and Installation: The first step should include some documentation of the process of deciding whether to purchase a particular machine, together with documenting the planned hold percentages, the game design, and a detailed capital expenditure analysis. Care should be taken at this step to assure that the planned machine mix from different manufacturers will operate with any online systems that are in place or are planned for the casino. Next would be a formal approval of the purchase of the machines, and the outlining of

the formal payment and/or financing arrangements. The last part of the first phase is the receipt of the machines, their installation, and testing. Careful records should be kept of each unit received, including serial numbers (separate casino fixed asset records might be added at this time), game type, denomination, PAR sheets, program summary reports, and other descriptive data. These initial slot records form the basis for what should become a lifetime record of that slot machine. Finally, the game is tested, connected to the online system, and becomes operational.

Slot Operations and Maintenance: Step two is the ongoing process of operating and maintaining the slot machines on the casino floor. The key concept of slot maintenance is the decision to balance the cost of slot machine maintenance against the potential or actual loss of income that may occur from improper operation of the slot machine because of a lack of maintenance. This section discusses some of the issues relating to slot maintenance and the cost of these maintenance procedures.

Slot Disposal: Step three in the slot machine life cycle centers on the casino's responsibility to properly dispose of the slot machines after they have ended their useful lives. There are three main avenues of disposal. The first is to trade in or return the machines to the manufacturer. This is done very infrequently, as the slots are often technologically or operationally obsolete. The second route is to sell the machines to a third party. These third parties could be collectors (in the case of older, more collectible machines), other casino operators, or even foreign purchasers. In the latter case, the casino does have a responsibility to assure that the purchaser has the legal right to possess the machines, and will not be operating the machines in a nonlicensed environment.

There have been examples in the past of so-called "gray market machines" being sold from legitimate casinos to operators in areas where there may not be a clear understanding of the licensing or permitting of slot machines. In some situations, the selling casino could be held responsible for the distribution of illegal gaming devices across state lines and in contravention of both federal and state laws if the purchaser of the used slot machines was not properly licensed. If the purchaser cannot be verified as a legitimate destination for the old machines, then a more conservative approach would be to simply not sell the machines but rather scrap them after they have outlived their usefulness.

Maintenance Access

The first issue of slot maintenance is who has access to the inside of the slot machine, the bill acceptors, the contents of the hopper, and payoff mechanism. This access may result in outright theft from the machine, or may in-

volve manipulating the machine to set it up for improper payoffs. Access to slot machines is not strictly limited in most casinos. For each shift, there are a number of slot floor mechanics who each have keys that allow them access to all machines in the casino. Some casinos have established separate access procedures where a security guard or senior supervisor must be present when opening sensitive machines. These sensitive machines may be progressive machines, machines with large hopper amounts or large denominations, or they may be considered sensitive because of their location or their jackpot size.

In cases where a machine is removed from the floor for repairs, there should be procedures for the removal of the contents of the slot hopper before the machine is sent to the repair shop. The contents are usually bagged, identified, and deposited with the cage cashier for safekeeping until the machine is returned to the floor, at which time the hopper contents are taken from the cashier and redeposited in the slot machine.

Slot Access Controls

The second aspect of concern to a slot operator is preventing improper access that could lead to alteration of the machine or theft of the contents of the hopper. The procedures used by most casinos include exclusive custody of keys by only a few persons for each shift, thus limiting the number of persons who have access to the machines. This limiting must be balanced against the need for service to the machines to fix legitimate malfunctions. Also in a large, busy casino there may be a need for many slot keys to cover all the areas of the casino. The related issue of possession and control over slot keys is crucial, since it is an expensive and major physical task to change the locks on a slot machine. If a key is improperly duplicated or lost, many casinos may actually not change the locks, but elect to take their chances with the stray key. They will keep a close watch on the slot machines for improper opening, but refuse to rekey the machines because of the excessive cost involved.

Another control over access is a procedure whereby every time a machine is opened, regardless of the reason, the time, date, reason for opening, and signature of the person opening the machine must be written on a card located inside the machine (sometimes referred to as a *MEAL*—machine entry access log). This control works well, because if a machine is being opened excessively or is suspected of being raided, observation coupled with verification of the signature may tell who the culprit is. If a machine is opened without the notation being executed, the person responsible could be warned not to do it again; if found subsequently committing the same offense (which is likely to occur if a theft is being perpetrated), the person could be terminated from employment.

Most online slot control systems allow each machine to be connected to

a central computer. One of the common security functions is to signal each time a machine is opened. This allows several things to happen: the opening of a machine can be automatically recorded with regard to time, date, and machine number; a signal can be sent to the security staff, who can verify that the machine was being opened for legitimate purposes; surveillance cameras can be directed to the machine to help observe what is happening; and the length of time the machine was open and any other changes or alternations to the machine can be noted.

New advances in electronic key control systems could also help to alleviate some of these access problems. Identification cards may be required to be inserted into the slot machines before they are opened by technical staff. Also, new electronic hybrid keys, combining identification information with traditional keyway locks, will allow individuals accessing slot machines to be automatically recorded. In addition, the electronic nature of these cards would allow access codes to be changed easily if the existing keys were compromised through unauthorized duplication or loss. However, it is critical that the access to—and use of—these cards can be controlled and monitored.

Maintenance Records

At the heart of any good slot maintenance system is the necessity of having proper signaling systems to identify which machines are likely to be in need of repair and to spot those machines that are in trouble. A second component of this is a good record-keeping system to keep track of maintenance that has been done on the machines, together with the ability to generate a schedule of preventive maintenance. Finally, the maintenance records can indicate if a machine is physically reaching the end of its useful life or is in some way defective and is incurring excessive maintenance costs.

One key element of an online slot reporting system is a component that allows the reporting of heavy losers and heavy winners in machines. If the machine performance is badly out of line with the expected norm, then an exception or maintenance report could be generated. This applies both to those machines that are too “loose” and pay too much, and those machines that are too “tight” and win too much for the casino, resulting in improper play for the customer. Gaming regulatory standards often require the specific investigation of slot machine performance which substantially deviates from the expected norms. Maintenance records are also necessary in order to tell if a machine is truly in need of repair or may just have appeared on the loser’s report as a result of a jackpot or other statistical anomaly.

A final comment is in order with regard to the slot repair area where off-the-floor maintenance is performed. Physical access to this area should be restricted, so that no one can tamper with a machine prior to its being placed on the floor. Also, internal maintenance procedures should be in place to assure

that all machines are tested prior to being returned to the floor to ensure that they are performing correctly.

ONLINE SLOT MANAGEMENT SYSTEMS

There are many systems currently available that process information in a variety of ways to assist the process of managing a slot operation. These systems are broken into two types and offer a basic set of management reports with various detailed systems providing a variety of optional reports.⁴

The key distinction between the types of systems lies in the degree of interaction between the slot machines themselves and the automated reporting procedures. The simplest type of system is one that relies solely on data inputted from the machines themselves in a manual mode. In this type of system, the reading of the meters is combined with the manual drop count and other manual accounting data, comparisons are made, and various types of reports are generated. This is an after-the-fact system.

The second type of reporting system uses the direct input from the small microprocessors and communication modules located inside the slot machines as input to the central computer from which the data reports are then generated. Usually this automatic information is periodically compared with manual data input by the accounting processes of drop and count, and comparison reports or variance reports are prepared. These types of systems are referred to as online systems, and they represent the future of slot management.

The manual systems have as their principal benefit cost effectiveness since they can be implemented without internal modifications of the individual slot machines themselves. When coupled with the existing programs of meter reading that occur during the drop procedures, they can be highly efficient. Online systems, on the other hand, are dependent upon having complex electronics resident in each slot machine, which must be linked to the central computer. The wiring alone to connect the slot machines can represent a substantial expense in addition to the actual system expenses. This wiring process can also be a complex task. Figure 6-7 illustrates the general concepts of organization for these online systems. Note that all the communication links are assumed to be two-way.

A second complexity is added with the introduction of cashless or ticket-in-ticket-out technology. There are two issues here. First, there is a need for two-way communication and at much more frequent intervals. Typically, the older systems reported monitoring-type data—such as meter readings, door openings, and other communication—which occurred largely as one-way communication polling from the slot machine to the central computer. The second issue involved in the introduction of cashless technology is the necessity for faster transfer of data (for example, in order to validate tickets being

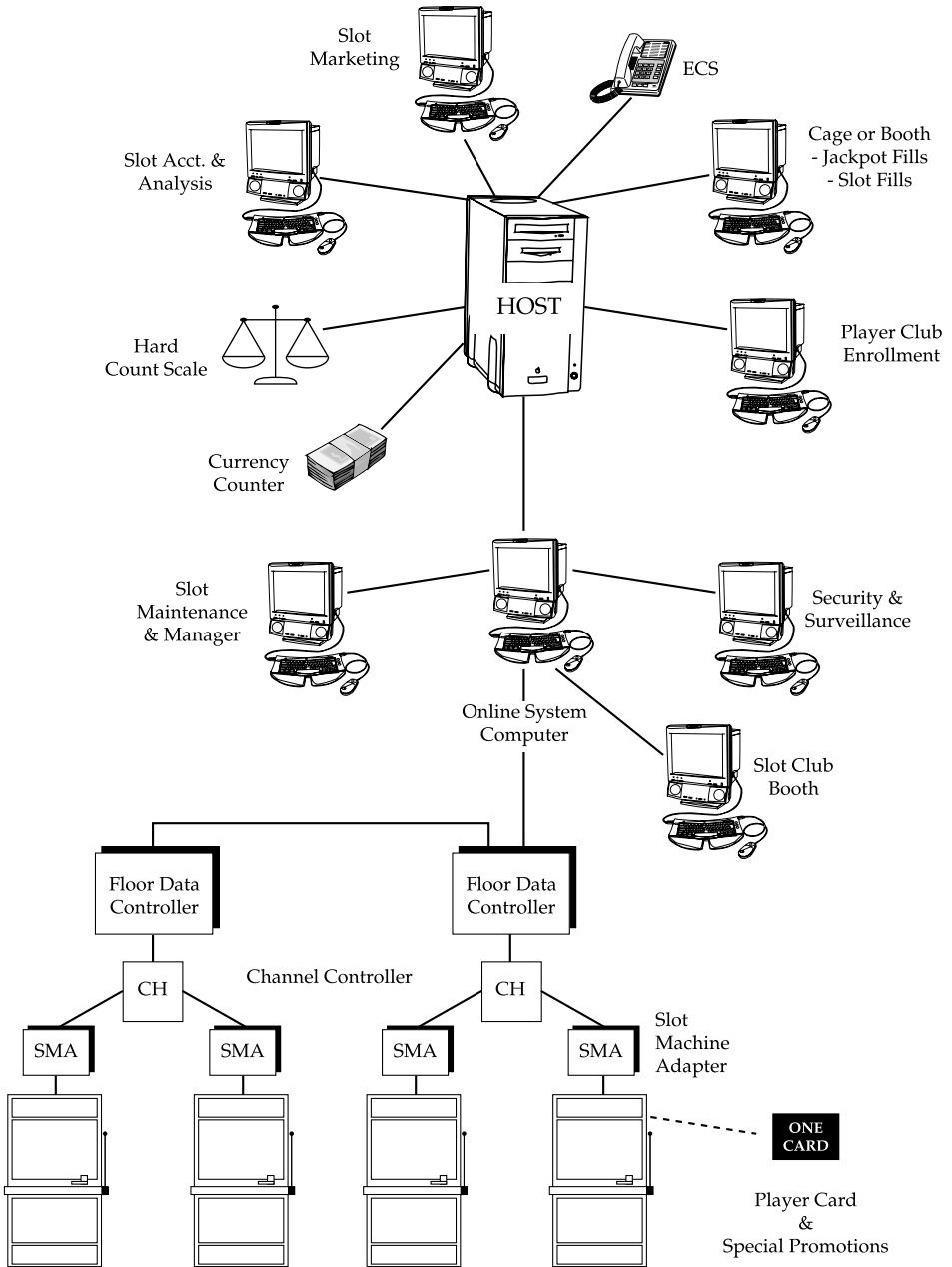


Fig. 6-7. Online Slot System Configuration

inserted into machines) coupled with more frequent inquiries (with potentially thousands of hits per minute) and the necessity for two-way communication—not simply one-way polling of data. Coupled with these increased communication needs are the needs for improved control and security. With these new online cashless systems, the computer system is not a passive reporter of results, but is an integral part of the revenue generating system. Some system designers have called for an entirely separate system devoted to all aspects of cashless gaming, and a second system to perform the passive information reporting process.

Slot Management Reports

Regardless of the type of system utilized by the casino, the heart and soul of any slot management system are the various kinds of reports that are generated by the system. Many of these reports are part of a regular reporting cycle, and some are exception reports, produced only if certain circumstances dictate. Finally, most online slot systems have reporting packages that allow the users to generate special reports on demand.

Some of the typical reports that are generated by a slot management system include accounting reports, maintenance and performance reports, and security and monitoring reports. Each of these types of reports can be generated on the following bases:

- Actual to theoretical comparative basis
- Exception or variance basis, with only items exceeding preset limits being generated
- Complete basis with inventory-type listings of all activity

A relatively recent addition is the ability of the various reports to be presented in graphic or pictorial format, which is often more easily understood by managers than volumes of numeric data. Some of the contents of these reports categorized by report type are listed below.

Accounting Reports

Typical slot system accounting reports are focused on presenting the key revenue data for all slot machines and all activity—usually on a daily, month-to-date, and year-to-date basis. There are also certain archival reports that are presented on a life-of-the-slot-machine basis. The typical reports include the following:

1. Summary of slot drop/jackpot/fill and win activity by machine, by denomination, and within overall totals
2. Summary of all slot jackpots and fills by numeric sequence

3. Summary of all slot meter readings, including both regular and progressive machines
4. List of year-to-date and month-to-date reports of win by denomination and overall totals
5. Count comparison (soft and hard) reports, comparing meter amounts to actual physical count amounts
6. Audit trail reports showing all transactions by machine number
7. Slot accounting report showing drop, hold and win by machine, by type, by denomination, and total
8. Inventory lists of machines by type, chronological listing, or by serial numbers

All of these typical accounting reports indicate the amounts not only for the current reporting period (usually a day), but also report the month-to-date and year-to-date.

Maintenance and Performance Reports

Typical maintenance reports are exception reports generated each time a drop is performed. They are almost always done on a machine-by-machine basis and can be quite large. These reports include the following:

1. Comparisons of actual to theoretical performance
2. Listing of most significant deviations, both winners and losers
3. Lists of unusual transactions, such as where win exceeds drop
4. Computer code exceptions
5. Machines not reporting due to communication problems
6. Machine popularity reports with machines listed by coin-in
7. Meter errors showing unusual fluctuations, illogical readings, or excessive activity

All of these reports are used to assess the efficiency of the operations of the machines and where they occur, and to flag problems which may occur that compromise the integrity of the automatic reporting system. Of particular importance is the use of the meter reports. Since so much of the validity of the system—almost 100% of the diagnostic routines—rely on the meter data flowing from the machines to the central computer, the accuracy and the integrity of these meters is key to keeping the system running properly. One of the first tasks to be done in any slot reporting system is to review the meter reports to see what errors may exist in the raw data before time is spent on diagnosing problems which may not occur, but have been indicated because of improper meter readings.

Security and Monitoring Reports

This is the last type of report used to monitor and safeguard the slot operation. Typical reports in this area include the following:

1. Service time or door-open reports indicate how long a door to a slot machine was open. These reports not only indicate how long the slot door was open, but also the bill acceptor access door.
2. A tilt report includes any machine malfunctions.
3. In casinos with coin machines, hopper-empty reports can be very important to indicate the need for floor personnel attention for fills or jackpots.
4. Jackpot or progressive hits reports direct security and supervisory personnel to the slot machine.
5. Computer user reports indicate what users were on the system and what modules of the system they were using.
6. Signed-on employee reports indicate what system operators and other supervisory users were signed onto the system and what actions they took while on the system. This is to prevent unauthorized changes to systems.
7. Any hardware or communication errors are logged and can be subsequently reviewed.

The most desirable aspect of a slot management system is the ability to generate exception reports, which help to identify problems before they become significant. Where problems already exist, the use of instantaneous electronic reporting is clearly preferable and can be accomplished by most systems. An example here is reporting door openings on certain high-value machines immediately to security or surveillance personnel.

While these types of immediate online systems are desirable, they are typically considerably more expensive. Once again, the cost of implementing the control must be weighed against the benefit to be derived from improved controls.

OTHER GENERAL SLOT MACHINE CONTROL ISSUES

Slot Cheating

Slot cheating is more properly the subject of an entirely separate book on casino operations. For purposes of the current discussion of accounting systems and controls, control of slot cheating can be accomplished by three distinct actions. The first is the recognition of the need for care, supervision, and control of the slot operation at all levels. The second is the insistence upon adherence to uniform systems of reporting, documentation, and paperwork properly reflecting all transactions in the slot area. Third, there should be recognition of the role that accounting information can play in providing early warning of irregularities in slot machine performance.

From an accounting standpoint, there are several things to keep in mind if slot cheating has taken place in a casino. The first is that the reduction of revenue resulting from the cheating will already have been reflected in the records for the period (unfortunately, through lower revenue). Thus, no further write-down of revenue or recognition of expense or loss is necessary. The process of cheating is self-correcting insofar as accounting record keeping is concerned. Second, accounting can be of some assistance in documenting the amount of likely loss by presenting statistical comparisons of performance from regular periods of operation to the loss periods. Thus, timely reporting of slot machine performance can be the most effective control against large slot losses.

Token Machines and Free Play

Several casinos have special token slot machines that offer free play for specific prizes, but usually not for direct cash payoffs. The accounting for these special promotion or token machines is handled in the following manner. First, the tokens are usually given away, and the number in open circulation should be controlled. Customers should be encouraged to play the tokens and not to carry them around. Second, the prizes offered as a result of winning on the token machines should not be recorded as offsets to gaming wins from other machines, but should be recorded as promotional expenses and not as jackpots. The recording as a jackpot would improperly reduce the overall gross win on the slot machines and would result in the underreporting of taxable income for state gross revenue purposes.

Games Accounting

This chapter deals with accounting for the principal table games utilized in a casino, which generally include 21, craps, roulette, and baccarat. All of these are banking games—that is, the house or casino participates for profit. In addition, there are several other casino side games that are introduced from time to time. In recent years, games such as “Three Card Poker,” “Let It Ride Poker,” “Caribbean Stud Poker,” sic-bo, and pai-gow have appeared as novelties with distinctive appeal to certain gaming customers. In addition, minor changes to games, such as the addition of side bets, have occurred and will continue to be adopted by the casinos. In general, the inventory of games offered in the newer casino jurisdictions are also governed by what games may be specifically spelled out in enabling legislation. In the case of tribal casinos, the allowable games may be specified in the tribal state compact which authorizes the tribal casino operation.

It is interesting to note that some games that were very popular in earlier days of Nevada gaming, such as faro, have all but disappeared from casinos. This gives rise to the feeling that the number of games customarily utilized in a casino is very limited. In Nevada, popularity with customers and competitive pressures determine whether a specific game is retained or eliminated. In New Jersey, state regulations have specified the types of games allowed, and new game approvals can only come through administrative and regulatory action.

There are hundreds of new games being invented each year; however, of that large number, very few are even considered and even fewer win the approval of customers and the gaming regulatory authorities. Recent statements by members of the Nevada regulatory agencies have indicated that they are

unhappy about having to consider and evaluate a large number of so-called carnival games each year. These authorities have said that they are not going to look very favorably on applications for new games unless they have demonstrated some substantial merit. The newly proposed games are usually subject to an initial review, and are then put through a trial period in a "live" casino. The results of these trials form a reasonable basis for considering the adoption of new table games based on their performance and popularity. While this attitude may be a simple way of conserving the scarce resources of the regulatory agencies in evaluating these new games, the restraint on the inventiveness of various game designers and manufacturers, as well as the apparent restraint on the dynamics of the free market, may contribute to a lack of innovation or resistance to change on the part of the industry.

FINANCIAL IMPORTANCE OF VARIOUS GAMES

The financial importance of the various casino games can be measured in a number of ways. The first calculation is the contribution of the different games to the total gaming revenue of the various geographic areas. The second is the amount of contribution of the various games on a win per unit basis.

Slot to Game Mix: Table 7-1 shows the relative contribution of table games and slots for various markets in Nevada and nationally. It is interesting to note that the Las Vegas Strip profile is significantly different from virtually every other market. In general on the Las Vegas Strip, table games represent between 45%–50% of the gaming revenue. Once you move outside the Strip, the revenue contribution of table games drops to between 15% and 30% of the total gaming revenue. There are significant regional differences in the importance of table games within Nevada. When viewed from a national perspective, the revenue contribution of table games tends to be lower than the Las Vegas Strip, with percentages ranging from about 25% in Atlantic City to a low of just 3% in Colorado.

The reasons for this wide disparity in the percentage of revenue from table games can be attributed to several factors. First, it may be due to the relative sophistication of the players in the market. For example, the Strip has always attracted a premium player who tends to favor the lower hold percentage of table games. In fact, the largest premium customers (high rollers) tend to favor baccarat play with its very low hold percentages. The downtown Las Vegas market and other statewide Nevada markets tend to attract fewer numbers of sophisticated players. This is reflected in the greater importance of their slot business.

A second factor may be related to the impact of the maturity of the market and the players in that market. This maturity factor is clearly demonstrated in various emerging casino markets, where the simple, nonthreatening play on

TABLE 7-1 Relative Importance of Tables to Slots Revenue—National

Location	Slots %	Tables %	Baccarat %	Total
Las Vegas Strip	46.77%	36.68%	16.00%	100.00%
No Baccarat				
Las Vegas Strip	57.67%	42.33%		100.00%
Downtown Las Vegas	87.87%	12.13%		100.00%
Statewide Nevada	66.67%	33.33%		100.00%
Atlantic City	74.22%	25.78%		100.00%
Gulf Coast	80.93%	19.07%		100.00%
Mississippi River	83.93%	16.07%		100.00%
Mississippi	82.42%	17.58%		100.00%
Illinois	83.87%	16.13%		100.00%
Indiana—Riverboats	97.82%	2.18%		100.00%
Indiana—Southern	80.58%	19.42%		100.00%
Chicago Area—Ind./Ill.	82.56%	17.44%		100.00%
Iowa	91.34%	8.66%		100.00%
Missouri	86.76%	13.24%		100.00%
Colorado	96.54%	3.46%		100.00%
Tribal (Estimated)	85.00%	15.00%		100.00%

a slot machine is preferred by many new gaming customers. A minor factor may simply be that the gaming regulators in new jurisdictions feel that slot machines can be more effectively controlled and regulated, while table games are more susceptible to cheating or fraud. Based on this thinking, regulators may not even allow a full range of table games. This is particularly true in many tribal casinos.

Revenue by Game: The percentage share of revenue from each type of table game is presented in table 7-2. This table shows only Nevada data since the game mix information is not generally available from other jurisdictions. In table 7-2, it is apparent that the predominant games in Nevada are 21 and craps. Baccarat is also of significant importance on the Las Vegas Strip. Roulette is a distant third. Depending on the region of the state, 21, craps, and roulette account for 75% to 85% of the table game revenue. Roulette is a slowly declining game, garnering only single-digit percentages of the overall revenues in most markets. Another observation is that 21 is much more popular in the Reno-Sparks area, while craps seems to be more popular in the Las Vegas area.

Over the past ten years or so, baccarat has assumed much more importance in the Las Vegas Strip revenue data. The Nevada Gaming Control Board actually reports the revenue from baccarat separately from other table games. The reasons for this separate reporting are based on the high volatility of the hold percentages on that game, and the huge variations in the dollar amount of play occurring (usually by premium players) on baccarat. Baccarat reve-

TABLE 7-2 Percentage of Revenue from Table Games

Location	21	Craps	Roulette	Baccarat	Card Room
Las Vegas Strip	57.1	18.9	14.6	6.42	3.0
L.V. Downtown	50.4	34.6	10.4	0.0	4.6
Reno-Sparks	66.1	19.3	9.7	0.0	5.0
Statewide	50.2	17.6	11.4	17.4	3.3

TABLE 7-3 Game Win per Unit

Location	Nevada				Overall
	21	Craps	Roulette	Baccarat	
Las Vegas Strip	569	1,364	930	4,730	879
L.V. Downtown	249	949	452	—	365
Reno-Sparks	229	626	290	—	270
Statewide	367	984	621	—	546
Other Areas	All Games Combined				
Atlantic City	2,617				
Colorado	909				
Illinois—Chicago	3,286				
Illinois—Southern	2,878				
Kansas City Area	1,478				
Indiana Statewide	1,549				
Iowa	923				
Louisiana	1,538				
Mississippi	1,118				
Missouri	969				
Nevada	546				
South Dakota	213				

nues as a percentage of total gaming revenue can run anywhere from about 10% to a high of 16–18%. The long-term average is about 12% of revenue. The fluctuations in dollar wager are also very large. Measured in dollars, baccarat revenue on the Strip averages about \$40 million per month. It could vary from a low of \$25 million in the slow spring quarter, to over \$60 million per month in the busy fall season. Again, the amount averages about \$450 million per year.

Win Per Unit: Another measure of the importance of the different games can be determined by an analysis of the win per unit per day that each type of table game produces. Table 7-3 indicates the average win per unit for the year. From an analysis of this table, certain important facts appear. First, the amount won by a single craps table is dramatically larger in southern Nevada than in other areas of the state. The craps win is more than double the win per unit in Reno. The win per unit on 21, although somewhat larger in the southern part of the state, does not show as much variation except on the Las Vegas Strip. Other win per unit data is available for other jurisdictions, but is

not broken down by type of game. This national data is separated because it is not strictly comparable to the Nevada data.

MARKET DIFFERENTIATION BY GAME MIX

In previous years, each of the various markets within Nevada had distinctly different characteristics, not only with respect to the win per unit of the games, but also in the number of games of each type, as well as the ratio of table games to slot machines. These differences used to serve to define the different markets within Nevada. Over the past years, there has been a slow change which could be described as a regression to the mean, with differences between the game mix in the Las Vegas Strip, downtown Las Vegas, and the Reno-Sparks area being less significant.

With the spread of legalized gaming to other jurisdictions, these new areas are also demonstrating less and less differences between the game mix. What has occurred is that these new markets have become a reflection of a similar Nevada market. For example, Atlantic City's game mix is similar to an emerging or new market (with a high number of slots compared to table games) but is moving toward the Las Vegas Strip model. Its slot revenue to table revenue mix is somewhere between the Las Vegas Strip and downtown Las Vegas. Similarly, the Mississippi market resembles the downtown Las Vegas market in slot to game mix.

Based on the number of games and number of slot machines, the results indicate there are considerable differences among the four primary markets in Nevada. This game mix is consistent with the marketing image that an area wishes to present and that the casinos' customers are comfortable with. The customers in Las Vegas demand more craps tables and fewer 21 tables, while in northern Nevada the opposite situation exists, with more 21 tables and fewer craps tables.

This concept is also exemplified, in some measure, by the comparison of the ratio of slot machines to 21 games. The ratio is very high in the markets where lower-stakes gamblers are playing, such as downtown Las Vegas and the Reno-Sparks area. The high-roller markets on the Las Vegas Strip, and to a lesser degree in South Lake Tahoe, seem to prefer more table games to slot machines.

An argument could be made that the proposed game mixes utilized in the various casinos of New Jersey are of two distinct types: the new clubs to the area and the clubs that have had Nevada experience. The Nevada clubs obviously brought the Las Vegas Strip game mix and slot to game mix to their operations. However, when faced with a different customer market, they have been forced to adjust their gaming mix to meet the preferences of their customers. The most significant result has been a reduction in the number of

table games and a relative increase in the number of slot machines, coupled with a slow but subtle change in the number of 21 tables and craps tables.

A final observation regarding the various markets has been the trend over time. The trend for each of the various markets indicates several things. The Las Vegas Strip seems to be evolving into a more pedestrian market, with slot machines being added at a rate exceeding that of 21 tables. The South Lake Tahoe market is adding 21 tables at a faster rate and is becoming more like the Las Vegas Strip. Finally, the differences between the South Lake Tahoe area, the Las Vegas Strip, and Reno are still significant, with the ratio of slot machines to games being notably higher in northern Nevada and with slot machines being added in the Reno-Sparks area at a faster rate than 21 tables. Again, in new gaming jurisdictions, the marketing emphasis and the maturity of the market and customers will drive the casinos to adapt their game mix to best suit their own market conditions.

REGULATION OF GAMES AND GAME APPROVAL

In addition to the traditional licensing procedures associated with a new casino or new owners, there is also a significant process involved with the approval and licensing of any new casino game. There are several steps in the process.¹ First, a prototype of the new game must be produced and made available to the gaming regulators for evaluation. The second step is an exhaustive evaluation by the regulatory authority, including an analysis of the odds structure, the ability of the game to be controlled properly, and finally, the indicated profitability or popularity. The Nevada Gaming Control Board has approved a third step, where the game is subjected to a limited time period trial in a casino operating environment. This also serves to provide the casinos with some indication of the overall attractiveness of the game to customers. If the game meets the first two criteria, and is successful in its field trial, then it can be approved and licensed in accordance with the procedures outlined in chapter 2.

The licensing of games does not, however, guarantee their economic success. There has been no formal analysis of the success rate of new game introductions in Nevada, but anecdotal reports have indicated less than 5% of new games invented become widely adopted by the casino industry. In new jurisdictions, where the gaming regulators have more limited experience, the rate of introduction of new games is even lower than in Nevada.

DESCRIPTION OF THE GAMES

The description of the most popular casino games and the structure and the odds on the various games can be found in many books dealing with the subject. One of the most comprehensive is Scarne's *Complete Guide to Gambling*.² This excellent volume serves as a complete reference to the operations of var-

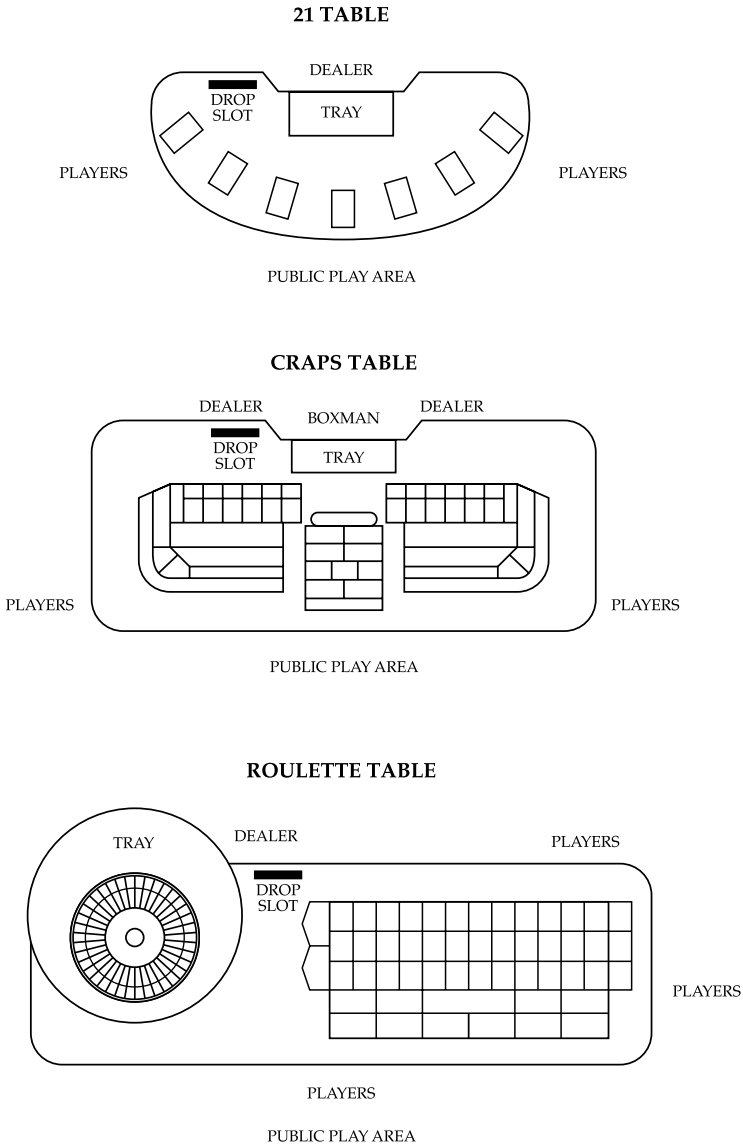


Fig. 7-1. Table Game Layouts

ious casino games, and it includes virtually all casino carnival and private games that have achieved any degree of widespread popularity.

There are several physical aspects of casino games that are of accounting significance: the play areas, the cash handling areas, and the drop boxes. Figure 7-1 indicates the layout and respective play areas and cash handling areas

for 21, craps, and roulette games. Note that a 21 game is set up to accommodate approximately seven players, while craps can handle as many as fifteen players. The roulette wheel is set up for about seven players. The number of playing positions is important to the games since the total amount of casino revenue is a function of the house advantage, the betting limits, the pace of the game, and the number of people betting on the game. The typical number of customers is four to five for a 21 game, eight to ten for a craps game, and about three to four for a roulette wheel.

For each of these games, the staffing is dependent upon the activity on the table. However, it is customary to have one dealer for a 21 game, two to four dealers (actually one or two dealers, one stockman and one boxman) for a craps game, and one dealer for the roulette wheel. Given the high cost of labor, staffing on craps tables is sometimes reduced if the customer numbers are low. This is usually accomplished by eliminating the boxman.

Cash Handling Areas

The primary cash handling area for the 21 table and the craps table is known as the table or float tray. The table tray is a series of coin racks that hold chips of various denominations. The trays, when in use, are usually physically between one-half to three-quarters full. The additional space is to accommodate the play transactions. The tray is organized with the high-denomination chips protected in the center, with the successive outward rows on both sides containing chips or coins of lesser denomination. It is also customary for the dealer to mark even-dollar amounts every fourth, fifth, or tenth chip with a divider (usually a \$1.00 token or a clear plastic disc). This marking allows the dealer and the pit supervisor to visually count the table tray quickly and accurately without counting the individual chips on the rack. For example: \$5 chips are marked with every twentieth, which amounts to \$100, and \$25 chips are marked every twentieth which amounts to \$500. If there are less than twenty chips in a stack, then \$5 chips may also be marked every fifth chip amounting to \$25, and \$25 chips marked every fourth for \$100. This arrangement allows for quick visual counting of table inventory. Figure 7-2 illustrates a typical 21 table tray.

The table tray for a craps game is somewhat different in appearance; the tray is not a horizontal storage area, but rather stacks of chips held vertically on the back edge of the table, in an almost vertical position, as shown in figure 7-3. The chip inventory storage area is considerably larger for a craps game than for a 21 game since the inventory amount is considerably larger. The same procedures with regard to chip denomination and stacking of chips with marker discs apply.

The table inventory for a roulette wheel is located in a separate area. In general, there is not a rack to accommodate the chips, but rather an area on

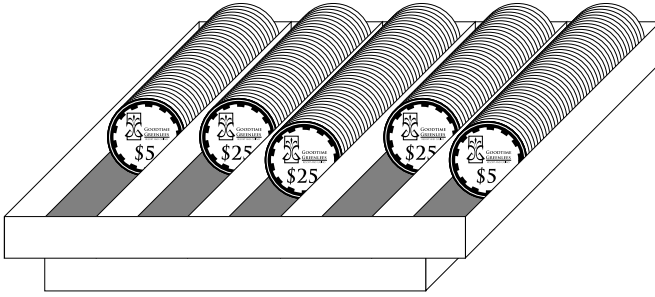


Fig. 7-2. Table Chip Tray

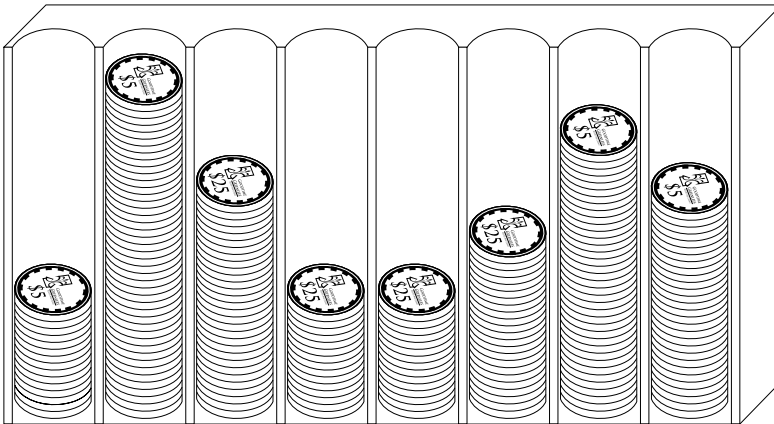


Fig. 7-3. Craps Chip Tray

the back edge of the table, usually behind a clear plastic partition, where all the fixed-value chips are stacked in denominations. Another factor is that in roulette, because of the widespread practice of allowing bets of smaller amounts, there are often nondenomination chips stored on the table. Their respective values are marked with lammer buttons, based on the amount of players buy-in. For example, there may be 10¢, 25¢, or 50¢ chips on the roulette table to accommodate the play, but on the other table games the only chips are of larger denominations, usually starting at \$5.00. It is also customary for each roulette player to have chips of different colors, which serves to identify who has placed bets on which outcomes. This results in multiple sets of chips of different colors also being located on the roulette layout. Figure 7-4 shows a typical roulette bank location on the layout.

Regardless of the game, each of the various chip trays or table inventories

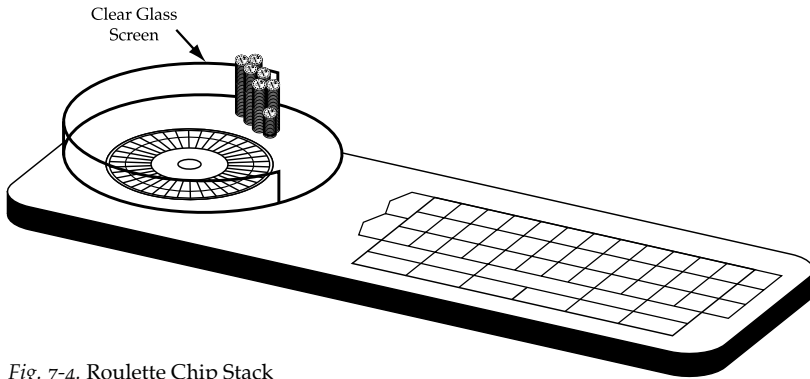


Fig. 7-4. Roulette Chip Stack

TABLE 7-4 Table Inventory Amounts

Game	Value of Table Inventory		
	Small Casinos	Large Casinos	Special High Limit
21	\$2,500	\$3,000	\$20,000
Craps	\$10,000	\$25,000	\$100,000
Roulette	\$5,000	\$10,000	\$50,000

is equipped with some form of locking cover, so that when the table is not active the chips can be secured on the table without having to remove the tray to the vault for safekeeping. As a practical matter, the locking cover on the table inventory is used only if the game is expected to be closed down for a fairly short time. If the closure period is expected to be long (usually more than one to two days), the recommended procedure is to remove the table tray completely from the table and return it to the vault or cage for safekeeping.

The dollar amounts contained in the table tray inventory vary from casino to casino, and can vary according to the anticipated level of play in the casino. Certain tables, such as those located in a high-limit area of the casino, might have higher table inventories. However, typical amounts held on the table tray are shown in table 7-4.

Other casino games, such as baccarat, have a much larger table tray inventory amount due to the larger average bets placed in the baccarat area. Big 6 and other games usually have a table inventory of an amount similar to a 21 table.

ACCOUNTING PROCEDURES FOR TABLE INVENTORIES

There are a number of steps that must be taken whenever a table inventory is established in the casino, when a new game is added, or when a game is closed on a permanent basis.

The first step in preparing the table inventories when opening a new casino is to determine the amounts of inventory that should be held on each game. Within the total dollar amount, a determination also must be made regarding which denominations of chips or tokens will be placed on the table. This will assist in the subsequent reconciliation of outstanding chip liability.

The second step is to record the amount of “table accountability” that should be assigned to each table. This process typically arises from the necessity of maintaining a certain dollar amount of accountability for the vault or the cashier to maintain proper balances. At both the table and the vault, the total amount of cash and chips on hand must always be added together in order to determine the total amount for which the vault or cashier should be responsible. Once this overall amount of table loads or inventory has been set, the chips are separated into the individual table inventories. These inventories are placed on the table, and the cashier accountability is reduced or offset by the amount of inventories placed on the tables. It is important to recognize that the process of establishing an original table inventory must be regarded as a capital transaction and not a revenue transaction, which would improperly affect the revenue flow of the casino.

When year-end counts of table inventories are performed, the amounts indicated on the table inventories are then added into the cashier or vault amount in order to arrive at the total cash and tokens on hand in the casino. A second important reason for the year-end count of the chips and coin on each table is the necessity to identify them by denomination. In this way, when they are compared to the figure that is kept for the total number of chips purchased, the reconciliation of the chips outstanding and the resulting chip liability can be determined.

The accounting entries for the original establishment of the casino working funds, as well as the table inventories, are outlined below.

1. The casino is established with an investment of cash.

DR Cash in Bank	\$100,000
CR Owner’s Equity	\$100,000
2. The chip stock is purchased; \$100,000 worth of chips costs \$2,000.

DR Chip Expense	\$2,000
CR Cash in Bank	\$2,000
3. The chip stock is placed into an inventory control, usually in the vault.

DR Chips on Hand—Control Account	\$100,000
CR Chip Liability	\$100,000
4. The vault bank is established with \$50,000 cash.

DR Vault Bank—Control Account	\$50,000
CR Cash in Bank	\$50,000

At this point the vault accountability equals \$150,000: \$50,000 in cash and \$100,000 in chips.

5. A casino cage bank is established with \$25,000 in cash and \$50,000 in chips.

DR Casino Cage Bank—Control Account	\$75,000
CR Chips on Hand—Control Account	\$50,000
CR Vault Bank—Control Account	\$25,000

NOTE: At this point chips are accounted for as if they were cash. Vault accountability is now \$75,000 and the new cage accountability is \$75,000.

6. The table inventories are now established (assume in round numbers): \$24,000 in chips and \$1,000 in coin.

DR Table Inventories	\$25,000
CR Cage Accountability	\$25,000

CHIP LIABILITY

At any time, a casino may have a liability to redeem gaming tokens held by customers that may have been purchased or won in the casino and not yet been presented for redemption. The total liability of the casino for the unredeemed gaming tokens is the difference between the total amount of chips on hand in the control account and the amount of chips originally purchased.

Depending upon the original method used to record the purchase of the gaming chips, there are various methods of determining the chip liability. Two such methods are shown in this section. If the chip purchase account and the chip liability account were originally used, then these two accounts are usually netted against one another, and the difference is carried on the balance sheet as the chip liability. This method of determining the chip liability is outlined below.

1. Chip liability upon casino opening (See Entry #3 above)

DR Chips on Hand (Chip Inventory)	\$100,000
CR Outstanding Chip Liability	\$100,000

The chip liability would be zero at this time.

2. After a year of operation, all the chips in the casino are counted. If, for example, the chips on hand totaled only \$95,000, the account would be adjusted in the following manner.

DR Miscellaneous Gaming Revenue	\$5,000
CR Chips on Hand Inventory	\$5,000

The reduction of chips-on-hand inventory by a credit to that asset control account is offset by a reduction of the revenue. In effect, the chips have been “sold” but are not yet revenue since they are subject to possible redemption. (A recognition of an expense could also be used instead of a reduction of revenue. If the amounts are not significant, and the impact on revenue taxation is not an issue,

the debit entry could be an adjustment to increase cash on hand and could also be used to balance the credit entry to chips on hand.)

If one of the last two methods is used, then there must be some periodic clean-up adjustment of the revenue of the casino. This revenue adjustment typically takes place whenever the chip liability reaches a certain dollar amount. The adjustment is achieved by reducing both the income and the chip liability by corresponding amounts. The first method shown above is preferred because it results in the immediate reduction of revenue, since chips outstanding have not really been sold and are not revenue because they may be redeemed in the future.

At this point, a closing entry is prepared to net these two accounts. The chip liability would be \$5,000, representing the difference between the debit balance of \$95,000 in chip inventory on hand, and the credit balance of \$100,000 in the outstanding chip liability account.

- | | |
|-----------------------------------|----------|
| DR Outstanding Chip Liability | \$95,000 |
| CR Chips on Hand (Chip Inventory) | \$95,000 |
3. Finally, any additional purchases of chips during the year would affect the accounts listed in #1 above by the amount of additional chip purchases.

Chip Liability—An Alternative Method

Another accounting and recording method used to arrive at the chip liability at the end of the year involves the use of the chip purchase account. The entries and the closing entry to create the chip liability using this method are indicated below.

1. When the chips are purchased, the following entry is recorded:

DR Chips on Hand (Chip Inventory)	\$100,000
CR Chips Purchased	\$100,000
2. When the chips are counted at the end of the year, there is only \$95,000 on hand, necessitating an adjustment of \$5,000. Since the chips have been exchanged for cash and have been reported as income, the revenue account is first adjusted downward in the following manner.

DR Miscellaneous Revenue	\$5,000
CR Chips on Hand (Chip Inventory)	\$5,000

This reduces the balance in the chips on hand or chip inventory account to \$95,000.
3. At this point, a closing entry is created to close the chips-on-hand account and the chips purchased account. The residual to balance the closing entry is to now establish the outstanding chip liability account.

DR Chips Purchased	\$100,000
CR Chips on Hand (Chip Inventory)	\$95,000
CR Outstanding Chip Liability	\$5,000

Under either method of accounting, the amount of the unredeemed chips (or chips not physically present in the casino) would be determined to be \$5,000.

The same procedure would be followed to account for the liability associated with the unredeemed \$1 tokens used in the slot machines. These tokens are accounted for in the same manner as more traditional gaming tokens. In the reconciliation and computation of chip float, it is important to recognize that the long-term trend is to have chips outstanding, largely as a result of souvenirs held by customers. If there are too many chips, then this may indicate either a miscount of chips or potentially a problem with improper or counterfeit chips. Chip reconciliation should be on a regular schedule, but definitely no less than annually.

DROP BOXES

The second key accounting control element in the table game area is the drop box. The drop box is attached to each gaming table, and a separate drop box is used for each shift during which the game is operated.

The physical nature of the drop box is shown in figure 7-5. In general, the drop box is a sturdy metal box that is hinged on one side so that it may be completely opened. It also has a slot in the top through which items can be deposited, but which does not allow items to be removed from the box.

The drop box also has two separate key locks. The first lock secures the drop box to the table. In order to remove the drop box, the table lock key must be used. When the key is inserted into the box to remove it from the table, the slot on top of the box is automatically closed by a panel that slides across the entry slot. A second box door lock key is necessary to open the hinged side of

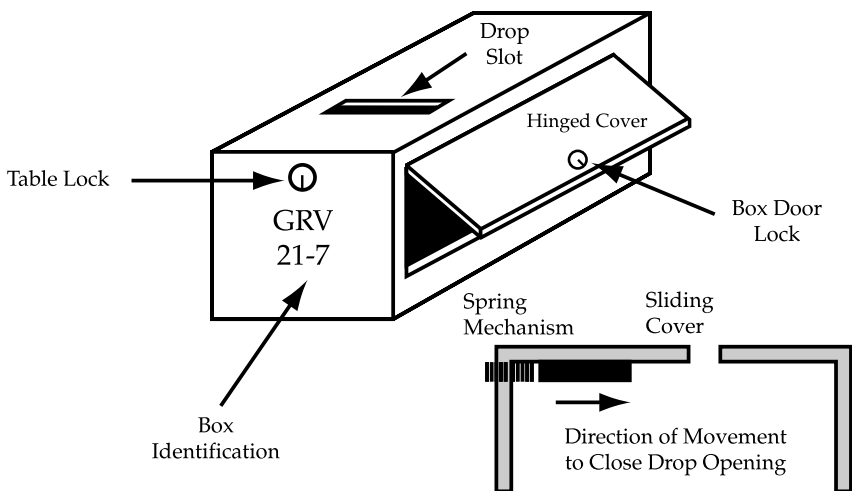


Fig. 7-5. Drop Box

the box so that the contents of the drop box may be examined and counted. When the drop box is emptied, the slide which had previously closed the top of the drop box is reset to the open position.

Gaming regulations require that each drop box be clearly identified, with the shift and the table number painted or attached to the box in a prominent manner, and that the identification be easily readable from a distance of ten to fifteen feet.

In an effort to cut costs to minimize customer disruption from the table drop box procedure, and to increase security, some casinos have gone from a shift-by-shift drop to a single once-a-day or 24-hour drop. In this case, the drop procedures are conducted only once a day, and there are more documents in the drop box. Also, the physical size of the drop box is usually substantially enlarged to accommodate more currency and transactions, and the identification is altered to reflect only the table number. In order to preserve shift-by-shift reporting, some 24-hour drop boxes have separate sections for each shift's documents and currency. Other boxes have a single section. If a 24-hour drop box does not have a separate compartment for each shift, it limits the investigation to a particular shift. This also results in considerable savings with not having to have multiple sets of drop boxes on hand.

The drop box normally contains several items. The most prominent contents are cash and currency. In addition, if foreign chips are allowed to be bet on the table, all foreign chips (chips from other casinos) are also deposited in the box. During the count procedure, foreign chips are considered and counted the same as cash. The drop box also contains copies of the fill and credit slips that were processed from the various transactions to increase or reduce the table tray inventory. When the casino operating procedures use a table inventory document, the drop box contains the appropriate shift inventory opener and closer. Finally, various kinds of casino coupons are routinely collected in drop boxes, although they are not customarily included in the count of the contents. In general, the drop box should not contain house chips or tokens.

Again, depending on the casino's marker or credit accounting procedures, the drop box may contain various types of documents evidencing credit transactions at the table. The process of opening, inspecting, and counting the contents of the drop box, together with the physical controls over the handling of empty and full boxes, is discussed in the sections on drop and count procedures later in the chapter.

TABLE ACCOUNTING PROCEDURES

The second major section of this chapter is a discussion of the detailed table accounting procedures. Each of the components used in the computation of the profit or loss of each game is examined in detail. The primary accounting

components are the beginning and ending inventories on the table, the fill and credit activity between the cage and the table, and the drop and count procedures at the end of the shift or the day. For each of these three principal areas, there is a discussion of how the various operational procedures are executed and how the transactions are accounted for.

Accounting by Shift and Game

The first element in determining the accounting for table games is the recognition that the basic accounting unit for revenue purposes is the individual game. Within the day-to-day flow of the game, the shift is also the smallest time unit for which accounting separation is maintained. For this reason, there are mandatory procedures for the recognition of game revenues on a shift-by-shift basis, with appropriate cutoff and count procedures being performed at the end of each shift.

The shifts of the casino may vary according to the tradition and the management needs of the individual casino. In Nevada casinos, the operation is organized around a 24-hour working day, with graveyard, day, and swing shifts. The 8-hour graveyard shift begins late at night, usually from midnight to 3 AM. The day shift usually corresponds to a customer day shift of 8 AM to 4 or 5 PM. The swing shift covers the evening hours from 4 PM to midnight. These three shift times may be adjusted from casino to casino, but the general pattern is maintained.

A second important consideration for shift-by-shift, table accounting practices is the necessity of recognizing shift change procedures that may have an impact on accounting control, as well as operational efficiency. First of all, the

TABLE 7-5 Count Timing Sequence

Procedure	Personnel	Time Frame
1. Final fills & credits are made	Off-going supervisory personnel	20–30 minutes before shift change
2. Briefing	Oncoming & off-going supervisory personnel	15–20 minutes before shift change
3. Table inventories taken	Oncoming & off-going supervisory personnel	5–10 minutes before shift change
4. Drop boxes taken from vault to pit	Security personnel	5–10 minutes before shift change
5. Drop boxes—old removed & new put on game	Security and all supervisory personnel	As close to shift change as possible
6. Dealer shift change	Dealers	After old drop box is removed
7. Supervisory personnel change	Off-going supervisory personnel	After all other procedures are complete

end of the shift for the casino dealers may not exactly correspond to the end of the shift for accounting procedures, which may commence about half an hour before the end of the personnel shift and may continue to other shifts before being considered complete. Second, in a large casino, to avoid mass confusion, the shift change time may be staggered from area to area in the casino over a one- to two-hour period. Finally, the shift change times for the supervisory personnel customarily involved in the end-of-shift count procedures may also vary from the shift times for the table dealers and other operating personnel. One suggested sequence of change in the shift procedures is outlined in table 7-5.

It is important to recognize that there is a lot of activity during the shift change. Smooth transitions, proper execution, and necessary recordings are important to good accounting records. Attempting to avoid some of the confusion and disruption to customers is one of the main selling points for adopting a single 24-hour drop procedure.

Table Inventories Methods

The first component of the computation of the amount of win on a table is the calculation of the changes that have taken place in the table tray inventory between the beginning and the end of the shift. This table inventory fluctuation can have a significant effect on the computation of the win for that table on a particular shift.

The table inventory process depends largely upon the system used by the individual casino to account for its table inventories. The first system is to try to bring the table inventory up to (or down to) a certain par amount for each table at the end of each shift. Although this cannot be done exactly without disrupting the play at the table, experienced pit supervisory personnel can usually determine what amount is required to bring the table to the standard or par amount. The increase or decrease required under this par method is accomplished by an end-of-shift or final fill or credit from the cashier to the table. This final fill is then included in the shift computation of win or loss.

In general, the par method of inventory can be performed without the use of table inventory documents or counts since the presumption is that, at any shift change point, the amount of table inventory is unchanged and the amount of inventory fluctuation to be included in the computation win is zero. However, in actuality, a valuable control is provided by the practice of having regular table inventory counts performed, regardless of the procedures used.

The second method of table inventory used is a floating system where the amount in any game inventory is allowed to change according to the circumstances. (These changes are generally within certain broad limits.) Under this system, the amount in any table inventory at the end of the shift varies

considerably. Thus, the role of the end-of-shift inventory procedures and the documentation is particularly critical to the determination of the win on the table.

Choosing a system for table inventory depends on a variety of factors. The most important is the ability of the pit supervisory personnel to accomplish the end-of-shift fills and credits. If the level of activity in the casino is high, then the floating system is usually used since it would be physically impossible to accomplish the end-of-shift fills and credits in a timely manner without disrupting the play and game supervisory activities. However, in smaller casinos with a lower level of play activity, the par inventory method may be entirely workable. From a control standpoint, the par inventory system seems to be preferable since the table inventory should be a fixed amount at any shift end. With the fluctuations from end-of-shift to end-of-shift, the floating system may cause some errors since the ending amounts are never subject to review or comparison to established standards. There have been arguments advanced that the par system may actually weaken controls since any manipulation of the table inventory could be concealed by reporting the inventory balance at the standard amount and not the actual amount. It may also lead to carelessness in counting the table inventory since it is known that the final number should always be a certain specific amount.

Table Inventory Control Procedures

The actual operating procedures used to take the table inventories are quite straightforward. The off-going and oncoming supervisory personnel usually count the inventory together by actually breaking down the chips on the table or, if the game is quite busy, by observing the chips on the tray. The two individuals then complete and sign the inventory form. A sample game inventory form is shown in figure 7-6. It is customarily a two-part, color-coded form. The original is white and the copy is yellow. In general, numeric control is not exercised over inventory forms. The form contains various items of information that must be completed. The essential information is identification: shift, game, and date and time; count of the amount specified by denomination of chips; and signature verification of the persons performing the count.

At the end of audit periods, the determination of the amounts by denomination of chips is important, allowing the subsequent verification of the total amount of chips in all table inventories. This, in turn, is an important part of determining the amount of chips in the custody of the casino and the chips outstanding, which will ultimately determine the chip liability of the casino.

The form is then separated into its two parts, and the top portion (the white copy, which is either color-coded or marked as "original") is inserted into the drop box. This is to serve as the indication of the closing game inventory and is customarily referred to as the *closer*. The second copy (yellow color) is held

DATE _____	
SHIFT _____	
GAME _____ NO. _____	
<hr/>	
IOU'S	COUNT CARD
100	
25	
5	
1	
TOTAL	CHIPS
CLOSER	100
	50
	20
	10
	5
SIGNATURE _____	1
SIGNATURE _____	TOTAL
TIME REVERSE SIDE	

Fig. 7-6. Table Inventory Form

on the table temporarily until the new drop box is attached to the table. The first item that goes into the new drop box is the copy of the inventory count sheet that indicates the opening table inventory for the new shift. This part of the document is known as the table *opener*. In cases where the table is closed until after a shift, the yellow opener may stay locked in the table tray until the game is reactivated. The yellow copy should be clearly visible to surveillance while it is locked on the table tray. At this point, the table inventory is put into the drop box for the next operating shift.

Table Fills

The second component in the determination of the table win in a casino operation is the accounting for fills and credits.

Table fills usually occur when the amount of inventory on the table tray has dropped below a certain amount. The limit below which the table inventory is not allowed to drop is usually a matter of informal procedure within the casino, modified by the judgment of the dealer and the supervisor in the casino pit, and is based on gaming activity on the table. On a table with a standard inventory of \$2,000 to \$2,500, the working inventory is generally not allowed to drop below about \$1,000. When an additional amount of chips must be added to the table tray inventory, the following procedures take place:

1. A request-for-fill form is completed. This is a two-part form, usually color-coded but not numerically controlled. The two-part request for fill is prepared and signed by the supervisory personnel in the pit. The copies are then separated, and the original is sent to the casino cage by a security runner who brings the fill or credit back to the pit. The copy of the signed request is kept in the pit area as confirmation of the pending request. If a computerized pit accounting system is used, the request for fill may be electronically transmitted to the casino cage.

2. The security person carries the request slip to the cage area. The cage cashier then reviews the request for completeness, correctness, and the signature of the pit supervisor.

3. The cashier prepares the fill. This procedure consists of the cashier counting out the chips in the denominations and amount requested by the pit supervisor. This is done in a predesignated area marked for surveillance. The cashier then completes a fill slip. A sample fill slip is shown in figure 7-7A. In general, the procedure to be used with all forms in the casino operation is that the original copy always follows the money. The white copy is the top copy or the original. The second copy is almost always yellow, and the third numeric control copy is almost always pink. Fill slips follow this conventional procedure.

The fill slips are customarily housed in a locked, continuous form dispensing machine. They are informally known as *zip* or *whiz machines*. This machine allows only one fill slip to be completed at any one time. The cashier fills out and completes the fill slip while it is still in the locked dispensing machine and signs the document. The security person who is responsible for transporting the fill to the table also signs the fill slip while it is still in the machine. The cashier then advances the dispensing machine and removes the first two parts of the fill slip. The third copy remains in the locked dispenser in an unbroken numeric sequence in order to record all fill and credit activities without exception or interruption. Only the accounting department is allowed to remove those copies, usually storing them securely in an area separate from the casino cashier. When additional fill slips are required, it is the responsibility of the accounting department to open the locked dispenser and refill the machine. In this way, separate independent control is assured over all accounting records that evidence the issuance of money from the casino cage to the table. In a computerized environment, the third numeric copy is usually not printed, as are other copies, and is downloaded at a later time for verification.

The amount of the fill is then recorded by the cashier on a separate document that serves as a recap of all fill and credit activities. This recap sheet is kept in the cashier cage and allows the casino management to review the fill and credit activity during a shift on all tables in the casino. This *stiff sheet* got

its name from the fact that it was customarily a heavier piece of paper. While the cashier's cage is completing the stiff sheet with the identification and the amount of the fill transaction, the security runner double-checks the count of the amount of the fill. The number two copy of the fill slip is stapled to the original of the request for fill and is retained by the casino cashier in the cage to be recorded as a reconciling item when the total amount of cash at the end of the shift in the cashier's cage is accounted for.

4. Security then transports the original of the fill slip, the number one copy, and the chips that constitute the fill to the pit. The common practice is to transport the fill in a clear plastic carrier that closes over the chips. It helps to prevent spills or accidental loss of chips during the transport process.

5. The pit supervisor matches the fill slip that accompanies the chips transported by the security runner with the request for fill made out earlier. The dealer counts the fill amount and both the dealer and supervisor sign the original fill slip for that amount. At this point the supervisor may do one of two things. Some casinos may wish to preserve the request-for-fill forms. In this case, the request for fill is stapled to the original of the fill slip. Other casinos may not wish to retain this documentation and may allow the pit supervisor to destroy this copy of the request for fill. The pit supervisory personnel may also update a record of the fill transactions to the tables under their supervision. This may be a stiff sheet similar to that kept by the casino cashier but applicable to only a limited number of tables in a specific pit area. In this way, the pit supervisor has a quick total summary of all fill activity in that area for his specific shift.

The fill, after being double-checked by the pit supervisor, is transported to the table. The dealer counts the amount of the fill, puts the chips on the table tray, and also signs the fill slip. The fill slip (which may have the request for fill attached to it) is then dropped into the locked table game drop box.

The items of identification to be completed on the fill slip fall into three basic categories. First, there is the essential identification information, which includes the date, shift, time, and game to which the fill applies. Second, there is information regarding the denomination of the chips used to complete the fill, together with the total dollar value by denomination and total dollar value for the fill itself. Third, there is a required signature block, with spaces for the cashier, dealer, pit supervisor, and security person who is responsible for transporting the fill from the cashier to the pit area. In certain casinos, the floor supervisors may actually leave the pit area to get a fill from the casino cashier. In this case, only three signatures appear on the fill slip. Finally, there is a preprinted numeric sequence that serves to control the issuance of all fill and credit activity.

**GOODTIME
GREENLEES**
RESORT AND CASINO
FILL SLIP

DATE		TIME	
SHIFT			
<input type="checkbox"/> GRYD. <input type="checkbox"/> DAY <input type="checkbox"/> SWING			
GAME	NUMBER	DENOMINATION	AMOUNT
"21"		.25	
GAME		.50	
		1.00	
BIG 6		5.00	
KENO		25.00	
		100.00	
		TOTAL ▶	
MEMO			
CASHIER		RUNNER	
FLOORMAN		DEALER - BOXMAN	

B 207179

Fig. 7-7A. Fill Slip

**GOODTIME
GREENLEES**
RESORT AND CASINO
CREDIT SLIP

DATE		TIME	
SHIFT			
<input type="checkbox"/> GRYD. <input type="checkbox"/> DAY <input type="checkbox"/> SWING			
GAME	NUMBER	DENOMINATION	AMOUNT
"21"		.25	
GAME		.50	
		1.00	
BIG 6		5.00	
KENO		25.00	
		100.00	
		TOTAL ▶	
MEMO			
CASHIER		RUNNER	
FLOORMAN		DEALER - BOXMAN	

C 15596

Fig. 7-7B. Credit Slip

The apparent complexity and number of copies essential in accounting for table fills arises for two distinct reasons. First, the general rule is that money should never move in a casino without having some paper documentation to accompany it. This documentation should include the amount of money and signature blocks to identify those responsible for each step of the handling. Second, the number of copies is essential to assure that the money reaches its final destination, is accounted for properly back through the accounting system, and is reconciled with other copies coming together from the cage cashier system.

The essential control principle that applies to the table fill procedures is a rigorous separation of duties, with each independent system assuming responsibility for the money by signing all of the documents. The second control element is that the extensive documentation allows no improper transactions to be initiated without proper control reporting.

Subsequent discussions of the drop and count procedures of the casino show how the various copies of the fill slips are reunited with one another in a reconciliation procedure that assures completeness of reporting.

Table Credits

Table credits are the exact mirror image of table fills. A table credit is required in the situation where the game is winning and the total amount of chips and tokens on the table is building up. For security reasons, as well as for operational simplicity, those amounts should be removed from the table. The credit form is shown in figure 7-7B. It is virtually the same as a fill slip but with a “credit” designation on its face.

The following procedures take place with regard to a credit to the table:

1. A request for credit is initiated or entered into the computer system in the pit.
2. The security runner is called to the pit area.
3. The dealer at the table counts the chips from the table and puts them in a rack for transporting back to the casino cage. During this time, a request for credit is completed in the same two-part form used as a request for fill and is signed by the pit supervisor and dealer, or is initiated or entered into the computer system.
4. At this point, two essential controls must be established. First, a temporary marker button (known as a lammer button) is placed on the individual tables from which the chips have been removed to signify the amount taken from the table. Second, the pit supervisor retains a copy of the request for credit as evidence that the chips have left the pit area and are being transported to the casino cashier.
5. A security runner carries the chips and the request for credit to the cage. The cage cashier reviews the request for completeness and correctness.
6. A security person counts the chips and reconciles the total amount to the request for credit. The cashier then completes and signs a three-part credit slip. This credit slip may be a separate form or may be exactly the same form used for a fill, and is merely completed on a different side or marked at the top as being a credit transaction. The cashier then removes the two copies of the credit slip from the locked dispensing machine and time- and date-stamps the two parts of the credit slip. As with a fill transaction, the third copy remains in the locked dispensing machine and forms a tamper-proof sequential record of the transaction being processed. It is customary for the casino cashier and the security runner who transports the money both to sign the credit slip before it is removed from the dispensing machine. At this point, the cashier updates the summary sheet (stiff sheet) with the amount of the table credit.
7. The original of the credit slip is attached to the request for credit and the original credit slip remains in the cashier’s area, attached to the stiff sheet. Again, the original copy of the form follows the money back to the cashier’s cage.

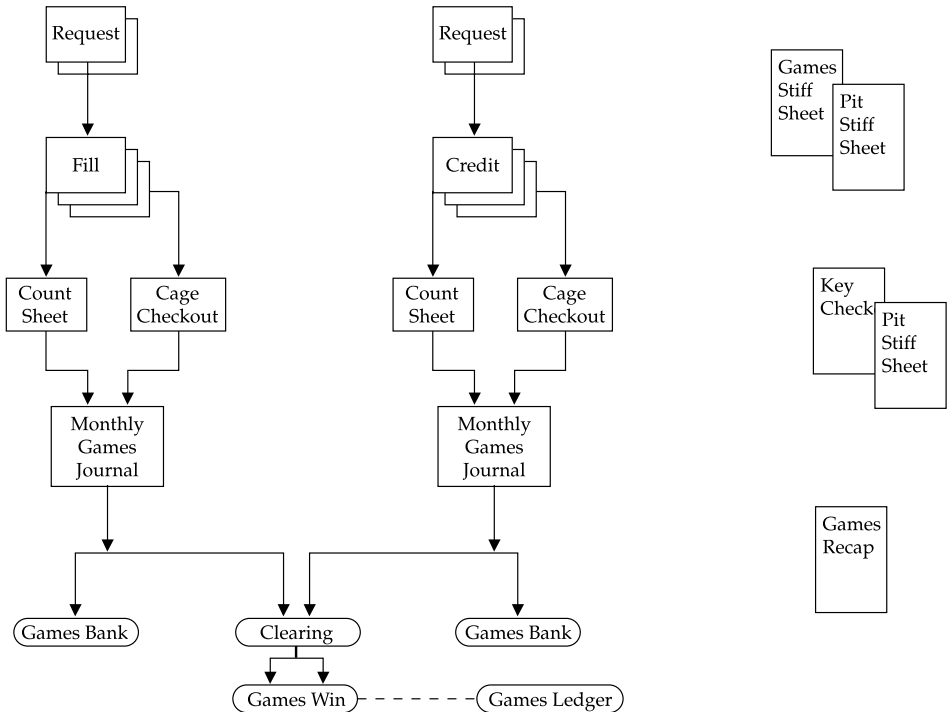


Fig. 7-8. Fill/Credit System

8. A security runner carries the second copy of the credit slip back to the pit.

9. The shift supervisor compares the amount and the denomination on the credit slip with the original of the request for credit, signs the credit slip, attaches the request for credit to it, and takes it to the individual table involved. The table dealer verifies the credit slip with the amount of the marker button on the table and puts the credit slip and request for fill into the locked table game drop box and removes the marker (lammer) button.

Figure 7-8 shows a flowchart explanation of the systems, procedures, and internal controls over this fill and credit activity.

Other Table Transactions

Other table transactions of importance include even-money exchanges and the use of the marker and lammer buttons to indicate transactions. Even-money exchanges (also called *cross fills*) are periodically required in order to balance chips among several tables. Since these procedures allow the

transporting of money from table to table without an accounting document customarily accompanying them, they are strongly discouraged by gaming regulatory authorities on the basis that there should be no loose or floating money in the casino pit area. However, in order to simplify the transactions and to eliminate an excessive number of fill and credit transactions from the pit to the casino cage, some even-money exchanges usually occur. In order to control these transactions, there should be some method of accounting for the removal of money from the table. This accounting can be accomplished by a memorandum-type document such as an even-money exchange form or through the use of lammer buttons, which indicate that a transaction either is due back to the table or is going to be coming to that particular table.

Lammer buttons are generally small, plastic chips or buttons approximately one-half inch to five-eighths inch in diameter with dollar denominations imprinted on them. They are used for what could be described as quick accounting records and are accepted only for temporary purposes. Their use is generally discouraged except in situations where temporary transactions have been initiated but the paperwork has not yet come back to the point of origin. They can be used in a variety of circumstances, such as in even-money exchanges or to indicate the temporary extension of credit before the credit has been formally signed at the table or at the casino cage.

General Table Drop Procedures

Table drop procedures take place at the end of the shift. The general overall procedures have already been discussed in earlier sections of the chapter. The main element in the drop and count procedures at the end of the shift is the process of actually removing the table drop boxes and maintaining their secure custody back to the count area. The general procedures outlined here show what happens to the table drop boxes at the end of the shift.

The end-of-shift procedures cover the following general steps. The empty drop boxes are taken from their secure storage to the pit. The full drop boxes are removed and replaced with the empty boxes for each table. The full boxes are taken back the secure storage area and held until the count process can start.

Detailed Drop Procedures: The detailed procedures relating to the drop process outlined above are as follows:

1. The time at which the drop boxes are to be removed from the various table games must be specified in writing to the gaming regulatory agencies, and those drop times must be carefully followed. This requirement is based on the necessity of allowing regulatory supervisory personnel to actually observe the procedures of dropping table game boxes from the pit area should they wish to do so.

2. At the specified times at the end of each casino shift, the drop team, together with security guards and a supervisory person, obtains the key to the storage area and the table drop box key from the cashier or the vault.

3. The process of issuance of keys is documented by the recipient signing a checkout log indicating name, time, and purpose for the removal of the key. This log is a record and must be maintained to track whenever these critical control keys are actually out of the possession of the cage or vault. There is usually one key that allows the removal of the drop box physically from the table and a second key that opens a locked storage area from which the empty drop boxes are taken and to which the full drop boxes are returned to be held for safekeeping. The process of key controls has been enhanced by using a computerized key control system. This system requires an employee to swipe an identification card and enter a PIN number to gain access to the key lock box. Then when the key is removed, the computer can accomplish two control features. First, only those keys authorized for a specific employee are released by the lock box, and second, there is a detailed log of the time that a particular key is checked out and the time when the key is returned.

4. The drop team then goes to the vault area where the empty drop boxes are stored, unlocks the storage area, and removes the empty drop boxes for the oncoming shift. These drop boxes are put on a cart and are transported out of the pit area. The storage area remains locked during the time when the empty boxes are removed and the full boxes come back in. The drop team then moves to the pit area. After closing table inventory procedures have been completed, the table game drop box is physically removed from the table by unlocking the lock that attaches the box to the table. When the box is removed from the table, the access slot closes in the drop box. This procedure assures that once the table game box is taken from the table, it is completely sealed and nothing can be put into it or removed from it. Once the full box has been taken off the table, a corresponding new empty box is then placed on the table. The full box is placed on the transport and is moved through the pit area until all the full boxes have been removed and new empty boxes have been placed on the tables.

5. The full table boxes are transported back to the secure storage area that is usually located adjacent to the casino cage or vault. It is unlocked, and the full boxes are placed on the storage shelves. The storage area is then relocked and the drop procedures are completed.

6. The table game box key and the lock for the storage area are signed back into the cage area or returned to the computer-controlled lock box.

7. The full storage drop boxes remain in their storage areas securely locked until the appropriate time for the table count procedures.

Because of the necessity of removing the full drop boxes for each shift in the casino, it is usually necessary to have four complete sets of drop boxes. This allows the casino to keep one set of boxes for each shift to be held full until the following morning when the count actually begins, and still have a fourth set of boxes available for current use during the time the table count is being performed. As mentioned earlier, the use of a single daily or 24-hour drop process greatly reduces the number of table drop boxes needed.

Table Count Procedures

The table count procedures are sometimes known as the *soft count* because the general contents of the table drop boxes are currency and paper, as distinguished from the count of coins usually associated with the slot drop procedures. The table count procedures involve two primary controls. The first is a specific control over the actual cash handling during the time that the drop boxes are being opened and the contents are being counted. It is necessary to observe the count procedures to ensure that all the contents of the drop box actually find their way into the accounting records. The second control is to assure that all amounts of cash, currency, and other documents in the drop boxes are both accounted for and recorded on the summary recap records.

Physical Controls: The importance of physical control over the count procedures, the count area, and recording of the transaction cannot be underestimated. Accounting control in a casino does not effectively exist until there has been some recording of the initial revenue transactions. Therefore, in the absence of compensating accounting controls early in the revenue recording process, it is essential that excellent physical control procedures supplement the accounting record-keeping processes. The primary method by which physical control is achieved is through the use of careful step-by-step procedures, coupled with nonaccounting controls such as locks, surveillance, separation of duties, and the employment of independent and trustworthy personnel.

The first component of physical control is that the soft count area is generally separated from the vault, but is customarily located close by to ease the process of physically transferring money once the count has been completed. The second characteristic of the table count area is that it should be adjacent to the area in which the full drop boxes have been stored for safekeeping. This allows the physical handling of the boxes to be accomplished with a minimum of difficulty. Generally, the count room may be an area of the vault that is separated by some sort of glass or steel bars from the actual bulk money storage area. The third important characteristic of the table count area is the presence of surveillance cameras, audio recording devices, and unique

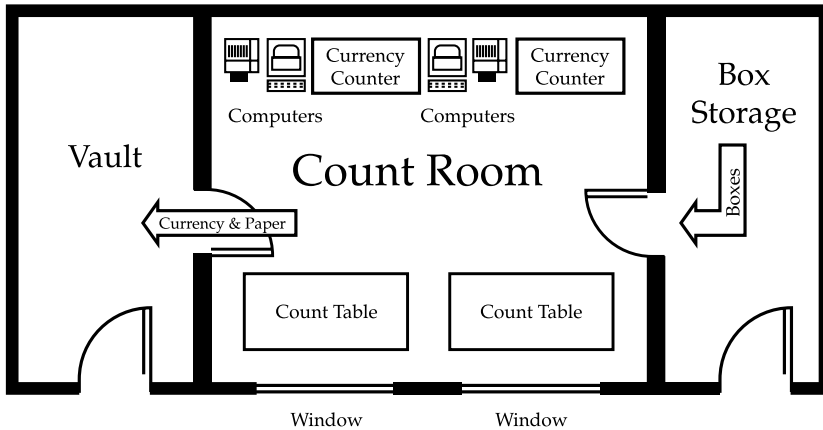


Fig. 7-9. Count Room Layout

counting room items such as glass-top tables and transparent money sorting bins, which provide improved controls. In addition, there are usually a variety of high-speed, bill counting devices along with computers to record the count results. In addition, it is customary during count procedures for count personnel to wear smocks, jumpsuits, or other clothing without pockets. The final control factor is that access to the count room is limited to those persons who are specifically authorized, usually in writing by management, to perform the count procedures. Owners and senior management personnel of the casino are not allowed in the count area. The members of the count team must be specified in writing to the regulatory authorities, and any changes in the composition of the count team must also be communicated to the regulatory authorities. Finally, the specific times of the count must be followed without exception. This, again, is based upon the fact that regulatory authorities and auditors may wish to observe the count. If so, they must be able to know the exact time it will occur. A diagram of a typical count room is shown in figure 7-9.

The following detailed count procedures take place:

1. At the identified time, the count team arrives at the count area. A drop box opening key is signed out of the casino cage or key vault to unlock the table boxes so they can be completely emptied. Another key is also signed out to unlock the storage area in which the table drop boxes are being held after being removed from the tables at the end of their shifts. The same procedures of key control are followed for the count team. The person responsible signs out the key, with name, time, date, and purpose recorded in the checkout log book.

2. The count team generally consists of three persons who are departmentally independent of the table operations area. No one from the casino management group or the pit operations is allowed to participate in the count procedures.

- a. The three persons assigned to the count team usually separate the responsibilities of the count. First, one person is responsible for opening the drop boxes, assuring that all contents are removed, and then showing the empty box to another team member and the surveillance camera, while announcing verbally that the box is empty. This step usually includes putting the box in view of the surveillance camera to verify it is empty. That person then resets the sliding panel so that the top slot is open, relocks the door on the side of the drop box, and replaces it in the cart to be returned to the storage area.
- b. A second person on the count team usually has the responsibility of sorting and separating the different kinds of documents in the drop box, and performing the initial count of the currency.
- c. The third person on the drop count team recounts the money and records on the proper forms the amounts of fill, credit, inventory opener and closer, and other bookkeeping information.

3. The actual cash count procedures involve a first count by one team member, followed by a blind reverification count by a second member.

4. After the currency count has been verified, the amount of drop is indicated on the game recap sheet. This is the point at which the first accounting recording takes place for the casino revenue. The game recap sheet summarizes the amount of currency (including foreign chips) in each of the drop boxes for each shift. Once the amount of currency is indicated in the drop column, the opening and closing inventories are recorded, along with the total amount of all fill and credit activity. These items are then summarized in order to determine the total win for that particular game and for that individual shift.

5. The count progresses through all games for a single shift. It then proceeds to the next shift, until the count for the entire day is completed.

6. After all the boxes have been opened and the currency separated from paper transactions, a summary for the shift is prepared. The shift summary includes counting the money, sorting it by denomination, and banding it into standard denomination bundles. The third member of the count team records the shift count and adds up the individual game results in order to verify the total shift result.

7. This process is then repeated for each of the other two shifts until the total amount of currency on hand has been counted, all fill and credit slips have been accounted for, and all opening and closing inventory transactions have been included in the count. The total amount of money and chips, together

GAMES DROP SUMMARY

SHIFT _____ DATE _____

	BJ-1	BJ-2	BJ-3	BJ-4	BJ-5	BJ-6	BJ-7	BJ-8	BJ-9	BJ-10	WHEEL	CRAPS	TOTAL
Currency \$100													
50													
20													
10													
5													
1													
CHIPS													
TOTAL													

CASINO GAMES COUNT REPORT

GAME	(1)		(2)		(3)			(4)		(5)		(6)		(7)		6+SOFT RESULT
	OPENING	FILLS	Fill and Credit Slip No.	Ret. Chips	CREDITS	Markers	CLOSING	1+2+3+4+5 NET	DROP SOFT	(4+7) TOTAL HANDLE						
1																
2																
3																
4																
5																
6																
7																
8																
9																
10																
"R"	1															
Craps	1															
Gr. Total																

DATE _____
SHIFT _____

Count Verification

 COUNT TEAM COUNT TEAM COUNT TEAM

Fig. 7-10. Game Count Summary Sheet

with the documentation, is then summarized, and the total amount of win is determined to correspond with the cash and fill and credit activities.

8. The members of the count team sign the games recap sheet, indicating agreement with the amounts.

9. A separate money transfer form is prepared to account for the transfer of the currency and other documentation from the count room to the casino vault.

The count process is now complete. Figure 7-10 shows a pit recap and game recap or summary sheet used to report the results of the count activity.

Vault Count Procedures

The last link in the count process is the transfer of funds and paperwork to the casino vault. The vault represents the point at which the accounting transactions are cross-checked and verified. On one hand, the money from the tables is coming into the vault through the count procedures. On the other hand, the paper accounting for the fill and credit activities has been transferred from the casino cage back to the vault. A summary count sheet indicating the amounts of fill and credit activity carefully transferred to the vault by the cashier's cage is now reconciled to the copies and summary of the fill and credit slips contained in the table drop boxes.

All the fill and credit documents from the cage are matched with those of the count to assure that all items are present, that the amounts agree, and that the recording of the game number, time, and shift is correct. This independent verification at the vault assures that no errors or omissions take place in the process of reporting game revenue.

The transfer of the money or drop count to the vault from the count room results in an increase in the total amount of money available in the casino. This usually is recorded in the form of a vault transfer sheet and is attached to the daily game recap sheet. The vault cashier signs the transfer document, acknowledging responsibility for the money.

Unusual items such as foreign chips or mutilated currency from the count are segregated and accounted for in the vault. These foreign chips are held until periodically redeemed by other casinos, at which time the casino's own chips are returned by other casinos. This process of chip exchange between casinos is called a *chip run*.

In addition to the count activity, all other cashier reimbursements are made, including all checks cashed, and other paid-out items are cleared from the cashier's cage in exchange for currency, coins, and chips. The cashier's cash and chips are brought back up to their required standard bank amounts.

The vault or vault cashier then takes these checks, together with any excess currency, and prepares the daily bank deposit. Other paid-out items are transferred to the accounting department. Figure 7-11 shows a general flow-

OPERATIONAL AREA

OPERATIONS

ACCOUNTING

MANAGEMENT INFORMATION

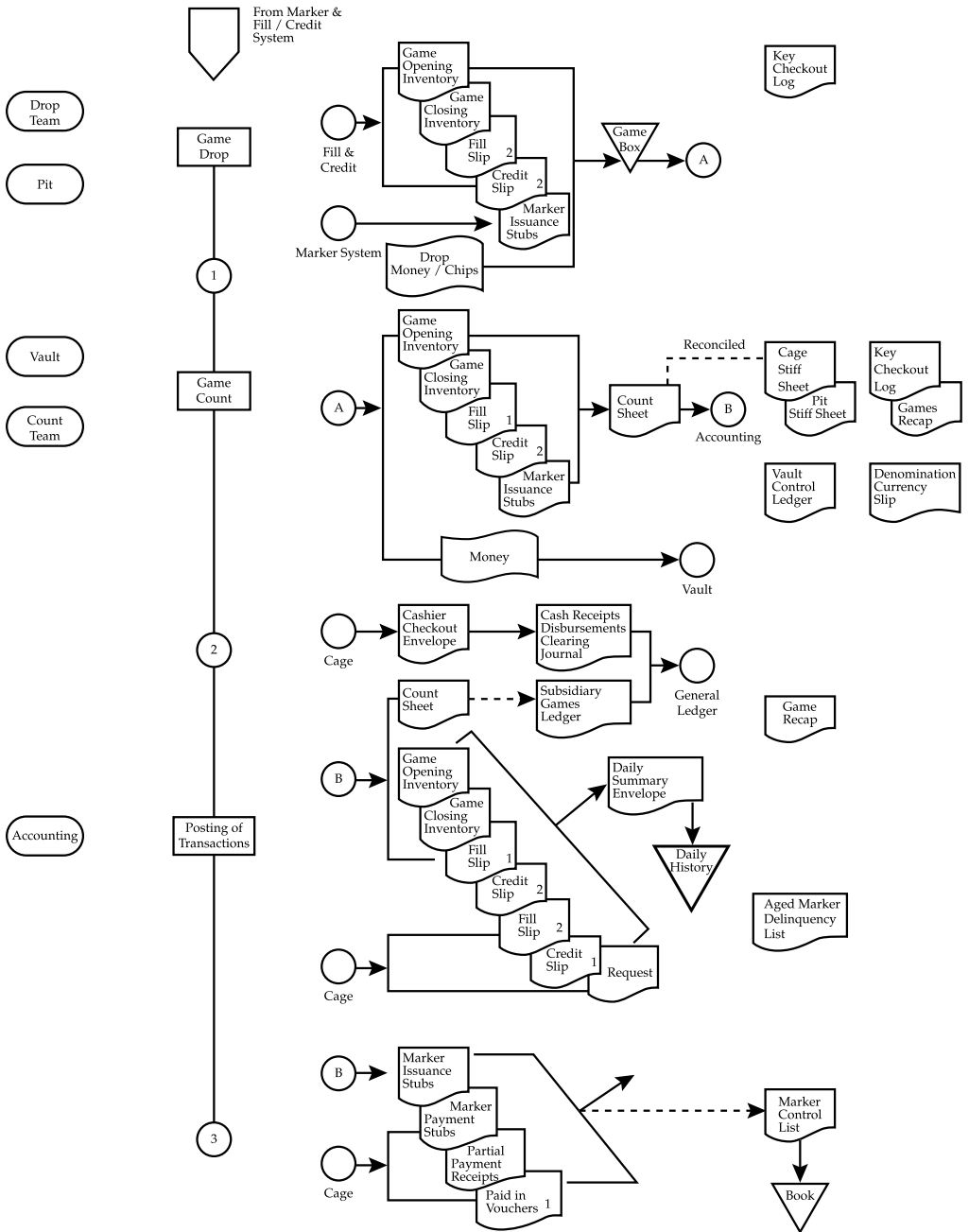


Fig. 7-11. Revenue Clearing Flow Chart

chart of the procedures, indicating the transfer of currency in exchange for the paper that is being held by the casino cashier.

Card and Dice Control Procedures

Since much of the integrity of various table games is dependent upon items such as decks of cards or sets of dice, careful consideration must be given to their physical controls. The main thrust of these controls is to assure that the cards and dice used in the games are “fair and square.” This means that card decks are properly composed and denominated, and that the dice are square and true. There is a presumption that neither the cards nor the dice have been marked, altered, or otherwise manipulated. The control procedures are roughly parallel for card decks and dice sets, and are described below.

The essence of a good card and dice control process emulates a physical inventory control process from start to finish. Thus, the process should control the ordering, the delivery of product, the storage, the issuance to the games, and the removal and cancellation of the cards and dice.

Ordering: At the start of this process care should be taken to select card and dice suppliers that have the highest reputation for quality, security, customer service, and cost. Once the supplier has been chosen, the casino purchasing department should instruct the supplier only to accept orders for these materials from a list of authorized casino management personnel. This would avoid the situation where an unauthorized person may attempt to buy casino cards or dice for the purposes of manipulating or marking the materials prior to their use on the games.

Delivery and Receipt: Once the preauthorized order has been entered, the cards and dice should be delivered only to the previously authorized casino address. Upon receipt of the cards or dice, care should be taken to assure that the packages are not broken or otherwise damaged, which may hide internal damage or evidence of previous tampering. If the shipment appears to have been damaged or tampered with, it might be refused and returned to the supplier for rechecking the product and repackaging. The cards and dice should be carefully inspected (without breaking factory seals) and counted and entered into the inventory records. Here, the inventory records should reflect when the product was received, by whom it was inspected, and the quantities received and on hand. The inventory records also serve to assure that the inventory is kept at an adequate level. When the level of card and dice inventory drops below certain levels, a properly authorized reorder is entered.

Storage: The next critical step is to assure that the cards and dice are kept under a high level of control in a secure area. This area should be under lock and key, open only to authorized casino personnel, and subject to a suitable

level of surveillance. This long-term secure storage may be part of the casino vault and, therefore, under the same access, signature, and key controls as other vault functions.

In addition to the permanent or long-term card and dice storage, there should be controls over the items once the cards and dice are moved from the long-term storage to the various pit locations. The movement of boxes of cards from storage to the pit stands (where they are more readily available to the games) should be documented with record entries on the long-term storage inventory. These entries should indicate the time, date, person moving the cards, and the new location of the cards. Generally, once the cards and dice reach the pit stands, they are expected to be used within a fairly short period of time. It is usually not necessary to have separate inventory documents at each pit stand to record the issuance of the cards to the tables.

Issuance to Tables: The rotation of new decks of cards or dice to the game is an operational issue, which depends on a number of factors. Some casinos rotate cards or dice each shift, some once a day, and some only when the physical appearance of the cards or dice seems to be beyond some reasonable standard of appearance. There is no absolutely correct answer, but the regular rotation—at a reasonable interval—seems to be the most prudent policy to prevent problems on the tables.

The primary control over issuance of the cards or dice is the judgment of the pit supervisor or, in the case of a craps game, the boxman. If dice are subjected to some rough play or abuse, then the boxman may ask for new sets before continuing play. When the decks of cards are taken to the table, it is customary for the decks to be opened by the supervisor, who places the time and date they are put into the game on the inside flap of the card box, then signs or initials the box flap.

Removal of Old Cards and Dice: The old card decks and dice are removed and the new decks and dice go on the tables. The old items taken off must be controlled until they can be carefully cancelled to prevent further use. It is not required, but it is recommended, that removal time and the table from which the items came are noted on the card box or on the dice container. The removed items may be placed in a transparent sealed bag on which the date and time of removal are noted. The table number from which the items are taken and the name and ID number of the supervisor should be written on the bag. The removed items are stored securely, usually in the pit stand. Periodically a representative from a department other than the pit comes by and picks up the old cards and dice and takes the items for cancellation. Prior to cancellation, a person in a department unrelated to the table games pit may inspect the retired cards or dice for evidence of alteration or cheating. This could be done on a random basis, or as part of a regular review process.

Cancellation: The last step in the process of dice and card control is the positive cancellation of the cards in some manner so as to eliminate the possibility that the cards or dice will find their way back into the inventory or onto the tables for play. For old playing cards, the most common type of cancellation used to be drilling a hole through the center of the deck. Since this resulted in a substantial defacement of the cards, it was effective from a cancellation standpoint, but reduced the subsequent salability of the used decks. A more common way of canceling the decks of cards was to substantially round the diagonal corners of the decks. This kept most of the good appearance of the deck. Dice are usually cancelled by drilling a hole in each die. These dice can then be used to create key chains or other gift shop items. It is recommended that the cancellation process be subject to surveillance to assure that all procedures are correctly performed.

Disposal: The last step in controls is the disposal of the cancelled cards and dice. The traditional method has been to send them to the gift shop where the used cards and dice are sold as souvenir items. Some casinos make donations of the cancelled cards to social service agencies or community charitable groups.

Keno Accounting

This chapter consists of a discussion of the accounting for keno games only. Other minor games such as bingo, poker, and race and sports books are considered in chapter 9.

Traditionally, keno has constituted a small portion of the total gaming revenues for casinos. According to Nevada revenue reports, it accounts for less than 1% of the total gaming revenue reported statewide, and ranges from a low of .43% on the Las Vegas Strip to a high of 1.76% in the Reno-Sparks area. However, it is an important game historically, and is often justified by casino management as being part of the total gaming product line. Table 8-1 shows the revenue from keno and other games in various areas of Nevada.

The origins of keno are ascribed to an ancient Chinese lottery game. It has been in existence for many years and has risen to new popularity levels following its broad reintroduction into Nevada gaming in 1948.¹

Keno, as one of the principal miscellaneous games, has an interesting revenue pattern: revenues vary widely, depending upon the physical location of the casino in the state and, to some degree, upon the size of the casino. There are significant individual casino differences in keno revenue, depending largely upon the degree of internal promotion of the keno game in the club and the nature of the casino customers. These differences are shown in table 8-2.

It is interesting to note that the difference in win per game is significant for the Las Vegas Strip casinos. The differences between the downtown Las Vegas win per unit and Reno-Sparks win per unit are relatively modest. Among

TABLE 8-1 Keno, Bingo, Poker, and Miscellaneous Games Revenue, as a Percent of Total Revenue

	Total Revenue	Keno	Bingo	Poker	Other	Race	Sports	Total
Nevada Statewide								
Dollars	10,109,954	70,572	4,394	80,641	62,537	90,122	115,651	423,917
Percent		0.70	0.04	0.80	0.62	0.89	1.14	4.19
Las Vegas Strip								
Dollars	5,090,901	21,742	1,446	43,674	48,046	46,440	52,586	213,934
Percent		0.43	0.03	0.86	0.94	0.91	1.03	4.20
Las Vegas Downtown								
Dollars	653,746	7,438	2,824	5,808	6,421	3,604	4,980	31,075
Percent		1.14	0.43	0.89	0.98	0.55	0.76	4.75
Reno-Sparks								
Dollars	1,011,658	17,759	1,794	7,595	4,789	6,527	14,479	52,943
Percent		1.76	0.18	0.75	0.47	0.65	1.43	5.23

NOTE: All amounts are 000's.

TABLE 8-2 Keno Win per Unit Data—Nevada Locations

	Win per Unit (all casinos)	Win per Unit (medium-sized casinos)
Statewide	379,419	not reported
Las Vegas Strip	517,128	140,667
L.V. Downtown	464,875	not reported
Reno-Sparks	487,778	393,545

casinos overall, there appears to be little difference in the win per keno game based on location of the casino.

In recent years, two significant changes have taken place in keno games. The first is the widespread introduction of a stand-alone video keno machine, where the keno number selections are displayed on a video screen. This video game is considered a specialized kind of slot machine and the discussion of the accounting for these machines is covered in earlier chapters.

The second major change is the widespread introduction of computerized keno machines, which have eliminated the manual ticket duplication and keno draw procedures which are outlined in the following section. The accounting controls are still valid, even though the detail control procedures over the draw of the balls are often replaced with specific computer control procedures.

Figure 8-1 portrays the downward trend in overall popularity of keno in Nevada. Recent innovations in games have only been successful in slowing the rate of decline in the popularity of this game.

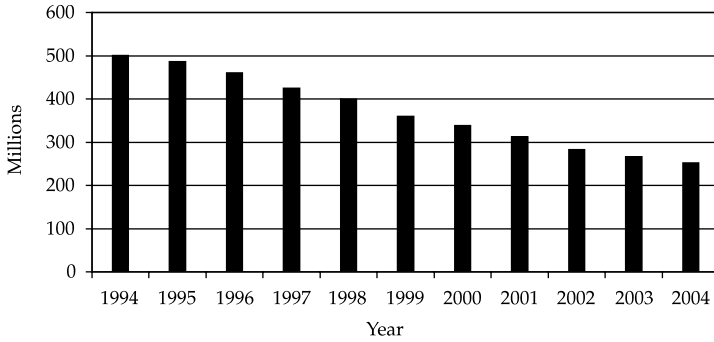


Fig. 8-1. Nevada Statewide Keno Win

PHYSICAL LAYOUT

The keno game usually consists of a physically separate counter area—a set of windows similar to a bank teller area—where several keno writers are seated. A supervisor and the various devices used to conduct the drawings of keno balls are behind the counter area. The drawing of the balls is known as *calling the game*. A typical keno layout is shown in figure 8-2.

The result of the drawing of the balls is usually indicated on a large, illuminated, keno board. There is customarily a number of keno boards located throughout the casino, in bars, restaurant areas, and immediately behind the keno work area.

Keno is one game that requires a minimum amount of attention while it is being played. It involves little concentration following the initial choice of numbers. Because of this factor, it is ideally suited to be played while the casino customer is either eating or drinking in a restaurant or bar. Thus, the gaming activity can be carried to all persons in the casino without having them physically present in the keno gaming area.

KENO EMPLOYEES

The second important factor in a keno game is the presence of a large number of personnel. As contrasted with a single dealer in pit games such as 21, there may be from three to eight persons involved in the conduct of a keno game. For this reason, its cost structure could be described as generally fixed, consisting largely of personnel costs. In order to keep a keno game open, minimum staffing costs must be incurred. There can be no partial or selective closing such as might occur in the pit. (For example, individual table games or sections of the pit may be closed during slow periods, resulting in personnel cost savings.) The customer's first contact with the keno game is through the

keno writer. The keno writer is stationed at a teller-like desk or counter that can vary from two to ten positions. The keno writer receives the marked copy of the keno ticket from the player, which is then duplicated, and the duplicate copy given to the player as evidence of the bet. The amount of the bet is recorded on the face of the original and duplicate ticket. The game number, time, and other identifying information is added to the original ticket and duplicated on the ticket given to the customer.

The original ticket submitted by the customer is retained by the casino and is known as the *inside ticket*. If the customer has prepared a manual keno ticket, the choices indicated on that ticket are entered into the computer system. The duplicate ticket produced by the computer system that is returned to the customer is known as the *outside ticket*. A sample inside ticket is shown in figure 8-3, while a sample outside ticket is shown in figure 8-4.

The immediate supervisor of the keno writers is the keno supervisor or manager. There is at least one supervisor on hand at all times; during busy shifts, there may be two or more. When the keno game is about to be called, the keno writers close their stations, stop taking wagers, and assume other responsibilities related to drawing the balls, marking the punched tickets, and illuminating the results on the keno board.

Keno runners are an important adjunct to the keno operation. These runners circulate throughout the casino, including the restaurant and bar areas. Their purpose is to pick up and deliver the keno tickets that are written by patrons in the restaurants and bars so they can continue to play the keno game without leaving their eating or drinking. These runners pick up the money and the tickets with the appropriate markings from the customer. These tick-

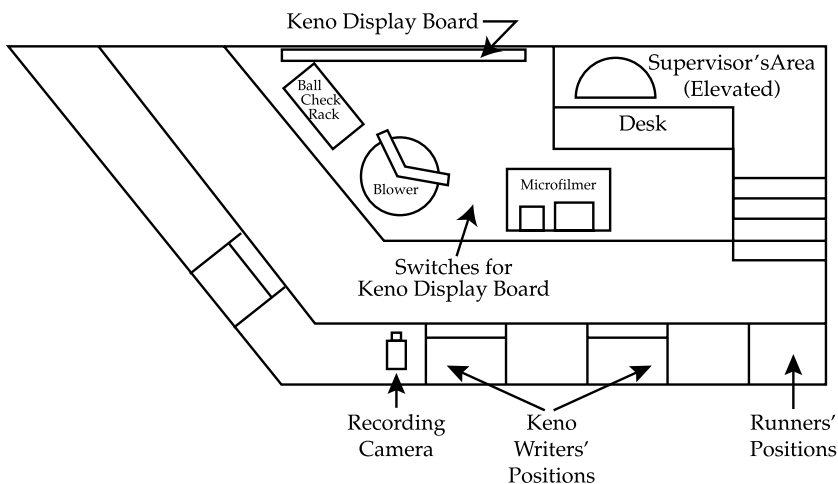




Fig. 8-2. Keno Layout

 GOODTIME GREENLEES <small>RESORT AND CASINO</small>		\$25,000 KENO TO AGGREGATE PLAYERS		NO. OF GAMES		TOTAL PRICE ALL GAMES			
				NO. OF SPOTS				PRICE PER GAME	
1	2	3	4	5	6	7	8	9	10
11	12	X	14	15	16	17	18	19	20
21	22	23	24	25	26	27	28	29	30
31	32	33	34	35	X	37	38	39	40
WINNING TICKETS MUST BE COLLECTED AFTER EACH GAME									
41	42	43	44	45	46	47	48	49	50
51	52	53	54	55	56	57	58	59	60
61	62	63	X	65	66	67	68	69	70
71	72	73	74	75	76	77	X	79	80
WE ARE NOT RESPONSIBLE FOR KENO RUNNERS TICKETS NOT VALIDATED BEFORE START OF NEXT GAME									

WE PAY BY COMPUTER PLEASE PRINTS - TICKETS WITH ERRORS NOT CORRECTED BEFORE START OF GAME WILL BE ACCEPTED AS ISSUED

1	2	3	4	5	6	7	8	9	10
11	12	X	14	15	16	17	18	19	20
21	22	23	24	25	26	27	28	29	30
31	32	33	34	35	X	37	38	39	40
41	42	43	44	45	46	47	48	49	50
51	52	53	54	55	56	57	58	59	60
61	62	63	X	65	66	67	68	69	70
71	72	73	74	75	76	77	X	79	80
# OF GAMES		FIRST GAME		LAST GAME		DATE AND TIME			
1/5 @ .50									
TICKET SERIAL NUMBER 2-25646					AMOUNT \$1.00				
 PID:1143									

Top: Fig. 8-3. Inside Ticket

Bottom: Fig. 8-4. Outside Ticket

ets are then transmitted to the central keno game location where the duplicates are prepared. The duplicates are given to the keno runners, who return them to the players. The keno runners are also responsible for delivering the payoffs to winning customers following the calling of the game.

KENO PAYOFF

Keno payoffs vary widely and often depend on a complex interaction of the number of spots chosen by the player and the total number of spots chosen or "hit" during the draw process. The simplest situation is when from one to fifteen spots are marked on a ticket. The customer generally is a winner if more than half of the total number of spots chosen are hit. This can be illustrated in the sample payout schedule in figures 8-5A and 8-5B.

The monetary amount of the payoff depends on the amount wagered and the number of spots hit. At the halfway point, the payoff is approximately 1:1. As more and more spots are hit, the payoff rises dramatically. From time to time, variations on the straight keno games have been introduced. These variations follow many of the lottery-like variations on how to pick the numbers. One variation is to have the computer system automatically choose a specified number of balls. Another variation is to introduce bonus balls which can be counted toward the winning combination. Other variations include choosing an even or odd number of winning numbers to achieve a payoff. One casino even offers a prize if only zero, one, two, or three numbers are picked from a group of twenty numbers marked. It's rewarding the player for having incredibly bad luck.

In addition to the traditional straight pick tickets in keno, there has been a long tradition of playing various combination tickets, often combined with small dollar amounts played such as 1¢ or 10¢ wagering amounts. As the frequency of these way tickets increase, the problem of verification of the proper keno payout amounts also increases.

ODDS STRUCTURE

The odds structure for the keno game is determined by the total number of balls in the blower and the number of balls drawn from the total. Experiments conducted in the various keno games have added extra or bonus balls, or have drawn twenty-two balls instead of the customary twenty balls. These alterations have been made in an attempt to make the odds more attractive to the player.

Given the customary choice of twenty balls from a group of eighty, the probability of choosing a specific number of balls can be computed using mathematical formulas for permutations and combinations. Once the probability of winning is determined for a given number of balls, these probabilities can be weighted by the dollar payoff schedule in order to determine the

MARK 1 SPOT

Winning Spots	\$1.00 Ticket Pays	\$2.00 Ticket Pays	\$5.00 Ticket Pays
1	3.00	6.00	15.00

MARK 2 SPOT

Winning Spots	\$1.00 Ticket Pays	\$2.00 Ticket Pays	\$5.00 Ticket Pays
1	12.00	24.00	60.00

MARK 3 SPOT

Winning Spots	\$1.00 Ticket Pays	\$2.00 Ticket Pays	\$5.00 Ticket Pays
2	1.00	2.00	5.00
3	40.00	80.00	200.00

MARK 4 SPOT

Winning Spots	\$1.00 Ticket Pays	\$2.00 Ticket Pays	\$5.00 Ticket Pays
2	1.00	2.00	5.00
3	3.00	6.00	15.00
4	115.00	230.00	575.00

MARK 5 SPOT

Winning Spots	\$1.00 Ticket Pays	\$2.00 Ticket Pays	\$5.00 Ticket Pays
3	1.00	2.00	5.00
4	9.00	18.00	45.00
5	720.00	1440.00	3600.00

MARK 6 SPOT

Winning Spots	\$1.00 Ticket Pays	\$2.00 Ticket Pays	\$5.00 Ticket Pays
3	1.00	2.00	5.00
4	3.00	6.00	15.00
5	80.00	160.00	400.00
6	1420.00	2840.00	7100.00

MARK 7 SPOT

Winning Spots	\$1.00 Ticket Pays	\$2.00 Ticket Pays	\$5.00 Ticket Pays
4	1.00	2.00	5.00
5	18.00	36.00	90.00
6	350.00	700.00	1750.00
7	7500.00	15,000.00	37,500.00

MARK 8 SPOT

Winning Spots	\$1.00 Ticket Pays	\$2.00 Ticket Pays	\$5.00 Ticket Pays
5	9.00	2.00	5.00
6	80.00	160.00	400.00
7	1400.00	2800.00	7000.00
8	17,500.00	35,000.00	50,000.00

MARK 9 SPOT

Winning Spots	\$1.00 Ticket Pays	\$2.00 Ticket Pays	\$5.00 Ticket Pays
5	3.00	6.00	15.00
6	40.00	80.00	200.00
7	325.00	650.00	1625.00
8	4000.00	8,000.00	20,000.00
9	18,000.00	36,000.00	50,000.00

MARK 10 SPOT

Winning Spots	\$1.00 Ticket Pays	\$2.00 Ticket Pays	\$5.00 Ticket Pays
5	2.00	4.00	10.00
6	18.00	36.00	90.00
7	120.00	240.00	600.00
8	750.00	1500.00	3750.00
9	4500.00	9000.00	22,500.00
10	20,000.00	40,000.00	50,000.00

MARK 11 SPOT

Winning Spots	\$2.00 Ticket Pays	\$5.00 Ticket Pays
6	16.00	32.00
7	140.00	280.00
8	750.00	1500.00
9	3600.00	7200.00
10	25,000.00	50,000.00
11	50,000.00	50,000.00

MARK 12 SPOT

Winning Spots	\$2.00 Ticket Pays	\$5.00 Ticket Pays
6	10.00	32.00
7	50.00	280.00
8	400.00	1500.00
9	1700.00	7200.00
10	4500.00	50,000.00
11	26,000.00	50,000.00
12	50,000.00	50,000.00

MARK 13 SPOT

Winning Spots	\$2.00 Ticket Pays	\$5.00 Ticket Pays
6	5.00	10.00
7	20.00	40.00
8	150.00	300.00
9	1400.00	2800.00
10	4000.00	8,000.00
11	18,000.00	36,000.00
12	30,000.00	50,000.00
13	50,000.00	50,000.00

MARK 14 SPOT

Winning Spots	\$2.00 Ticket Pays	\$5.00 Ticket Pays
6	4.00	8.00
7	16.00	32.00
8	64.00	128.00
9	600.00	1200.00
10	1600.00	3,200.00
11	5,000.00	10,000.00
12	24,000.00	48,000.00
13	36,000.00	50,000.00
14	50,000.00	50,000.00

MARK 15 SPOT

Winning Spots	\$2.00 Ticket Pays	\$5.00 Ticket Pays
6	2.00	4.00
7	14.00	28.00
8	42.00	84.00
9	200.00	400.00
10	800.00	1,600.00
11	4,000.00	8,000.00
12	16,000.00	32,000.00
13	24,000.00	48,000.00
14	50,000.00	50,000.00
15	50,000.00	50,000.00

Fig. 8-5A. (left) and Fig. 8-5B. (right) Keno Payoff Schedule

TABLE 8-3 Keno Payoff Odds Calculation

1. Total number of combinations of 10 balls that can be drawn from 80 balls = 1,646,492,110,120 (1 trillion, 646 billion, 492 million, 110 thousand, 120).					
2. 10-spot payoff schedule (based on a \$1 ticket):					
	10 hits pays		\$25,000		
	9 hits pays		4,500		
	8 hits pays		725		
	7 hits pays		125		
	6 hits pays		20		
	5 hits pays		2		
3. Number of possible winning ticket combinations from the 20 balls selected by the keno game:					
Wins	Number Possible		Amount Won on Each		Total Possible \$ Win
10	184,756	×	\$25,000	=	4,618,900,000
9	10,077,600	×	\$4,500	=	45,349,200,000
8	222,966,600	×	\$725	=	161,650,785,000
7	2,652,734,400	×	\$125	=	331,591,800,000
6	18,900,732,600	×	\$20	=	378,014,652,000
5	84,675,282,048	×	\$2	=	169,350,564,096
Payoff					1,090,575,901,096
4. Computation of total win:					
	Total possible bet		\$1,646,492,110,120		100.0%
	Total possible win		\$1,090,575,901,096		66.2%
	Amount to casino		\$555,916,209,024		33.8%

payoff percentage in dollar terms. In its simplest form, the probability of winning at keno is the probability of picking one ball out of twenty drawn from a group of eighty—approximately 12.5%. As the number of spots chosen increases, the complexity of the payoff computation increases and can easily be calculated on a computer. A sample calculation for a ten-spot ticket is indicated in table 8-3.

KENO DRAW PROCEDURES

When a keno game is about to be called (some old-timers refer to keno as racehorse keno and insist that a keno game is run—in the jargon of racing), the following draw procedures occur. The mechanism of drawing the balls and the necessity of controlling the placing of bets to eliminate the possibility of making a bet with the results already known are critical to the control of the keno game. In racing jargon, this is known as *past posting*. This problem has largely been eliminated as the conduct of the keno games has moved to the computerized environment.

At the conclusion of the acceptance of keno bets, and prior to the calling or running of the game, all of the keno tickets from the various writer positions, as well as the tickets transmitted by the keno runners, are collected by a supervisor. The tickets are recorded in the computer system in a restricted

transaction log or file. Actual inside tickets may be held in the form of computer storage media.

MICROFILM CONTROL PROCEDURES

The primary risk of loss in a keno game arises in two areas. The first is that the draw of the game might not be conducted in a truly random manner. In a manual system this risk can be minimized by periodically inspecting the balls, the blower mechanism, and other mechanical devices used to execute the draw. In a computerized system, regular testing and verification of both the computer system and the random number generation system and procedures assure the fair draw of a game. The second risk is more crucial—that a game ticket is played after the numbers have been drawn and is slipped into the payoff stack. This method of betting after the results are known, or past posting, was the technique used in the movie *The Sting*.

In a manual system, a microfilm procedure is used to prevent this practice from occurring in keno. Generally, if the microfilm machinery is in good working condition and if it is designed properly, the controls work. The microfilm process is repeated for each keno game run. After all the tickets have been microfilmed, they are given to the keno supervisor, who holds them until the payoffs are claimed after the game has been called. The microfilm recording sequence from game to game is indicated below in table 8-4 and illustrated in figure 8-6. The closer of the prior game is usually a distinctively marked copy of an inside ticket, with the time, date, and game number clearly indicated on it.

The key to control over the microfilmer is that, once the blank space between games has been made, the next section of the film should form an unbroken sequence of opener, game tickets, and closer. There should be no way, short of physically disturbing the microfilm camera, to slip a phony ticket into the microfilm process.

When the balls are going to be drawn, the customary control is dropping the balls of the prior game from the rabbit ears into the blower. This action

TABLE 8-4 Microfilm Sequence

Microfilm Position	Situation Indicated
START	Closer of prior game pictured.
#1	Clear space indicating a new game.
#2	Opener of current game is shown. The opener is the punched copy of the results of the prior game.
#3	All inside game tickets are copied.
#4	Closer of present game.
#5	Blank space indicating new game to start.

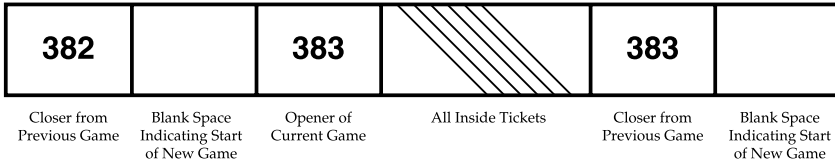


Fig. 8-6. Keno Video/Microfilm Recording Sequence

triggers the microfilm machine to advance—thus creating a blank spot on the microfilm.

Care must be taken to be sure that the camera is not tampered with and that there can be no way to rewind and remicrofilm the tickets after the game has been called. The manufacturers of microfilm cameras have designed machinery to assure that this does not happen. However, care must be taken to ensure that the manufacturers' controls are operating properly and are still functioning.

In a computerized system, the transaction log documents the tickets that have been submitted by customers and writers. The computer system is designed so that no further transactions are able to be entered into the system once the game has been called. All the functions of the microfilm process are captured by the computer system in the game transaction files, including all necessary timing and identification data to assure a secure record.

THE KENO DRAW

The keno draw procedures are automatic in a computerized system. However, there are certain procedures which are uniform for both manual and computer systems.

After the microfilm process is completed, the next game is then called or drawn. The blower is activated, and the person operating the blower opens a gate to admit one ball at a time to the rabbit ears. First one rabbit ear is filled, and then the opposite is filled. In all, twenty balls are drawn. Figure 8-7 illustrates two styles—the traditional rabbit-ear style, and a rotary style used with a computerized reporting system.

As the balls are drawn, it is customary to announce or call the results over a public address system. Also, the number drawn is illuminated on various keno boards throughout the casino—using the master control switch located in the keno area. Finally, five to ten master game tickets may be punched with the drawn numbers. These tickets are used by writers to verify the window payoffs and by keno runners to check winning tickets and to mark the beginning of the next game sequence on the microfilmer.

A videotape may be made of the actual draw process. At a minimum, a

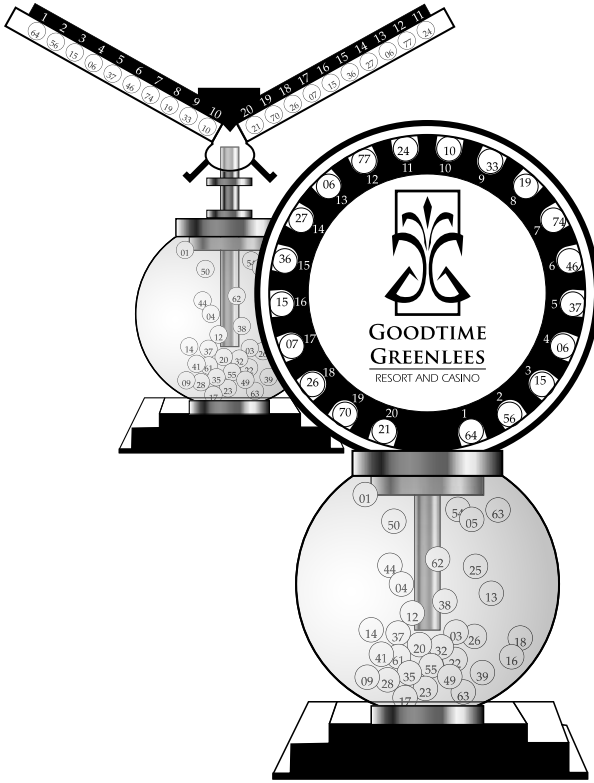


Fig. 8-7. Keno Blower System

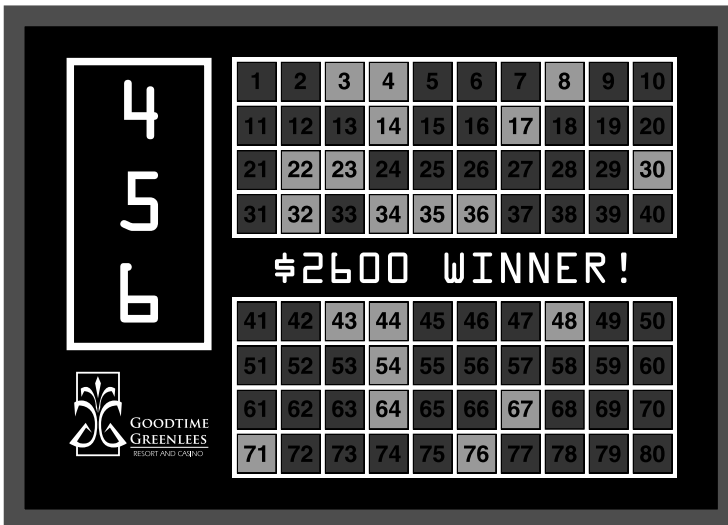


Fig. 8-8. Keno Display

photograph is taken of the final draw results, with the rabbit ears filled. In addition, the photograph or videotape customarily includes in its line of view the number of the game, a copy of the punched master game ticket, and a lighted keno board.

There are two other types of draw systems that can be used. In a hybrid system, the ball draw is done manually as described above, and the numbers drawn entered into the computer system manually. There are a few systems where the balls have imbedded coding, so that they give the appearance of a live ball draw, but the numbers drawn are automatically captured by the computer system without the need for manually entering the data. In a fully computerized system, the computer random number generator actually chooses the numbers that are drawn. The manual draw procedure is not used, and the rabbit ears or other display devices such as a circular ball blower are also omitted. In these situations, the results of the computerized draw are usually linked directly to large, electronic, keno display boards or video terminals located throughout the casino. A sample keno display is illustrated in figure 8-8.

Following the draw and punching of the master game ticket, the keno supervisor or other responsible employee manually turns on the microfilmer again. This automatically spaces the film prior to acceptance of the master game ticket and serves to start the next microfilm sequence. In a computerized or hybrid system, this step is automatically performed by the computer system and reflected in the transaction log.

PAYOFF DETERMINATION AND SUPERVISION

Once the winning combinations are determined, the keno supervisor reviews all inside tickets and pulls all winning tickets, usually very soon after the draw is completed. The supervisor then calculates the payouts by ticket and enters the total payout on a game log that is maintained at the supervisor's desk. This step is again automatically performed by the keno computer system and a log of the winning tickets is produced.

Customers holding winning tickets generally present the ticket to the keno runner or directly at the keno writer's window in order to have the ticket paid. Several common procedural options exist at this point. For example, the player can elect to play the same ticket again, in which case the winnings of the prior game become the amount bet for the next game.

If the ticket is presented for payment, the keno writer matches the outside ticket presented by the patron to the master game ticket in order to verify that the ticket is a winning one. In a manual system, the master game ticket is usually punched with the winning numbers represented by holes. This facilitates the comparison of played tickets to the master ticket.

In a computerized system, when the winning ticket is presented, the se-

quence number of that ticket is entered into the computer system, and the payment amount is generated automatically by the computer. The computer system then records the redemption of the ticket to prevent duplicate or other erroneous payments. If there are unclaimed winning tickets, each casino should have established procedures to hold the tickets for some specific time before voiding the tickets. Usually the supervisor, with password or with both key and password access to the system, will void these unredeemed tickets. Some casinos keep the unclaimed tickets open for an extended period for redemption. In this situation, the record keeping of the tickets should be subject to strict supervisory review.

If the computer system does not have a record of the ticket, but by inspection of the customer's ticket it appears to be legitimate, a separate log of these payments must be maintained. The exceptions should be rare and when they occur: (1) they should be thoroughly investigated before being paid, and (2) the reasons for the system omission should be determined. Some casinos have established policies that they will pay only on the inside or computer "recorded" ticket, and if the computer system does not have a record of the ticket, they will refuse to make the payoff regardless of the apparent authenticity of the outside ticket presented by the customer. It helps customer relations if these rules are prominently displayed in the keno area so customers can be aware of them.

Payoff Amount: The detail of the review and supervision procedures also depends directly upon the dollar amount of the payoff. If the payoff is relatively small, usually under \$50, the keno writer is empowered to make the payoff directly to the player without further action. If the win exceeds this limit, then the payoff may require approval of the keno supervisor or other management personnel independent of the keno department. As a result of the review of the winning tickets that the computer system or keno supervisor has already performed, the supervisor is able to anticipate the need for management approval of large winnings quickly and easily. This notification is important in the case of larger wins, since review procedures can be started to assure the propriety of the win.

Reporting of Taxable Winnings: If the winning ticket (minus the amount wagered) is over \$1,500, the Internal Revenue Service rules add another dimension to the payoff process. The \$1,500 threshold is set as the minimum amount required for the casino to file the information return form W-2G with the IRS. The casino must complete that form. The customer is required to submit two valid pieces of identification, one with a Social Security number and the second, preferably, a photo identification of some type. The amount of the payoff, the time, the date, and other relevant information is then supplied to the customer, and the form is completed in three parts. One copy goes to the

customer. The other two copies are transmitted to the accounting department. One copy is retained by the casino, and the second copy is sent to the IRS.

If the win exceeds a larger amount, usually \$2,500 or \$3,000, then more careful casino review procedures are called into play. The dollar limit is usually set by the individual casino. In the case of these large payoffs, the winning tickets may be required to be verified against the computer record, which constitutes the inside copy. Procedures for reviewing the propriety of the win may include viewing any surveillance tapes of the draw process, or even conducting a review of the computer transaction log for propriety. There may also be a review of customer copies of the winning ticket. Finally, the steps taken to review the large payoffs should be documented and retained for subsequent review by internal audit or other management or regulatory personnel.

In a manual system, several other verification steps may be required. The most common is a ball check. In this procedure, the balls are drawn out of the blower and placed in a special prenumbered ball rack to assure that there is only one ball of each of the eighty numbers. In addition, the ball check is also a physical check of the condition of the balls to assure that they are not cracked, damaged, or in any way altered so as to affect the randomness of the draw. In cases of the very large payoffs, usually exceeding \$10,000, the keno management, the shift manager of the casino, and the general manager may be required to sign the payoff approval documents.

KENO BANKS

Accounting control is maintained over the keno operation through the use of fixed banks for each of the keno writers and keno runners, and a fixed master bank for the keno supervisor or manager. At the beginning of the shift, each writer starts with a certain fixed amount in the cashier drawer. The physical control over the cash drawers is maintained by the cashier in cooperation with the vault. The cashier sets up the banks and stores them. At the end of the shift, the vault takes responsibility for clearing the banks so that the proceeds (the win) can be included in the count of the casino win on a daily basis.

During the betting transactions, money is received by the writers; if there are winners, the amounts are paid out. The unique accounting aspect of the keno operation is that there is a complete paper record of all the income and paid-out transactions through the use of the keno tickets themselves as revenue documents. At the end of the shift, the increase or decrease in the writer's window bank is the amount of the win or loss on that station for the keno game.

If, during the course of the shift, there is an excess of money built up in the window bank or if more money is needed to pay off a large winner, the

REQUEST FOR FILL/CREDIT			
DATE		TIME	
SHIFT			
<input type="checkbox"/> GRYD. <input type="checkbox"/> DAY <input type="checkbox"/> SWING			
GAME	NUMBER	DENOMINATION	AMOUNT
"21"		.25	
GAME		.50	
		1.00	
BIG 6		5.00	
KENO		25.00	
		100.00	
		TOTAL	▶
SIGNATURE		BADGE #	

Fig. 8-9. Request for Fill/Credit

appropriate keno fill or credit is utilized. The fill or credit activity varies depending upon the amount. The first type is merely an exchange in the form of a paper transaction from the keno manager's bank to the window bank. The keno manager's bank is later reimbursed from the main casino cashier, and the amount of the fill is recorded as a charge against the window bank. This fill is considered in computing the amount of accountability, as well as the respective win or loss calculation on the window and the keno game itself.

If the amount needed to pay off a winner is more substantial, a fill may be required from the central cashier or in the form of a check directly from the accounting department. In this case, two documents should be used, similar to a pit fill. The first document is a request for fill, which is illustrated in figure 8-9. This request for fill specifies the amount of the fill required and the reason for it—either accumulation of many small wins during the shift, or a large payout of a single jackpot keno ticket.

The request for fill is signed by the keno manager and by the keno writer, and is transmitted from the keno area to the central cashier. The central cashier then completes a customary fill slip, and the copy of the fill slip is kept with the request for fill in the main casino cage. The other copy of the request for fill is kept in the keno area until the actual fill is made. This enables the keno manager to verify that the amount of the fill actually received is the same as the amount requested.

The keno fill slip is a standard cashier fill form with three parts. The third

copy is either kept in the issuing dispense machine in a manual system, or logged by the computer system in a computerized fill/credit system. The original and the first copy go with the money to the keno area. These two copies are signed; the original copy is kept in the keno area and is turned in with the keno manager's reconciliation of the shift activity. The second copy, after appropriate signatures, is returned to the casino cashier where it is attached to the request for fill and entered on the shift fill/credit summary sheet.

At the completion of the shift, the keno supervisor prepares a keno shift report indicating the total amount of the write, deducting the amount of payout made, and arriving at a net figure for the shift. This net is then added to the amount of the manager's bank and becomes the amount of the cash that is turned in to the vault for safekeeping. All cash summary reports should be signed by the responsible keno writer and one other person who has verified the amount of the cash turned in.

KENO REVENUE AUDIT PROCEDURES

The keno revenue audit procedures are an after-the-fact audit of all keno tickets. Keno auditing developed as a way to check the accuracy of various payoff tickets that could on occasion become very complex. The task was usually performed by trained casino personnel. However, with computerized systems determining the validity of these tickets, it has increasingly become an automatic computerized function. Keno audit is a key review to assure the accuracy and integrity of the keno game. It is an important component in ensuring the correctness of keno revenue.

The keno audit is also a key step in internal control, creating a second independent evaluation of the keno game and its operations. The complexity of the keno audit can vary from a simple checking of payouts to a complete recreation of the game. The extent of the keno audit is largely a matter of choice by the casino management.

The basic procedures of keno audit involve transmitting all inside keno tickets from the keno game area of the keno auditor. The tickets are usually separated and bundled by game number and by shift in order to identify the tickets accurately if more than one keno game is operating in the casino. The tickets are also separated by the appropriate writer or source of origin. The keno auditor recomputes the total write (amount wagered) and deducts the total payouts. The total payouts are recomputed to verify that neither underpayments nor overpayments are being made. The amount of the payouts is then compared to the game summary sheets to see if a difference exists.

If there is a significant difference (a \$10–\$20 difference is usually considered significant), then the reason for the difference is investigated and the nature of the error is described in the keno audit report. The report is given to the keno manager, who is responsible for taking whatever action is deemed

necessary to correct the problem. Differences can occur in both the income (write) side and the expense (payout) side. Therefore, both sides of the keno operation are audited.

A more detailed keno audit procedure may be followed if one of the assigned duties of the keno auditor is to verify the payout procedures in detail. If a detailed audit of the payoff is required, then surveillance video may be consulted to verify the accuracy of the draw and to assure the integrity of the ball draw and recording. Verification of proper adherence to other payoff procedures, such as a ball check and the presence of all documentation and approval signatures on all documents, should also be carried out as part of the keno audit function.

OTHER KENO ISSUES

Random Draw and Keno Statistics

One step in the keno audit that is usually not performed is some form of statistical analysis of the randomness of the draw. The randomness of the draw is essential, since any alteration of the game, either naturally or by deliberate manipulation, could cause the results to be different and expose the casino to a potential fraud situation. In a manual system, the risk to the casino is significant if certain balls are always drawn in a game or certain balls are never drawn. In a computerized system, periodic reviews or analysis of the random number generator used by the system should also be conducted.

A casino could develop a method of collecting the game results automatically and analyzing the results using standard statistical tests such as a simple chi squared test to determine the randomness of the draws. If there is a problem, the appropriate action can be taken by management to correct or improve the internal control procedures over the game.

Other keno game statistics should be collected regularly and analyzed to serve as a first indicator of operational problems or weaknesses in internal control. For example, the win-to-write percentage should be tracked for each shift, day, month, and year-to-date to identify unwarranted deviations from the standards for the game. Any large or unusual fluctuations should be investigated and the reasons noted and documented. The results of these statistical reviews should also be retained for review by internal audit personnel, supervisory personnel, or gaming regulatory agencies.

Cost of a Keno Game

Keno is unusual in a financial sense in that the game is very expensive to equip and establish. Once established, it has certain minimum fixed costs of operation. A keno game requires a substantial initial investment in basic game equipment. It has been estimated that these costs are about \$100,000–\$200,000,

depending on the complexity of the machinery.² In addition to the equipment, there is a substantial cost associated with bankrolling a keno game. Since the current Nevada Gaming Control Board bankroll requirement is between two to four times the maximum game payout, the bankroll amount could easily be between \$100,000 and \$200,000.

Given the three-shift, 24-hour nature of most casino operations, a keno game also has a unique operating cost structure. First, since there is usually a minimum of one keno game in a casino, the game must be kept open constantly. Only if there are multiple games can some of them be closed during slow periods to save costs. Second, the nature of keno, which can be played while customers are eating or drinking, further reinforces the necessity for a continuous operation. Third, a keno game requires a certain minimum number of people to operate. There must be at least one writer and one supervisor. During busy periods, this staffing may increase substantially. These factors all contribute to the high fixed cost nature of the keno game. In order to be financially successful, a keno operation must achieve two things:

1. Control the initial investment cost
2. Maintain volume of play in order to exceed the break-even point in ongoing keno operations

Complexity of Way Tickets

One of the serious problems of control in a keno game lies in the multitude of possible combinations in marking the number choices on keno tickets. Tickets with groupings or special patterns are called *way tickets*. These way tickets are the equivalent of playing multiple keno tickets but marking only one ticket.

Figure 8-10 shows various way tickets. The upper left ticket has four groups of two spots each, plus one group of eight spots marked:

1. The eight marks are considered one ticket.
2. Each of the groups of two is considered one ticket.
3. The total is five tickets at \$1.00 per ticket, for a total cost of \$5.00.

The way ticket's appeal is based on the feeling that the chances to win are enhanced since more spots are marked. However, the odds structure remains unchanged, and most of the attraction is merely psychological. Once the multiple concept of way tickets is understood, the process of evaluating the wins and losses on individual game tickets can be determined.

Concession Keno

Another area of concern to the keno operation is the accounting and internal controls over those keno operations that are run by individuals other

PLAY KENO WAY TICKET

WAY TICKETS ARE GROUPS OF SPOTS, SEPARATED BY LINES OR CIRCLES, CONTAINING THE SAME OR DIFFERENT NUMBERS OF SPOTS. THE GROUPS ARE THEN ADDED TOGETHER TO MAKE INDIVIDUAL TICKETS, FOR ALL OR AS MANY OF THE POSSIBLE WAYS AS YOU WISH TO PLAY. SHOWN BELOW ARE EXAMPLES OF SOME OF THE MOST POPULAR WAY AND COMBINATION TICKETS. OUR FRIENDLY KENO WRITERS WILL BE HAPPY TO ANSWER ANY QUESTIONS ON HOW TO PLAY THESE OR ANY OTHER KENO WAY TICKET.

\$1.00 RATE

\$25,000 KENO TO AGGREGATE PLAYERS. NO. OF SPOTS: 10. TICKETS PER GAME: 1. TOTAL PRICE ALL GAMES: \$5.00

1	2	3	4	5	6	7	8	9	10
11	12	13	14	15	16	17	18	19	20
21	22	23	24	25	26	27	28	29	30
31	32	33	34	35	36	37	38	39	40

WINNING TICKETS MUST BE COLLECTED AFTER EACH GAME

41	42	43	44	45	46	47	48	49	50
51	52	53	54	55	56	57	58	59	60
61	62	63	64	65	66	67	68	69	70
71	72	73	74	75	76	77	78	79	80

WE ARE NOT RESPONSIBLE FOR KENO NUMBERS TICKETS NOT VALIDATED BEFORE START OF NEXT GAME

4 Groups of 2

1 1.00 8
4 1.00 2s

Total Price \$5.00

\$25,000 KENO TO AGGREGATE PLAYERS. NO. OF SPOTS: 10. TICKETS PER GAME: 1. TOTAL PRICE ALL GAMES: \$10.00

1	2	3	4	5	6	7	8	9	10
11	12	13	14	15	16	17	18	19	20
21	22	23	24	25	26	27	28	29	30
31	32	33	34	35	36	37	38	39	40

WINNING TICKETS MUST BE COLLECTED AFTER EACH GAME

41	42	43	44	45	46	47	48	49	50
51	52	53	54	55	56	57	58	59	60
61	62	63	64	65	66	67	68	69	70
71	72	73	74	75	76	77	78	79	80

WE ARE NOT RESPONSIBLE FOR KENO NUMBERS TICKETS NOT VALIDATED BEFORE START OF NEXT GAME

4 Groups of 2

1 1.00 8
4 1.00 6s
6 .50 4s
4 .50 2s

Total Price \$10.00

ANY TICKET OF 3 WAYS OR MORE MAY BE PLAYED FOR EITHER \$1.00 OR .50c PER PLAY

\$25,000 KENO TO AGGREGATE PLAYERS. NO. OF SPOTS: 10. TICKETS PER GAME: 1. TOTAL PRICE ALL GAMES: \$5.50

1	2	3	4	5	6	7	8	9	10
11	12	13	14	15	16	17	18	19	20
21	22	23	24	25	26	27	28	29	30
31	32	33	34	35	36	37	38	39	40

WINNING TICKETS MUST BE COLLECTED AFTER EACH GAME

41	42	43	44	45	46	47	48	49	50
51	52	53	54	55	56	57	58	59	60
61	62	63	64	65	66	67	68	69	70
71	72	73	74	75	76	77	78	79	80

WE ARE NOT RESPONSIBLE FOR KENO NUMBERS TICKETS NOT VALIDATED BEFORE START OF NEXT GAME

3 Groups of 3

1 1.00 9
3 1.00 6s
3 .50 3s

Total Price \$5.50

\$25,000 KENO TO AGGREGATE PLAYERS. NO. OF SPOTS: 10. TICKETS PER GAME: 1. TOTAL PRICE ALL GAMES: \$4.00

1	2	3	4	5	6	7	8	9	10
11	12	13	14	15	16	17	18	19	20
21	22	23	24	25	26	27	28	29	30
31	32	33	34	35	36	37	38	39	40

WINNING TICKETS MUST BE COLLECTED AFTER EACH GAME

41	42	43	44	45	46	47	48	49	50
51	52	53	54	55	56	57	58	59	60
61	62	63	64	65	66	67	68	69	70
71	72	73	74	75	76	77	78	79	80

WE ARE NOT RESPONSIBLE FOR KENO NUMBERS TICKETS NOT VALIDATED BEFORE START OF NEXT GAME

3 Groups of 2

1 1.00 6
3 1.00 2s

Total Price \$4.00

ALL WAY TICKETS ARE SUBJECT TO OUR APPROVAL. \$25,000.00 LIMIT EACH GAME TO AGGREGATE WINNERS.

Fig. 8-10. Keno Way Ticket

than the owners of the casino. In these situations, the operation is known as a *leased department* or a *concession keno operation*. The unique feature of this style of operation is that there is an independent third party involved in the operation, while the same controls must be adhered to in the conduct of the keno game. Differences exist in the areas of accounting controls over the payoff procedures, determination of profits and losses, and the ultimate division of those profits or losses.

During the conduct of keno games, the concession operator is bound by the same rules and terms of conduct of the game as if the casino owners were operating it. There may be special concern about improper payouts being made to a confederate of the concessionaire, to the detriment of the property. In this case, special procedures should be followed to account for and document the payouts, and careful attention should be given to large payouts.

A second consideration is the ability of the property's accounting department to make the proper determination of the win or loss of the keno operation. This is essential in order to assure that there is a proper division of the profits. The typical division is patterned after slot machine operating agreements, where 40% to 60% of the win goes to the operator and the remainder to the location or property. In general, the more desirable the location, the greater the "rent" or percentage is that goes to the casino. Another consideration in the determination of the split is who provides the keno equipment. A heavy capital contribution by the operator would necessitate a larger portion of the winnings going to his or her account.

A minor but important point is that the split is always expressed in terms of net win—that is, the win after all winners have been paid. Also, various concession agreements make specific provisions for adjustments of the split after the fact to take into account changes due to audits or tax assessments. Once again, as with slots, the concession agreement should also assign specific responsibility for the payment of gaming taxes and licenses.

Automatic Keno Machines

The advent of video keno machines has made a significant impact on the gaming industry in past years. In large part, these games are modified slot machines with a large video display of the typical eighty-number keno layout. The patrons select the numbers they wish to play with a light pen or on a touch screen, and the game starts when the coins are inserted and the play button is pressed.

The elements of accounting and control for these machines are patterned after the controls over slot machines, and not a regular keno game, due to their mechanical nature. The payoffs in these machines are substantially smaller than in a standard keno game. In all cases the payoffs are handled by slot machine payoff personnel, and they are documented and approved in the same manner as slot machine payoffs. The operations of these automatic keno machines are administratively controlled through the slot department as well.

Bingo, Poker, Race and Sports Book

Bingo, poker, race and sports book operations are minor contributors to the overall revenue stream of a casino. As described in table 9-1, these games collectively contribute about 3.5% of the total revenue statewide in Nevada. Still, despite their minor revenue contribution, they are often a vital part of the casino product line and are very popular with many patrons. In fact, the gaming customer who plays these games is often quite different than the traditional slot machine or table games customer. In addition, the popularity of poker as a casino game has been enhanced as a result of the spread of on-line poker games, as well as increased television coverage of both regular and tournament poker. In spite of the greatly increased activity of these games, their contribution to casino profitability remains relatively minor.

BINGO

Virtually all states permit bingo games for charity purposes or as a part of the tribal gaming operations allowed under the IGRA of 1988. The Cabazon tribe's high-stakes bingo originally led to the legal challenge by the state of California and the U.S. Supreme Court to tribal gaming, with the court decision in favor of the tribe and ultimately the IGRA.¹

Bingo was originally played as a low-stakes game in church hall basements and other fraternal organizations as a fundraising activity. Later developments allowed bingo as a community-based activity, usually for larger prizes. With the increase of more widespread commercial bingo operations, there have been enhanced electronic developments which allowed more games to be played at a more rapid pace. This, in turn, increased the profitability to the operator as well as improved the game's popularity.

Tribal bingo, defined as a Class II game, has become commercially important. Table 9-2 and figure 9-1 illustrate the growth in both commercial bingo and tribal Class II bingo across the nation since 1992. Bingo is important in the tribal environment, since it is not subject to state control, and can be offered virtually with a variety of options. This lack of control has also led to numerous electronic enhancements to traditional paper bingo, and to bingo-based electronic gaming devices that appear similar to slot machines.

More modest electronic enhancements include electronic player stations and handsets that enable players to manage hundreds of cards per game. Electronic signage is another important improvement in the game. Finally, electronic bingo can offer linked games covering wide areas with much larger prizes. The larger prizes and progressive jackpots enhance the popularity of the game.

Bingo Accounting and Controls

The basic accounting and internal control procedures relating to bingo operations can be categorized according to the main phases of the bingo game:

TABLE 9-1 Other Game Revenue Sources in Nevada

	Nevada Statewide	Las Vegas Strip	Las Vegas Downtown	Reno- Sparks
Bingo	0.04%	0.03%	0.43%	0.18%
Poker	0.80%	0.86%	0.89%	0.75%
Other	0.62%	0.94%	0.98%	0.47%
Race Book	0.89%	0.91%	0.55%	0.65%
Sports Book	1.14%	1.03%	0.76%	1.43%
Total	3.49%	3.77%	3.61%	3.48%

TABLE 9-2 Commercial Bingo and Tribal Class II
Revenues 1992–2001
(\$ in Millions)

Year	Commercial Bingo Revenue	Tribal Class II Bingo
1992	1050	400
1993	1048	550
1994	1000	570
1995	980	680
1996	970	980
1997	972	1000
1998	1100	1080
1999	1050	1140
2000	1020	1200
2001	1100	1400

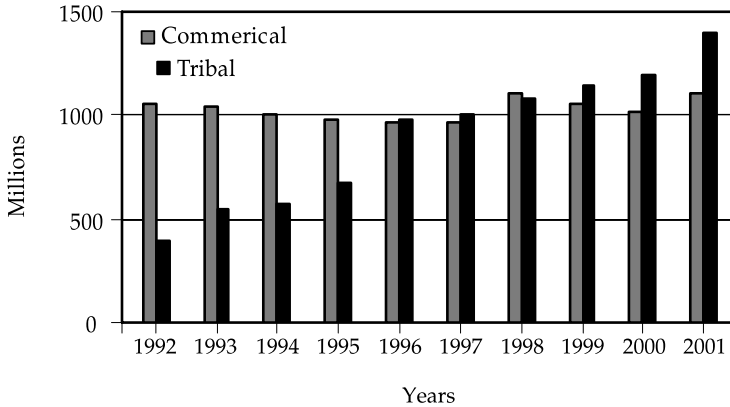


Fig. 9-1. Bingo Revenue, 1992–2001

- Controls over “selling” cards to customers
- Controls over drawing the balls during the bingo game
- Controls over the payoff of winnings

Bingo is a game that has wide popularity outside of casinos.² However, as a casino game, it represents a very small amount of revenue and is offered merely to assure a full range of entertainment products to the casino customers.

On a structural and procedural basis, bingo games resemble keno in certain areas, particularly where the procedures for the draw of the game and the jackpot payoff processes are concerned. However, a major difference exists with respect to the revenue earning process.

Card Control: The first area of concern is the control over the issuance of bingo cards in the game, as well as the collection of revenue from customers. The control of this inventory of bingo cards is important to assure that the play results are fair to players and profitable to the casino.

There must be a strong inventory control function associated with the bingo operation. At the initial stages, the bingo card or paper inventory must only be authorized to be purchased from approved suppliers and under strict purchase order controls. The paper forms must be from suppliers approved by gaming regulatory boards (if required) and from suppliers with reputations for careful production, numeric controls, and high-quality printing for visual appeal of the product. The approved forms must also have the proper format, be prenumbered for control purposes, and have suitable casino logo identification. At the time of ordering, the casino must also specify the makeup and the format of the cards that are typically sold in packages.

Once the orders are placed, there must be a second-level control over the receiving and secure storage of the game card inventory. The cards must be received, inspected, inventoried, and moved to the bingo card storage area. At the time the bingo game is to operate, the cards must be checked out of the central inventory for the game, transmitted to the bingo hall, and allocated to the various cashiers who will in effect “sell” or “rent” the bingo cards to patrons.

If the casino is running an electronic-based bingo operation, instead of offering the paper cards to customers for sale, the cards are downloaded to the electronic terminals by a central computer server. The central server program must be controlled and protected against unwarranted alterations or errors.

Bingo Revenue Control: Typically, casino bingo earns its revenue by selling or renting the use of a bingo card (either paper or electronic) to a customer for a game or group of games. Bingo games in noncasino locations may occasionally charge an admission fee in addition to a fee for the use of the cards.

The principal revenue collection process is performed by floor personnel who circulate around the bingo parlor area and collect the fees for card use before the next game. In some bingo operations, the initial issuance of the bingo cards is done at a central cashier-like location so that the bingo cards can be controlled.

The bingo cards that are issued have appropriate casino identification, as well as serial numbers and other marks that help to prevent counterfeiting. As patrons enter the bingo area, they purchase a game card or set of cards from the vendor for a set fee. The amount of revenue is then tallied by the vendor and cross-referenced to the number of cards issued. It is important that the card-selling function provide good information on the date, shift, bingo session, and game dollar amounts paid for the cards.

After the initial play, repeat plays are paid for on the bingo floor by having the floor person either pick up the bingo card after the customer has finished with it or else receive payment from the customer. There is usually some form of validation attached to the board for each of the games to be played to assure that any player has a validation sticker or mark indicating that he or she has paid for the game currently being called. Each bingo runner is responsible for accounting for the issuance of receipts for repeat play and other card trade-ups in his or her bank. In addition, the central selling point is also operated under an imprest bank system.

Other controls over the bingo revenue at this point include supervisor counts of the number of persons playing the game and reconciliation of these numbers with the revenue received by the floor persons. Also, standard operating procedures must be followed in order to ensure that irregularities do

not occur and that floor persons are not diverting funds from the casino by indicating a card as inactive during a certain game.

After the shift is completed, each of the floor persons is required to check out. In this case, the validation slips are accounted for, and the number sold is multiplied by the fees to determine the amount of the required turn-in. The turn-in is calculated for each runner or floor person, and the bingo booth turn-in is also reconciled. These amounts are then transferred to the main casino cashier where the total amount of the win for the bingo game is determined after consideration of game prizes.

Bingo Draw Controls: The third key procedural control relates to the conduct of the draw of the numbered balls for the game. The basic procedure is to draw one of seventy-five balls at random, each categorized into one of five groups by number and in a sequential manner, until a winner is determined by covering a specific pattern, or when a specified minimum number of balls has been drawn.

The odds structure of the bingo game is such that as the number of balls approaches fifty, the odds of drawing twenty-four numbers for a coverall card (twenty-five spaces less the traditional center free play) are very small. After fifty numbers are called, the odds drop dramatically. To compensate for this, the amount of the award for a bingo with less than fifty numbers is very large, and the payoff is much less for more than fifty numbers. Most casino games are established with a guaranteed minimum payoff, even if the number of balls counted is very high. The odds structure can be modified somewhat for games that call for covering just a line of numbers, four corners, or other patterns of numbers.

The physical drawing process for the balls can be accomplished in much the same manner as for a keno game. Any single ball drawn can be recorded for both a regular game and a bonus jackpot game if necessary. The balls are housed in a cage or blower and are agitated in some manner and selected one at a time. Various types of devices exist to hold the balls that have been selected. Typically, they all have some way of assuring that the balls are categorized according to the B, I, N, G, and O groups. Also, there must be some way to indicate the balls that have been drawn. Usually this is done by lighting a large board, where each of the numbers is illuminated when it has been drawn. Typically the caller announces the number drawn and enters it into the computer system to light up the display boards and record the draw. Some bingo operations use closed-circuit TV monitors to picture the ball that was drawn. Again, there are manual systems, hybrid systems using some computerized equipment, and fully computerized bingo systems.

The integrity of the draw process is important, and several alternative control methods have been used. The simplest is to have an observer to assure

that the balls that are drawn are the correct ones and that they are properly announced and the correct number is illuminated. There should also be video surveillance of the draw process. Various computerized systems automatically record, display, and announce the draw. Some bingo systems involve keeping the balls sealed within a blower or selection machine and videotaping the results of the ball draw without removing the balls from the container.

Once the draw is completed and the winner of the bingo game declared, secondary ball control procedures as a part of the payoff determination come into play. Some bingo halls show the winning card to another patron, while the floor person verbally reads the winning numbers for comparison to the balls drawn. After the ball draw is approved and verified, the balls are returned to the blower and the ball cage and the computer drawing system is reset.

Payoff Determination and Controls: The first step in the determination of the payoff is the verification of the correctness of the win by having a floor person read the numbers from the winning card back to the caller or ball draw person. The card should also be carefully inspected by the floor person to assure that it is a valid casino card, and that serial numbers and other identifying marks are in place and the game has been paid for. Special care should be taken to ensure that the card numbers have not been altered in any way. In addition, the serial number on the card is verified and cross-referenced to the computer system where the sale of the original card is recorded.

The next step in the payoff determination is a ball check, which may be required if the win is over a certain amount. The ball check verifies that there are indeed seventy-five balls in the blower and that there are no duplicate, damaged, missing, or otherwise improper balls.

At this point, the payoff of the winner should be processed. In general, a parallel set of procedures similar to those under the keno game system should be used. Small payouts require minimum approval documentation—including the time, the date, and an authorized signature on the paid-out slip with the winning ticket attached. For more substantial payoffs, there may have to be supervisory or senior-level management approval. Also, as with keno, there are mandatory IRS information returns to be completed (form W-2G) if the payoff is at least \$1,200.

Other Bingo Controls: In addition to the above controls, there should be several other general controls in place in the bingo operation. The first is the necessity of having good access controls over the card inventory, the sales booth, the ball draw machine, and the supervisor's booth. In addition to access controls, there should be the routine collection of statistics for the bingo game by shift, day, month, and year-to-date financial yield. Where computerized systems or other automated draw systems are used, the validity and

accuracy of the random number generator which creates the draw should be periodically tested and verified.

Finally, where prizes other than cash are given away, either as regular prizes or as bonus jackpots, there should be good inventory control over the merchandise given away. Also, where the value of merchandise reaches large dollar amounts, appropriate approval by supervisors should be required, and in some situations the IRS form 1099 may have to be completed if the value of the merchandise prize is at least \$600.

Bingo Revenue Accounting

At the end of the shift, the floor persons and the main supervisor in the bingo area should turn in their individual banks. The floor persons check out and account for all game tickets sold and reconcile that with the total dollar turn-in. In addition, any paid-out documents are considered in arriving at the total amount for which they are accountable. The net amount of the turn-in constitutes the largest portion of the bingo revenue.

As with other games, if there are substantial winners a specific fill to the bingo department may be required. In this case, the fill slip processing is the same as for any other game, and the fill slip copy is held by the main casino cashier while the original fill slip is turned in to the bank by the bingo supervisor at the end of the shift. The fill is deducted from the total cash turn-in amount in order to determine the win on the bingo operation for the shift and the day.

Bingo-Type Gaming Machines

A recent invention for tribal casinos is the introduction of games which appear to be slot machines on the outside and in their basic type of operation. However, rather than being a single slot machine, they really are themed variations of slot machines which play like a bingo game. These machines are typically referred to as Class II slots.

The play mechanism is that for a small-denomination wager (5¢ to \$1) the machine makes a bingo-type draw from a central computer server. The central server operates exactly the same as it would in a single stand-alone location. For rapid play and maximum potential payoff to the player, these bingo machines are typically linked together over computer networks to other casinos with similar machines. In effect, the machines are creating a large regional (even national) repetitive bingo game with a centrally determined outcome.

This meets the letter of regulation for the definition of Class II gaming. For regulatory purposes it enables casinos that cannot expand their regular slot machine offerings to provide more "slot-like" games. Figure 9-2 illustrates one kind of a Class II bingo-type gaming device.

From 2005 to 2007, The National Indian Gaming Commission embarked



Fig. 9-2. Bingo (Class II) Machine

on a major project to define what constitutes a Class II gaming machine. These definitions, when finalized, will undoubtedly result in further changes to these games.

POKER AND CARD ROOM ACCOUNTING

Casino card room games include poker and other derivative card games. The casino's role in these games is unique. Instead of being an active player, the casino acts only by providing the physical facilities to play and supplying the dealer to handle the cards and to conduct the play.³

A traditional card room layout is shown in figure 9-3. The card rooms vary in popularity in casinos. Where they are part of a larger casino, they generate between 1% and 3% of the overall casino revenue. Card rooms are frequently found in other areas of the country, where they may be legal under individual state or local laws. Southern California card rooms are larger than many Nevada casinos (other than those on the Las Vegas Strip), and produce signifi-

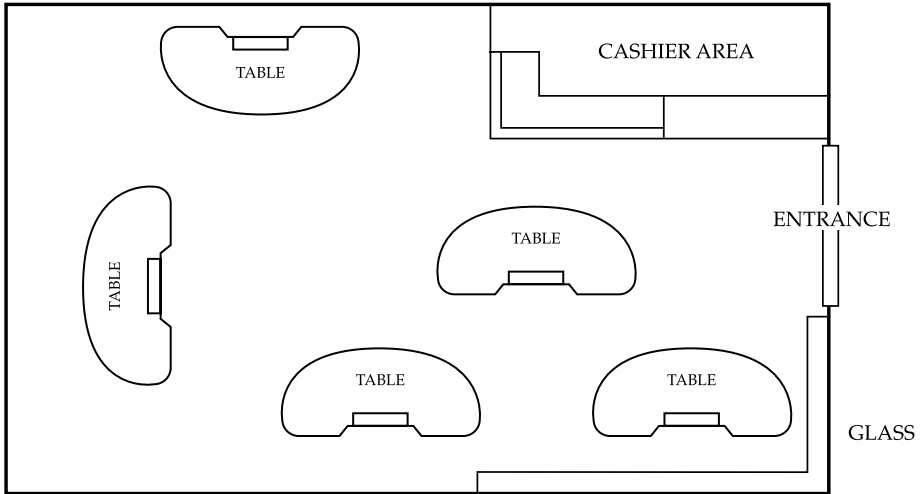


Fig. 9-3. Poker Room Layout

cant gaming revenues in their own right, without other casino games or devices, such as slot machines. There has also been an increase in poker games, popularized through television shows and celebrity poker tournaments. Finally, poker in the diverse locations of tribal casinos, which cater largely to local markets, has also contributed to poker's growing popularity.

Poker Revenue Accounting

The revenue to the casino from a poker operation is derived from the percentage that is taken from each hand. This is known as the *rake-off*. Other compensation programs for the casino may include a fixed commission rate or a rental rate charged for the time that the player is at the table. The amount of the rake-off is typically limited to a certain dollar amount per hand or limited to a small percentage of the total pot, typically whichever is smaller. Also, in the conduct of the game the dealer may have a table inventory available only to perform cashiering functions for the players. The dealer (and the house), do not play against the players. In other situations, the tables may have no chip inventory, and patrons would rely entirely on the poker cashier for all transactions. The players only play against one another.

Generally, the percentage commission or time rental rates to play are clearly posted in the game area. If the compensation method to the casino is a rake-off, then the minimum, the maximum, and the percentage rake-off amounts are specified and posted in the game area.

As the bets are being made, the dealer has the responsibility of determining the amount of the pot from which the proper rake-off is taken. The rake-off is placed into a drop box using a stacker mechanism (see figure 9-4). The amount of the rake-off is usually set aside on the game table and held until the completion of the hand and the pot has been won. This is to assure players that the game is not being excessively raked and is an indication of good faith on the part of the casino. After the hand is completed, the rake-off is deposited in the table game box.

Accounting and Internal Controls

During the course of poker play, there are several key accounting control points. The exact operation of these controls depends on whether the poker dealers are responsible for changing currency into chips for play or not. Increasingly, and in order to achieve better internal control, most casinos restrict the conversion of currency to coins to organized cashier stations, as indicated on figure 9-3. If the casino follows a policy of not exchanging currency at the table, then the poker dealer utilizes the table tray inventory for limited purposes such as changing chip denominations and other minor transactions. The amount of the table tray is small, consisting of \$500–\$1,000, and operates on an imprest balance basis. In some casinos, poker table tray invento-

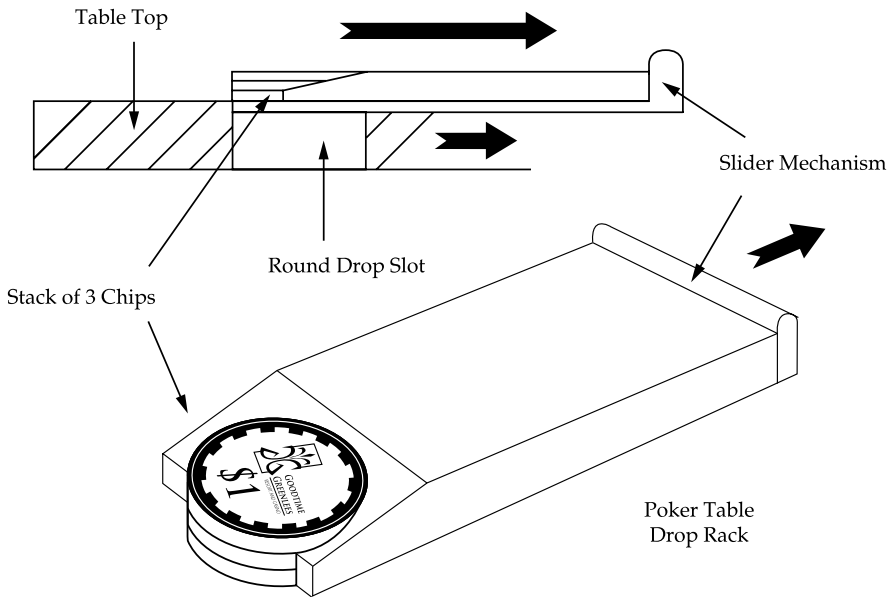


Fig. 9-4. Poker Table Drop Rack

ries have been eliminated. Under this type of system, usually only chips from the rake are deposited in the game box since currency is exchanged for game chips by the poker cashier.

If the casino operates with the poker dealers performing full cashiering functions, including changing currency into chips, then the table tray may be a floating amount and the count of the table tray will be an integral part of the revenue determination process, just as it is on a 21 table. In general, the table cashier function operates exactly the same as it does in other table games. The currency is deposited in the table drop box where it forms part of the computation of the table win that is determined during the overall casino game count procedures. However, the determination of poker win is subject to more straightforward computation, since the amount of table tray inventory change should be reflected in the currency in the drop box.

In addition to the dealer cashiering activity, there are usually small cashier booths located in the game room. These cashiers perform several functions. They replenish the working inventory on the tables during the shift, act as a turn-in location for the table inventories taken by each dealer from the game cashier to the table, and change currency to chips for customers. The cashiers also perform minor administrative chores, such as bookkeeping for the game room and ordering complimentary beverages for players at the direction of the card room manager. In some casinos, the poker cashier may also initiate some credit transactions.

If a dealer is in need of additional chips for the table inventory, he or she indicates the need to a supervisor. Typically, lammer buttons in the amount of the fill requested are placed on the table by the dealer. The security guard goes to the card room cashier, who prepares a fill using a traditional three-part fill slip. The original fill slip and copy are transmitted to the table from the cashier, and the dealer and supervisor sign the fill slip. The fill slip is then deposited in the table drop box. The lammer button is removed when the formal fill slip is signed by the dealer after the chips are put on the table. The copy of the fill slip is then returned to the cashier where it is recorded as a fill to the table and is retained until the end of the shift.

At the end of the shift, the table tray is removed from the card table and returned to the card cashier. The card cashier records the opening and closing inventory. The cashier then forwards all the documents along with the copies of the fill slips and table inventories to the main casino cashier where the documents are cleared back to count rooms at the appropriate time.

The accountability of the card cashier is maintained by the use of imprest balances. The balances account for all paid-out items to the tables along with the chip, coin, and currency inventory in that location. The standard table drop and count procedures are followed in the poker area. Security and sur-

veillance over the drop procedures and the counting of the contents of the drop box are conducted just as they are for other table games.

The overall conduct of the business in the card rooms is remarkably similar to that of other casino games. The accounting processes are very much the same—only the revenue earning process is different. The house takes a rake-off or commission rather than participating in the win or loss of the game.

The poker table may have a secondary drop box which is used to collect money for special schemes such as “bad beat” jackpots. If these secondary jackpots are used, there must be suitable recording of the accrued amounts as well as control over, and accounting for, the eventual jackpot award.

RACE AND SPORTS BOOK ACCOUNTING

This section discusses the basic accounting procedures to be followed in the conduct of a race and sports book either located in a casino or in a stand-alone betting location.⁴

The Odds

In order to take bets on a race and sports book event, odds must be posted. The odds are determined by professionals in a variety of sporting fields. The odds makers are generally independent specialists, usually in sports or in racing, who provide information to others for a fee.⁵ Providing such information is subject to licensing requirements, and appropriate fees must be paid. Larger race and sports books may employ their own odds makers.

Horse-race odds come directly from the track, as a result of the pari-mutuel betting. Some race books indicate that they pay track odds, which may vary slightly from the odds posted in the casino. In general, the casino odds are slightly less favorable than the track odds on the same race.

The basic odds are called *the line*. The line may be adjusted from time to time in order to balance the betting activity. Also, the casinos may make layoff bets to balance their own exposure. The basic concept of sports book betting is that the book should be balanced, with the casino earnings coming from the difference between the true redistribution payoff and the payoff according to the odds posted in the casino. In addition, some casinos may charge specific commissions on certain types of betting. In general, there is never much deviation from the line by any one casino. Comparisons among casinos reveal little if any variation.

Betting Procedure

Once the odds have been set, the sports book can accept bets on an event. Not only must each bet be recorded, but the money bet on each event must be carefully controlled and recorded.

The bets are taken by the writers. Each writer is located in a station similar to a cashier's station. The customer indicates the choice of bet and gives the writer money. In a manual system, the writer then fills out a three-part form indicating the nature of the bet, the amount of the bet, details such as win, place, or show, and other important information. The dispensing machine issues the ticket. The original is retained by the sports book, the first copy is given to the customer, and the second copy is retained in the machine, which is under lock and key. This third copy is a numeric sequence copy and is removed only by personnel from the accounting department.

The original of the ticket is kept by the sports book as evidence of the transaction. The tickets are periodically gathered by the supervisor and are sorted and filed according to the specific event. This sorting is also accompanied by tabulation by the supervisor of the amount of money being bet on a particular event and serves as the basis for possible adjustments of the line or lay-off betting if necessary.

In a more common computerized race and sports book, the same functions as above are performed by the computer system. The numeric control copy of the form is retained as a transaction log or file within the computer system. The customer is given a computer-generated betting ticket, and the inside ticket is recorded in the computer system, with a physical copy usually not being produced.

Sports Book Payoff

Once the event has concluded the winner of the bet can be determined. In a manual system, the supervisor sorts through the tickets for that event from the file. Winning tickets are separated from losing ones and are priced so that the cashier knows at a glance how much to pay out. In a computerized system, the program summarizes the winning tickets and produces a winners report for casino management.

When the bettor presents his or her copy of the ticket to a central race and sports book cashier for redemption and payment, he usually goes to a specific cashier. Upon presentation for payment, the cashier matches the copy submitted by the customer with the original ticket. With a computerized system the presented copy is examined, the ticket number entered into the computer, and the payment approval is generated by the system. If all items agree, the bet is paid. This is the major control point in the sports book. Occasionally, a winning bet is presented for payment long after the actual event has taken place. Various casinos have differing policies about the redemption of these bets. These redemption rules should be posted prominently in the race and sports book areas. In general, if a casino keeps the bet open for a period of time, there are procedures for the retention of these sleepers in a file for the specified amount of time. Also, if sleepers are held open for a considerable

period, there must be some administrative procedures for approval of bets that exceed a reasonable amount of time.

Cash Handling and Controls

In a situation where there are many race and sports writers and only one winning payment cashier, there is often the need for additional amounts of cash to pay off the winners. If a fill is needed by the sports book cashier, it can be accomplished in several ways. The most straightforward is to provide a fill from the main casino cashier in the amount of currency needed. In this case, a request for fill is prepared, and the standard fill procedures are used. Appropriate signatures of all parties and the ultimate retention of the fill slip by the sports book cashier are evidence of the additional funds supplied. The main cashier clears the fill slip back to the vault and the count activity, where it is considered in the determination of the sports book win for the shift and the day.

A second method of filling the sports book cashier is to transfer the necessary funds internally within the sports book, from the writer's cash drawers to the cashier's drawer. In this case, the transfer slip is completed by the sports book supervisor with the writer, the cashier, and the supervisor all signing the transfer. One copy goes in the drawer of the writer to account for that turn-in amount, and the other goes in the cashier's drawer. The copy is retained by the supervisor and is sent to the accounting department. Given the lack of second department involvement and the potential for collusion, this type of transaction, called *cross fills* in the sports book, are usually prohibited or at least discouraged by regulatory authorities.

Revenue Accounting

At the end of the shift, the respective race and sports book writer banks are counted and turned in to the main casino cashier. The payout cashier also completes the same process. The amounts turned in are adjusted by any fills from the cashier, and the net amount of turn-in is calculated.

For the day's activity, the sports book turns in to the accounting department several types of documents. The first is the amount of write for the day, which is divided into amounts bet on events that took place that day and events that are to take place in the future. The total write, therefore, consists of two parts: earned revenue and deferred revenue. Bets on future events are transferred out of the deferred category and into the active revenue on the day of the event. The accounting department reconciles the turn-in summary with its copies of the write for the day to determine the accuracy of the accounting.

Payoff transactions are summarized with the cashier turn-in. At this time, accounting verifies the propriety of all payoffs by comparing the details on

the two matched copies of the original betting document. The betting documents are sorted and separated by the event to which the bet applied.

If a payoff transaction was for a previously unclaimed bet, the two copies are stapled together and sent to accounting. The accounting department then checks the computer records against the bettor's copy to verify the correctness of the payoff.

Detailed records are kept of the summary activities, particularly the status of various deferred items. The total sleepers cashed, the total future bets made, and the total of previous bets placed on that day's events are three items that are carefully tracked on a day-to-day basis. This is the only way that the win for the day can be related to the actual profit that is made—when consideration is given to these other items of future benefit and liability.

Computerized race and sports books are now the norm, and generally enable management to assure better control over the betting transaction. They also allow more accurate control over the cashiering activities, and greatly simplify future event accounting control.

Central Cashiering

Central cashiering could be described as the nerve center of the casino cash flows and the operational center of the casino itself. Having the cashier as the central point of the operation also creates an atmosphere of control over the casino operation. If the controls over the cage cashier are strong, then the controls over the entire casino operations are typically strong.

The cashier's cage and its related back-room storage and working areas are known collectively as the *vault*, *main bank*, and the *cage*. The cashier's cage is a common point of reference in the casino and is usually located in a central and prominent location. The primary operational responsibilities in this area include central cashiering, vault (main bank) operations, and the integration of the count procedures and revenue reporting. In its simplest sense, the front of the cashier area is called the *cashier's window*, the back of the cashier area is called the *vault*, and the long-term area behind the vault may be called the *main bank*.

DISTINCTIONS: THE CASHIER, THE VAULT, AND THE CAGE

The cashiering function usually refers to the activity of the cashier, while the physical location where the cashiering takes place is the cashier's cage. There may be one or more cashier stations located throughout the casino. There may also be specific functional cashiers for processing table fills and credits, for receiving employee bank turn-in funds, for redeeming slot machine tickets, and for the traditional public cashiering functions.

The vault or main bank, on the other hand, is a physical location usually separate from the cashiering cage. It is a highly restricted area where the

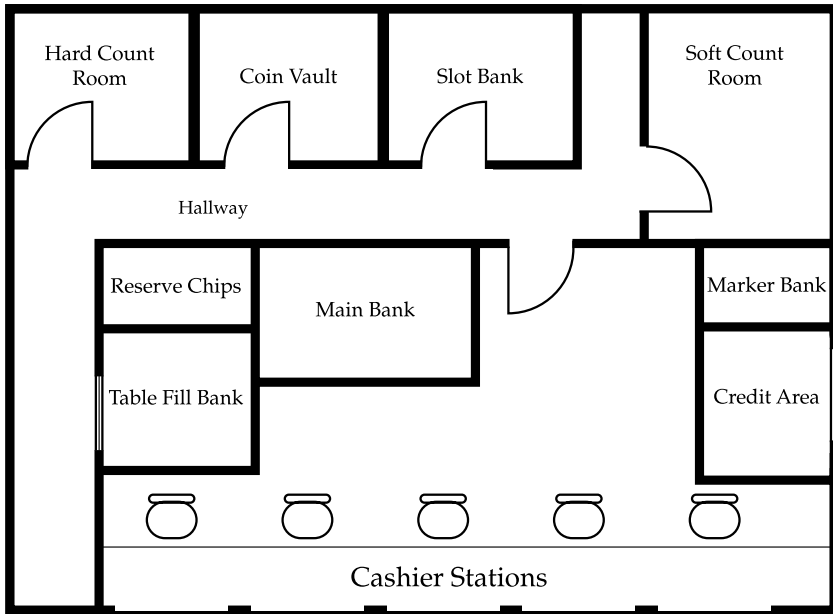


Fig. 10-1. Casino Central Cashier Layout

public is never allowed and only specified casino employees are allowed to enter.

In a small casino, there may be a single combination cashier's cage with attached vault. In larger casinos there may be many cashiers and more than one vault, each with its own separate function. Examples include a coin vault for coin storage, chip vault, accounting area within the vault for the hard and/or soft count, a working vault area, and a long-term storage or backup vault area. Figure 10-1 illustrates a typical central cashiering operational layout.

Increasingly, there may be slot booths or slot ticket redemption kiosks located throughout the casino which can also function as subsidiary cashiers. These booths and machines can have monies that should be controlled and accounted for in the same manner as in a regular cashier and vault.

CASHIER ORGANIZATION STRUCTURE

The staffing and organization of the central cashier depends on two quite different sets of skills and personnel. First, the public cashiers, who have a high degree of public interaction, must not only be skilled as cashiers, with an orientation to maintaining overall control of their funds, but must also be pleasant in dealing with the public. It is sometimes difficult to find persons with skills in both these areas.

There is usually a second position—the vault cashier—where the skill set is more oriented to detailed accounting and procedural controls, with somewhat less responsibility for public interaction. Interaction with other casino personnel is still a vital part of the vault cashier’s responsibilities, however.

The cashiering staff is usually part of the general accounting function in the overall casino organization structure. This assures that the control created by the separation of duties into two separate departments remains strong.

PHYSICAL LAYOUT

For persons new to the casino, or to customers who have only a public exposure to the casino operation, the cashiering function appears to be restricted to operations similar to a bank teller or cashier. In reality, however, the role of central cashiering is much greater. This complex role is clarified by a good understanding of the physical layout of the central cashiering facility.

In most circumstances, the public service functions of the cashiering department are located in those areas of the casino where the public can be most easily and readily accommodated. Thus, functions such as check cashing, credit advances, and purchase or redemption of casino chips can be accomplished in one or more highly convenient locations. These locations help provide customer service and encourage the patron to begin play as quickly and easily as possible. A convenient cashier location is both a short distance from the casino entrance and in close proximity to the slots and games.

With the addition of ticket-in-ticket-out technology and the use of only ticket-out technology in some jurisdictions, there is also a need for convenient ticket redemption points, usually close to the main slot machine areas. These can be slot booths, subsidiary cashiers, or even automated redemption machines or kiosks.

With the diversification of cashiering locations for customer convenience, there is an increase in the problems related to both physical and accounting control over the monies as they move from the central storage locations to the various outlying cashier locations. Physical control over money moving through a casino during a busy period can be a special security problem.

In smaller casinos, the cashiering locations are physically centralized, with the backup or storage locations being located nearby or physically connected to the cashier’s cage. In larger casinos, there may be more than one large cashier station, and the detailed cashiering and vault functions may be grouped in one area. Note that in figure 10-1, the public cashiering stations are in the front of the central cashier area. To the right is an office area and a cashier specifically dedicated to the processing of credit instrument (or marker) transactions, including issuance and repayment. There is also, on the left side, a specific cashier dedicated to the processing of fill and credit activity. Since these transactions take place between the cashier and the table games and not the

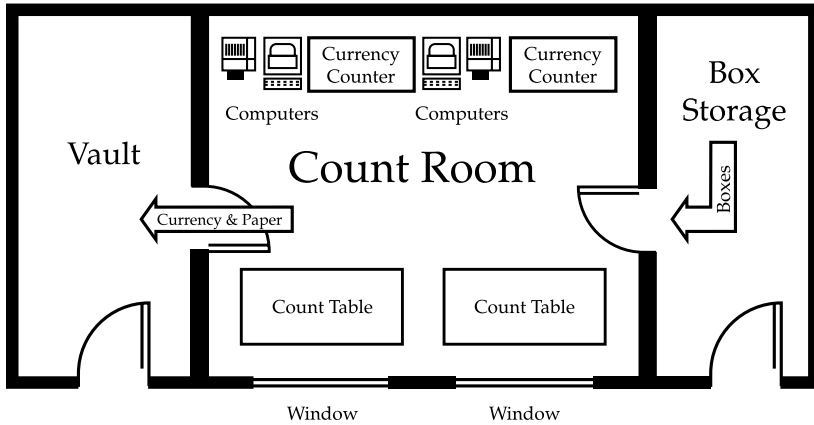


Fig. 10-2. Count Room Layout

general public, the location of the fill credit cashier is usually out of sight of the general public yet convenient to the security podium, where the persons responsible for moving the fills and credits to the table are located. There may also be an employee turn-in cashier area located close to these other specific cashier areas. Here, various employee banks can be submitted at the close of business for various bars, restaurants, and other revenue areas of the casino.

Another significant area is located behind the cashier, called the *vault and count room*. Some casinos have separate count rooms for slot machine coins and for currency. With the growth of bill acceptors or bill validators attached to slot machines, the distinction between hard count (coins) and soft count areas are becoming less significant. Figure 10-2 shows the count room layout. Immediately adjacent to the count areas are the secure table and bill acceptor box storage areas, where boxes are held until they can be counted. This area is used to store both bill validator boxes from slots as well as table drop boxes.

The area of the count room is usually compact to save steps in the long and laborious count process, and it customarily contains sophisticated, high-speed, automatic bill-counting machinery. For ease of handling both coin and currency in large volumes, the count room is usually located in close proximity to the vault area. The vault area usually includes storage of reserve chips, and may have a separate coin vault. The vault area also includes an office work area for revenue reconciliation, and may also serve as the location for secure storage of other items. In some small casinos, it is a good location for storing unused card or dice inventory.

A final issue regarding the physical aspects of cashiering activity is the use of different styles of public cashier stations. While there was a trend during the 1990s to more openness in the cashier stations, a number of invasion-type

robberies of casino cashiers led to the redesign of public cashier areas into more traditional teller stations. These stations came complete with bars, plastic shields, or other devices to prevent the public from easily getting behind the cashier's desk and into these sensitive areas. In some states, the gaming regulation rules have required the installation of bars or other devices to prevent public access to the cashiers.

CENTRAL CASHIERING FUNCTIONS

There are many functions of central cashiering. The overall accounting flow between vault, cashier, and count is illustrated in figure 10-3. These functions are roughly divided between four public—and two less public— cashiering activities.

Public Cashiering: The first set of functions could be described as traditional cashiering. This includes the public service of changing money from large denominations to smaller denominations or supplying coins or chips for paper money.

A second function would involve cashing of various checks for customers. This function may be restricted according to a variety of rules or procedures. For example, some casinos handle the cashing of traveler's checks like the cashing of a personal check, while other casinos have separate procedures for the cashing of payroll checks, and still a third set of procedures for cashing of personal checks. The cashing of payroll checks and traveler's checks is usually simple and straightforward and may or may not involve investigating to see if the checks are on a "hot list" or are otherwise irregular. This type of check cashing is relatively low risk; if the company payroll is from the local trading area and is known, the check can probably be negotiated by the casino without further problems. Since the cashing of personal checks may involve the assumption of additional business risks by the casino, there tend to be additional procedures for verifying a personal check prior to cashing. These procedures are discussed in detail in the chapter dealing with credit accounting.

A third and growing responsibility of the cashier is to redeem slot machine tickets. Given the volume of transactions in this area, there may be separate slot redemption cashier stations established. These stations usually have specialized equipment for reading the tickets, including bar code scanners or other high-speed ticket readers. Finally, these stations are often electronically linked to the central slot machine control system to assure the propriety of all ticket payouts.

The fourth traditional cashiering function would be to serve as a point for paying out various and sundry items necessary for casino operation or for the reimbursement of customer expenses.

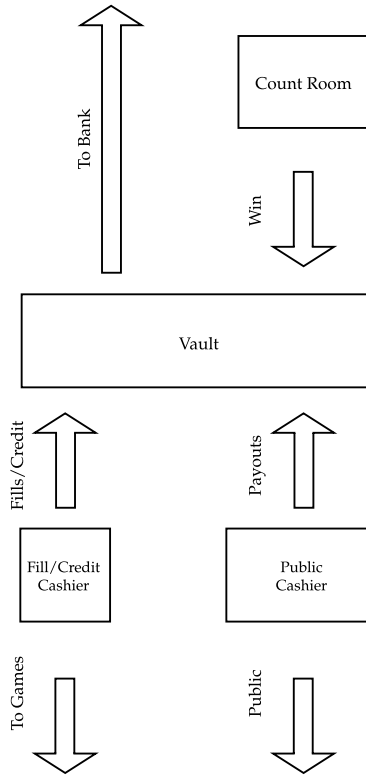


Fig. 10-3. Vault, Cashier, and Count Accounting Flow

Fill/Credit Cashier: The first private cashiering function of the cashier at the cage is the processing of various transactions to reimburse the gaming tables for the chips that they need to conduct their gaming business. The table fills (chips transferred to the tables) and the table credits (chips transferred to the cage) are handled through the casino cashier. In small casinos, these transactions are handled by a single cashiering location and can be treated as a part of the overall cashiering responsibilities. However, in bigger casinos where the number of games is larger, a separate table fill/credit cashier is established. This area is set aside only for table transactions. This also simplifies the accounting and control for this cashier as there should be no coins or currency in the table cashier area—only chips and tokens.

Credit Cashier: The final function of the cashier is casino credit extension. This process is often handled by the cashier, again as a part of regular cashiering responsibilities. The credit extension responsibility at the cashier's cage is substantial. The credit approval is usually vested with a senior casino execu-

tive and the cashier's role is merely to issue the proper chips or to conduct other credit paperwork at the request of the credit manager.

Depending upon the volume of the other cashiering transactions and the nature of the credit extension policies, there may be a separate credit cashier who has responsibility for the following:

1. The issuance of new credit and chips
2. The redemption of chips or other instruments that are issued for credit

Again, if the credit play in the casino is an important part of the casino operation and a part of the casino marketing, then the credit extension process may be centralized in one area where all credit decisions are made. The cashiering function from that point onward would merely be to issue chips or tokens based on the unused but approved credit limit for that individual. In this situation, the credit process becomes much the same as the public cashiering or check cashing functions described earlier.

CASHIER ACCOUNTABILITY AND RESPONSIBILITY

The primary accountability for the cashiering function is structured as a tree of accounts for which each level has an implied balance and control over the amount of funds assigned to the cashier. This is illustrated in figure 10-4. The overall general ledger account for cash with the cashier is broken into two parts. These are cash currency and chips and tokens. To the outside world, only the amount of currency is relevant, but for control purposes within the casino, the amount of money each level of the cashiers are responsible for includes currency *plus* the chips and tokens assigned to each cashier.

The main vault or main bank accountability is then subdivided into the various component banks. This includes the amount of chips and tokens in the fill/credit bank; the amount of currency, chips, and tokens in the main cashier; and the total amounts of currency in various bar, restaurant, gift shop, and other employee banks.

Where there are subsidiary cashier stations, these must then be considered subsidiary to the main cashier. These may include a slot ticket redemption cashier, a satellite bank in another part of the casino, a poker cashier, and must also include the amounts held in table tray inventories or table loads.

Cashier responsibility is reflected both individually within each cashier's drawer or working change fund, and for the amount of funds assigned to the cashiering location in total. The cashier accountability usually begins with the initial establishment of an imprest balance at the cashier. This balance is the amount that the cashier is responsible for and is regarded as a part of the overall casino bankroll. The cashier bankroll amounts for control purposes always include the amount of both chips and tokens for which the cashier is responsible.

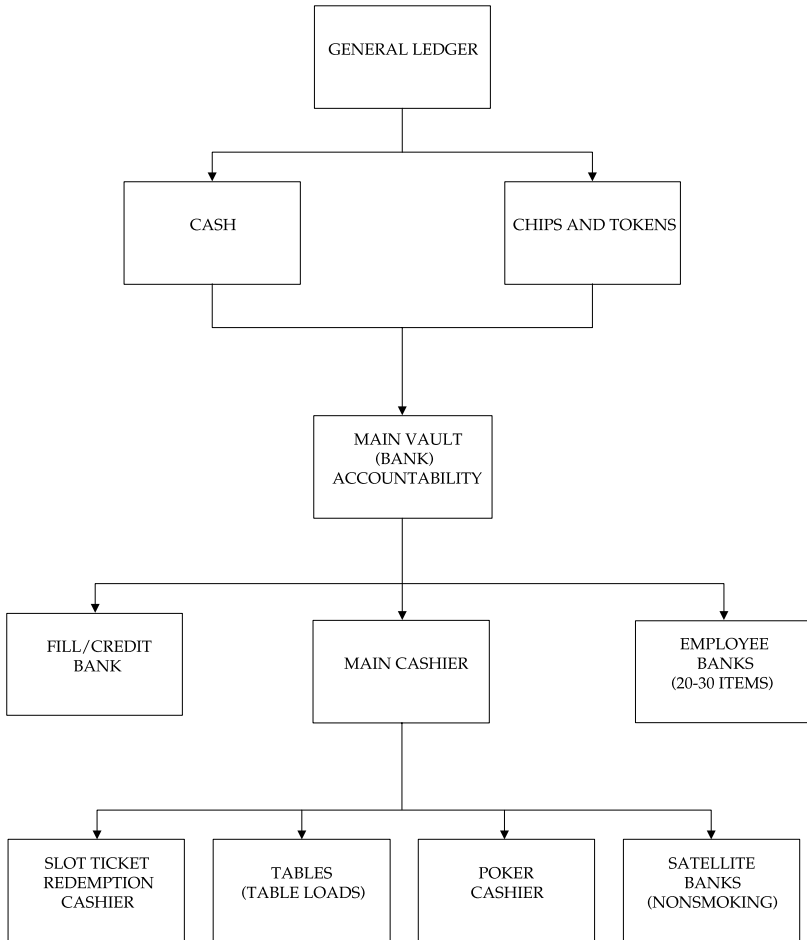


Fig. 10-4. Cashier Accountability

Cashier Revenue Accounting

Another responsibility of all cashiers is the revenue clearing function. This is important in all casinos, but very critical in small casinos, where the cashier has many different tasks to perform. Typically, the cashier (or the fill/credit cashier) gives out monies or takes in monies from the table games through fill/credit activity. These issues (fills) and redemptions (credits) must be cleared back to the vault or count rooms so that these transactions can be considered in the computation of the win or loss on the gaming operations and the win or loss on individual games determined. Typically, there is a substantial amount of revenue clearing that must take place in the cashier's cage at

the end of the shift when the net transactions are transferred or “sold” back to the count room by the cashier.

A parallel problem exists where there are slot ticket redemptions. These redemption tickets must be cleared or sold back to the vault in order to properly calculate the slot win or loss. Typically both the fill/credit activity for the tables and the slot payout activity (either tickets or hand pay jackpots) are cleared to the vault or count room where the win/loss record is compiled.

A second problem that must be considered is the physical flow of money between the cashier and vault. Checks from patrons (personal and payroll for example) must be transferred to the vault bank and cleared through the commercial banking system. Other items such as miscellaneous payouts must be cleared to the general accounting expenses system.

Finally, there must be sufficient cash kept on hand for operations. Thus, the checks on hand at the end of a shift must be cleared to the vault where the bank deposit is prepared. Likewise, the cash deposited in the drop boxes must find its way back to the cashier to be reused. These results are usually achieved by having the cash contents of the drop boxes sold back to the vault cashier, and then to the cashier in exchange for the amount of checks transferred from the cashier to the vault cashier. The excess cash is then deposited along with the customer checks and negotiable instruments in the bank account.

The situation is very similar with coin transfers from the count rooms. The coin is never deposited in the bank, but rather is sold to various cashiers or coin booths in exchange for the equivalent amount of cash. The cash is then added to the cashier’s account in order to balance the checks cashed or deposited in the bank.

Other Cashiering Functions

Other functions of the cashiers are enumerated below. They include a diverse set of responsibilities.

1. Information and validation: includes providing information of a general nature to casino patrons, including such things as validating free parking tickets.
2. Redemption center: involves acting as a redemption center for various promotional items, including free nickels and gifts, or exchanging coupons.
3. Control point: includes acting as a turn-in point for other cash items such as bar, restaurant, poker, or keno banks.
4. Safekeeping: involves serving as a safekeeping or safe deposit box location for casino guests.
5. Key controls: involves serving as a central repository and check-out point for keys that are required for access to count rooms, keys to be used for table drop box removal, for removal of coins, or removing bill validator boxes from slot machines.

ACCOUNTING FOR THE VAULT OPERATION OR MAIN BANK

The principal accounting operations of the vault are concerned with the safekeeping and custody aspects of the vault and the role of the vault as a revenue-clearing point and repository following the completion of the count procedures for both the table games and the slot machines.

The vault could also operate on an imprest balance basis, which allows the shift-by-shift checkout or verification of money on hand. The amount of vault accountability consists of the total of coin, cash, chips, and tokens. The amount on hand is temporarily increased by transfers from the slot and table count results, decreased by the outflow to the cashiers for fill and credit slips, and finally decreased by the deposit to the bank of the win for the day.

Vault operations must also take into account the physical custody of various items such as foreign chips (which are being held temporarily pending exchange with other casinos), foreign currency pending exchange through commercial banks, or other odds and ends such as mutilated or foreign coins. Control of these items in the vault is usually maintained at their face value for ease of counting.

As this discussion shows, the functions of the cashier and vault both demand a high degree of accuracy and attention to detail. In addition, a cashier must be skilled in dealing with the public. For these reasons, special care should be taken in selection and training of cashiers. Training as a bank clerk or teller and an attitude of attention to detail and controls have proven to be good background experience for casino cashiers.

Function of the Vault or Main Bank

The central vault or the main bank is the part of the central cashiering function that serves as the backup and secure storage for various cash items in the casino. The principal characteristic of the vault is its location—away from the general public and subject to extremely tight security. Access to the vault area is generally very limited for both security and administrative control. Only certain people such as vault count personnel are allowed in the area. To strengthen internal controls and to prevent possible skimming of revenue, only specific cashier, vault, or count team personnel are allowed in the vault area. Owners or senior executives are restricted in the vault area, and often absolutely prohibited from being in the actual count areas. In addition, those persons in the count area of the vault are subject to special procedural and administrative controls. For example, count employees are not allowed to bring personal items such as purses or tote bags into the vault or to wear clothing that might easily conceal the theft of items from the vault. Some regulatory rules restrict the type of clothing and movement in and out of the count rooms or other areas of the vault without adhering to special procedures.

Casino Bankroll

The vault also has the primary custody of the casino bankroll. The bankroll is the working stock of money that is needed for operation. The amount of the bankroll may vary widely. Generally, the only time the bankroll becomes critical is during heavy play when the casino needs enough money to meet the demands of heavy check cashing or heavy credit play, or when a regulatory audit is being conducted. In these cases, the total amount of money on hand must be carefully accounted for. The amount of bankroll is considered the minimum amount of money that the casino should have on hand to operate. The minimum bankroll amount is determined during licensing, when the regulatory agencies must satisfy themselves that the casino operator has enough money to conduct operations. An example of a bankroll calculation and bankroll requirements are more fully discussed in chapter 12 as a part of accounting and audit review procedures.

Finally, the vault also has responsibility for secure storage of reserve chips, special chips used for tournaments, and any other items of a sensitive nature. In some casinos, the vault also serves to store the unused playing cards and dice for table games.

CUSTODY AND CONTROL OF CHIP AND TOKENS

The use of gaming chips and tokens in a casino presents an unusual accounting and control problem. The control of the tokens and gaming chips has several significant parts.

The first aspect of chip and token control is that the tokens and chips must be accounted for inside the casino as if they were money, since for gaming and other related activities they are as good as money. The continuing concern of the U.S. Treasury Department about the proliferation of artificial currency arising from gaming activity in Nevada and elsewhere has led to strict rules regarding the acceptability of tokens and chips for purposes other than gaming, even within the casino. For example, casino chips cannot usually be used to pay for drinks or food, even at a casino bar or restaurant.

Also, the willingness of casinos to redeem or cash chips from other casinos at cage cashiers has been reduced. Occasionally \$1 slot tokens may be played on the games or played in coin-accepting slot machines. In this situation, the number of outside tokens in play in the slot system, and the nature and type of these tokens, should be carefully controlled.

These limitations on redemption are based on both the unwillingness of the casinos to participate in the possible redemption of stolen casino chips (which, after being stolen, have to be converted to cash) and a positive desire to accommodate the U.S. Treasury Department, which might restrict the use of chips and tokens in some way.

Other aspects of chip and token control could be described as life-cycle controls. Chip and token control begins when the chips and tokens are ordered from the casino equipment suppliers. Procedures should be in place to assure that the correct design configurations, color, and style of chips are ordered. There should be specific authorization for the purchase from the purchasing department to the chip supplier. The total amount of chips and tokens purchased must be tracked, recorded, and kept up-to-date with subsequent purchases or disposals. These records later form the basis for the calculation of the chip float or unredeemed chip liability.

The next step in the chip life-cycle control is the proper control over the receipt of chips from the gaming equipment supplier. The chips must be properly counted, denominations checked, and the chips physically placed in storage under tight controls. When chips are taken out of storage and put into use on games or at cashier stations, the amounts put into use should also be carefully recorded by denomination and type.

The next aspect of chip and token control is that those chips and tokens that are outstanding in the hands of the general public or other casinos are subject to redemption and must be periodically computed and accounted for as a liability for balance sheet purposes.

The casino is liable under most circumstances to redeem the chips at face value. In fact, many casinos pride themselves on the fact that they will redeem old casino chips without penalty. For example, Harold's Club in Reno had a long-standing policy of redeeming virtually any of its old gaming chips—and immediately placing them in its museum collection.

At certain times, certain types or styles of chips may be canceled. This is usually the practice when the casino is closed or if there is a change in ownership. The new owners or operators do not want to take responsibility for the control or lack of control over chips by the prior owners or operators. The obligation to redeem casino chips is usually not assumed by new purchasers of the casino. In these circumstances, notices are usually placed in the casino and in the newspapers to ad-



**GOODTIME
GREENLEES**
RESORT AND CASINO

PUBLIC NOTICE

Effective 11/10/04

CHIP REDEMPTION PROGRAM

Goodtime Greenlees Resort and Casino is removing all previously issued plastic chips with metal inserts from circulation. These chips may be redeemed 24 hours a day at the main casino cage from 11/10/2004 until 3/17/2005.

**Goodtime Greenlees
Resort and Casino
1234 Money Way
Cashtowne, NV 89101**

PUB: Nov. 10, 12, 17, 19,
25, 26, 2004
Cashtowne Times

Fig. 10-5. Chip /Token Notice

vertise the fact that chips will no longer be redeemed after a certain date. Such a notice is shown in figure 10-5, which indicates the general terms and conditions under which the chips will be accepted prior to when new types or styles of chips are being introduced, or when a change of ownership or change of casino name occurs. Other situations where casino chips are canceled may include the situation where new types or styles of chips are being introduced. In recent years, the introduction of casino chips with imbedded radio frequency integrated circuits (i.e., computer chips) necessitated the recall and cancellation of old noncomputerized chips prior to the introduction of these new high-technology chips.

The problem of actual physical destruction or disposal of the gaming chips can give rise to some unusual solutions. The chips are made of hard clay and are very difficult to destroy or otherwise dispose of. They cannot be easily shredded like paper and cannot simply be thrown in the garbage. Harrah's used a unique method of burying old chips in the concrete of the tenth floor of its Reno parking garage while it was under construction. Other casinos have smashed the chips prior to having them taken to a refuse burial site. There are also new commercial chip destruction services, which periodically come to the casino with equipment in a semitrailer truck, where the chips are destroyed on-site under the immediate and close supervision of the casino personnel.

COUNT ROOMS AND COUNT PROCEDURES

Count rooms have a physical layout designed for two principal purposes: to ease the physical process of counting very large quantities of money, and to assure the maximum security over the money being counted.¹ A sample physical layout is illustrated in figure 10-2. The physical layout usually includes some storage facility for the game drop boxes that have been removed after each shift from the various table games during the previous day. This means that there could be as many as three sets of drop boxes present, one for each shift. Under the newer design of a single 24-hour drop, the number of boxes present could be reduced to a single set.

Count Process: At the time the count is to take place, the necessary keys are checked out from the cashier, a key log is signed, and the keys are taken to the count room together with all necessary forms. Once the count has begun, there is usually no interruption, and no one on the count team is allowed to leave the area until the count is finished. The physical layout also includes a clear plastic or glass counting table that allows the security personnel, either personally or through closed-circuit TV monitor, to see that nothing improper is going on "under the table."

The counting activity usually proceeds in several major steps. The boxes

are opened and the contents are emptied upon the table and separated into their functional types, such as paperwork, fill and credit slips, and currency. Then the currency is counted, and the fill and credit slips and currency amounts are entered on the count sheet. The currency is then recounted for accuracy and sorted and bundled into the various denominations for further counting and ease of handling. The bundling and recounting is usually assisted by bins that separate the currency by denominations, similar to a large cash register drawer with partitions. In addition, there is usually some form of writing area or surface with a computer and a spreadsheet program used to record the results of the individual game count and to record the total count and game recap sheet. The game count and recap sheet is added up and summarized, and the win determined.

Summary and Transfer: After all the counting activity is completed and the total amount of money is determined and counted, the count sheets are signed by the members of the count team. The money, together with the count sheets, is transferred to the vault. Here, the results are entered on the daily activity of the vault as a transfer from the count room.

It is usually at this point that all the fill and credit slips are reconciled. The fill and credit activity from the cashier is reconciled with the fill and credit slips contained in the various game drop boxes and counted in the count room. Once all fill and credit slips are accounted for, and the amounts are in agreement between the cashier copy and the drop box copies, the amount of the win per game is determined.

Vault Clearing: The attention then turns to reconciling the turn-in amount from the cashier. The checks from the cashier's cage are exchanged for currency in the vault that was turned in by the count team to the vault. These transactions are usually evidenced by vault transfer slips showing the amount, the timing, and the parties responsible for the transactions. The excess currency and other items requiring special handling are then stored in the vault and the deposit is prepared by the vault cashier and taken to the bank.

The use of the daily bank deposit technique is favored because it gives the accounting a logical end point where the results of operations are independently verified by a third party. Over weekend periods, two to three deposits accumulate in the vault. These multiple deposits are then made on the next business day, and the bank records will still indicate the separate daily deposits.

OTHER SPECIAL VAULT OPERATIONS

Drop Box Storage: The vault, as mentioned earlier, is the place where the drop boxes are stored pending the next day's count. It is necessary to have enough drop boxes and storage facilities to accommodate three sets of drop

boxes. These drop boxes must be kept under lock and key at all times. This includes not only the times when the boxes are full and awaiting the count (to prevent anything being taken from the boxes), but also the times when the boxes are empty and awaiting use (to prevent anything being added to them).

There should also be a substantial physical separation of the vault and the count rooms from the public cashier areas. This is to ensure that there are no improper transactions between the point of public disbursement of the money—the cashier—and the point of first accounting for the revenue—the count room and vault.

Bankroll and Reserve Chips: There are two additional considerations in vault accounting. The first is that there should be some very secure storage for the money inventory that constitutes the backup bankroll. This is the safety stock of money as well as unused gaming chips and tokens that are held in secure storage. These items are not customarily counted each and every shift change, so a thief could take chips from boxes or currency from bundles without these items being immediately missed during the normal course of vault or cashier checkout.

Also, boxes of chips should be kept unopened and sealed if possible. This eliminates the necessity of examining the contents in detail and allows the count by box, thus speeding the casino audit and vault count procedures.

A final factor in the vault operation is the desirability of separating the vault functions according to the type of items being handled. There is commonly a separation among coin, currency, and chip vaults. Coin count and storage is physically demanding and requires special carts and machinery, as well as an extensive amount of physical space. Currency, on the other hand, can be stored fairly easily. In some circumstances where large volumes of currency are being handled, there is a need for greater physical space for the specialized machinery used to count paper currency. As the use of coins in slot machines continues to decrease, it is less common to have separate vaults for coins and for currency, chips, and other items.

CASHIERING SYSTEMS AND FUNCTIONS

Accountability: The key element of accounting control over the various cashiering functions is the use of the concept of accountability. That is, each cage and vault area is charged with the responsibility for the custody and maintenance of balances in certain amounts. This accountability includes being responsible for currency, coin, chips, and tokens, plus any paid-out items. The amounts transferred to a cashier (amounts received) and paid-out transactions of the cashier and the vault are taken into consideration when determining the balance for which the cashier is responsible.

There are two main systems of accounting for cashiers. The first is the imprest or static balance system, and the second is a floating cage balance system. Smaller casinos and small cages within larger casinos are ideally suited for the imprest balance system of control. Under this system, the balance in the cashier account must always be maintained at a fixed amount. If, for example, the cashier area is a slot change cashier, then the balance in the slot booth may be set at \$5,000. This balance is represented by coins of various denominations and currency at the start of the shift. (It may include tokens for the slot machines as well.) Upon assuming responsibility for the slot booth, the slot cashier counts all the coins and currency: the total should be \$5,000. During the course of the shift, various transactions result in selling coins in exchange for currency. In addition, payoffs for slot winnings may be made by the slot cashier. These transactions are evidenced by the various slot paid-out tickets or other paid-out documents.

At the end of the shift, the slot cashier tallies up all of the slot payout slips and other items that should be reimbursed and transfers or sells the items to the main cashier. In exchange, the slot booth receives either currency, coin, or tokens, depending upon the needs of the cage. Thus, after reimbursing the slot cage, the balance should return to \$5,000. If the slot paid-outs are not immediately cleared back to the main cashier, then the reconciliation of the slot bank consists of some cash, some coin, plus the aggregate amount of the paid-outs, which again totals \$5,000.

The disadvantage of the imprest balance system is that it is inflexible. If the needs of the cashier bank are greater during the shift, the only method to reimburse the coin in the bank is to make a preliminary clearing of the slot and currency back to the main cashier or cage. This can be excessively time consuming and may result in document processing errors.

The second method, the floating cage balance system, works in roughly the same manner as the imprest system, but changes in the balance of the cage can be made from time to time to meet the anticipated changing needs of the cashier. Thus, a temporary increase in the cashier balance may be made early on Friday evening and be reduced during the day on Saturday, again increased Saturday night, and reduced again on Sunday morning. These variations take place as temporary changes in the overall vault accountability, with the cashier portion increasing or decreasing as appropriate.

The floating system allows the greatest flexibility in providing adequate amounts of money and coin on hand for the cashier in order to provide maximum customer service. It also forces a more careful accounting by the cashier, since the balance in the cashier's cage is not always known or can vary from shift to shift. This may make cheating or other forms of manipulation difficult.

Either of these two methods could be used for vaults. If the imprest sys-

tem is used, then the amount transferred to the bank at the end of the day brings the balance in the vault back to the imprest balance. The overwhelming practice is to have imprest balances for most cashiers, and have a floating bank amount for the vault or main bank. In general, smaller casinos use the imprest balance system. Most larger casinos have adopted the floating system because of their higher volume of transactions and greater fluctuation in volume.

Special Cashier Procedures: In addition to the traditional balancing and checkout procedures described above, care must also be taken to assure that the cashier has kept record of and turned in other documentation such as required under IRS withholding rules or under Title 31, currency transaction reporting rules. In these cases, large payouts or other exchange transactions involving large amounts of cash must be reported. In addition, and as described in the chapter on currency transaction reporting, any multiple transaction logs indicating activity must also accompany the checkout sheet, must be signed by the off-going cashier, and submitted to the vault and subsequently to the accounting department.

CASHIER COUNT AND BALANCE PROCEDURES

At the beginning of the shift, the oncoming cashier counts the balances in the cashier area. The off-going cashier has usually counted the area prior to the arrival of the new cashier and has written down the amounts on a count sheet. The second count assures the propriety of the amounts; the oncoming cashier indicates agreement and accepts responsibility for the amount by signing the checkout sheet. To avoid an interruption of service to the customers during the shift change, various systems are used. If there are multiple cashiers, the first step would be to close one cashier station, precount one drawer, transfer the drawer to the new cashier, and reopen the station. Then the second cashier could close, count, transfer, and open. This would result in a minor delay and inconvenience to customers. If there is only one cashier on duty, then a two-drawer system could be utilized. Under this system, the first drawer is closed out, counted, and locked until the oncoming cashier has counted it. During the period when the oncoming cashier is counting the cage area, the off-going cashier is working out of a second drawer which has a small imprest balance. When the primary cashier area and the first drawer are finished being counted, then the second small drawer is counted and the transfer is completed to the new cashier.

Under either system, the end-of-shift count sheet is signed, usually in ink for a permanent record, and the off-going cashier leaves the area. Figure 10-6 shows a sample of the cashier checkout sheet. Cashier accountability includes cash, currency, chips, and tokens. Also included in the count are all payouts,

Check In/Out Worksheet

Check In				Check Out			
Currency	Strapped	Loose	Total	Currency	Strapped	Loose	Total
\$100	_____ +	_____ =	_____	\$100	_____ +	_____ =	_____
\$50	_____ +	_____ =	_____	\$50	_____ +	_____ =	_____
\$20	_____ +	_____ =	_____	\$20	_____ +	_____ =	_____
\$10	_____ +	_____ =	_____	\$10	_____ +	_____ =	_____
\$5	_____ +	_____ =	_____	\$5	_____ +	_____ =	_____
\$1	_____ +	_____ =	_____	\$1	_____ +	_____ =	_____
Total Currency			_____	Total Currency			_____
Coin	Rolled	Loose	Total	Coin	Rolled	Loose	Total
\$5 Token	_____ +	_____ =	_____	\$5 Token	_____ +	_____ =	_____
\$1 Token	_____ +	_____ =	_____	\$1 Token	_____ +	_____ =	_____
Quarter Bags	_____ +	_____ =	_____	Quarter Bags	_____ +	_____ =	_____
Quarters	_____ +	_____ =	_____	Quarters	_____ +	_____ =	_____
Dimes	_____ +	_____ =	_____	Dimes	_____ +	_____ =	_____
Nickels	_____ +	_____ =	_____	Nickels	_____ +	_____ =	_____
Pennies	_____ +	_____ =	_____	Pennies	_____ +	_____ =	_____
Total Coin			=====	Total Coin			=====
Chips				Chips			
\$100	_____			\$100	_____		
\$25	_____			\$25	_____		
\$5	_____			\$5	_____		
\$1	_____			\$1	_____		
\$0.50	_____	Total Chips	=====	\$0.50	_____	Total Chips	=====
Fills/Credits Net			_____	Fills/Credits Net			_____
Misc.			_____	Misc.			_____
Ending Bank Roll			_____	Ending Bank Roll			_____
Less: Beginning Bank Roll		(_____)		Less: Beginning Bank Roll		(_____)	
Over / Short			_____	Over / Short			_____
Cashier In			_____	Cashier In			_____
Cashier Out			_____	Cashier Out			_____

Fig. 10-6. Cashier Checkout Sheet

all fill and credit slips, and all other items that may effect the balance in the cashier’s cage.

Periodically, the cage cashier is reimbursed for the amount of various items that are contained in the cage. This includes the clearing of all fill and credit slips back to the vault, where they are verified and checked back to the copies of the fills and credits that are removed from the game drop boxes. All promotional and other payout items are also cleared. These are exchanged with

the vault for cash, coin, or chips. Typically, unless the balances in the cashier's working bank are getting low, the transfer is accomplished just prior to the end of the shift. Thus, the oncoming cashier is counting coins and currency and not many other items of paper. This also assures that any errors or irregularities can be traced back to the appropriate individual and that the mistakes of one cashier cannot be transferred to another cashier, either deliberately or inadvertently.

CASHIER RECORDING OF FILLS AND CREDITS

The cashier is responsible for keeping track of one side of the fill and credit activity that takes place between the cage and games. The most common destination is the table games. However if a separate fill/credit cashier is not used, the cashier could also be responsible for reimbursing or filling the keno game or issuing funds to various bar and restaurant banks as well. In the non-gaming situation, the addition of funds to the bank is accomplished with an ordinary paid-out document. These paid-out documents are usually simple two-part forms. The traditional form has a white top copy and a yellow second copy. The white copy always follows the money. The payout form can be fairly simple, with room for identification data, detail dollar amounts, totals, and space for at least two signatures.

However, if a casino game such as 21, craps, or keno is filled, then the transaction is processed differently. The fill or credit is completed as described in chapter 7. In addition, the cashier notes the transaction on a separate record. This summary record maintained by the fill/credit cashier is called a *fill/credit log*. This manual log is often kept as a backup to the automatic computer-generated list that is created by the vault or cashier management system. A parallel document is kept in the pit area, and is usually called the *stiff sheet*. The stiff sheet is used to record the fills (money given to a game) and credits (money taken back from a game) to various tables. The stiff sheet is totaled at the end of the shift and gives a quick recap during the shift of the amount and frequency of these transactions, as well as which tables are involved. A sample stiff sheet is shown in figure 10-7. This alone can be an effective control device, since the pit boss or other supervisory personnel can tell by glancing at the stiff sheet what amount has been necessary to keep the games going (if they are losing) and what has been taken off the games (if they are winning).

In the cashier area, the copies of the fill and credit slips are attached to the fill/credit log. The log sheet is cleared back to the vault with the fill/credit activity on a shift-by-shift basis. Figure 10-8 shows a typical fill/credit log sheet. The pit stiff sheet is often turned in at the end of the shift by the pit supervisor. It is reconciled to the fill/credit log on a periodic basis and may also be compared to the computer-generated fill/credit log for completeness and accuracy.

DATE _____ SHIFT _____

CRAP 1		CRAP 2		CRAP 3		CHEMIN DE FER	
FILLS	CREDITS	FILLS	CREDITS	FILLS	CREDITS	FILLS	CREDITS
TWENTY-ONE 1		TWENTY-ONE 2		TWENTY-ONE 3		TWENTY-ONE 4	
FILLS	CREDITS	FILLS	CREDITS	FILLS	CREDITS	FILLS	CREDITS
TWENTY-ONE 5		TWENTY-ONE 6		TWENTY-ONE 7		TWENTY-ONE 8	
FILLS	CREDITS	FILLS	CREDITS	FILLS	CREDITS	FILLS	CREDITS
TWENTY-ONE 9		TWENTY-ONE 10					
FILLS	CREDITS	FILLS	CREDITS				
WHEEL 1		WHEEL 2					
FILLS	CREDITS	FILLS	CREDITS				

Fig. 10-7. Stiff Sheet

Other frequent payout transactions are also recapped in a similar manner to assure that the accounting for these items can be accomplished in an expeditious manner and that the controls over the amounts have been maintained. Checks cashed may also be posted to a summary record, including individual customer check cashing records, to assure that a customer does not exceed his or her limit. The cashier might also prepare a summary list of checks by bank routing number to assist the preparation of the bank deposit by the vault cashier.

VAULT SYSTEMS AND FUNCTIONS

The key to the operation of the vault is the extensive physical security that this money storage area is subjected to. The weakest link in the vault system

Vault Transfers

The transfers from the vault to another working area of the casino are a critical aspect of internal control. In most of the areas, the transfers are merely cash-for-cash transactions, evidenced by some form of accounting control document created at the time of the transfer and signed and acknowledged by the persons doing the transfer. Figure 10-9 shows a simple vault transfer document.

Transfers from the coin vault to the cashier are more complex. It is important to understand that the coins do not leave the casino physically. They are converted to currency inside the casino. The transactions between the coin vault and the cashier are accomplished in the following manner. Once the total amount of the coin wrap and count has been determined, the amount is recorded as the win of the particular time period. As explained in the chapter on slot machines, the coin drop frequency could be weekly, biweekly, or daily, depending on the volume of coin play. Once the actual value of the coins is determined by the count procedures, the coins are physically transferred to the custody of the coin vault or, if there is not a separate coin vault, to the central cashier or vault. At this point, the vault takes both accounting and physical control over the coin. The amount of the coin win is entered into the deposit activity for that day, the bank deposit is prepared, and the necessary statistical information is forwarded to the accounting and data processing departments.

Vault Transfer	
DATE _____	LOCATION _____
TIME _____	
SHIFT _____	
DENOMINATION / DESCRIPTION	AMOUNT
TOTAL	
TRANSFERRED BY _____	RECEIVED BY _____

Fig. 10-9. Vault Transfer Form

In order to avoid the physical transfer of coins to the bank, the coins are stored in the vault, and the win amount (which is to be deposited to the bank) is made up of currency or checks already in the vault or transferred in from the cashier. The coins are then either held in storage in the vault or, upon demand, transferred to the various slot change booths in exchange for additional currency.

Coin Transfers: The transfer of coin from the vault to the cashier and from the cashier to the slot booth is documented and recorded. Accompanying the physical transfer is usually a two-part vault transfer slip. This is merely a tracing document that indicates the items, the amount, the denomination, and the parties responsible for the transfer. The document is then recorded on a memo basis for both the vault (out) and the cashier (in). The transfer is recorded on both sets of records, and the imprest balance of both cashier records is maintained.

The actual physical transfer of the coins is accomplished at the same time. The cash on hand and vault accountability are reduced by the coin amount transferred, while the cash (currency) accountability is increased. The currency-to-coin transfer maintains the balance in accountability of the vault. The accountability of the cashier is maintained by reducing the currency (cash) accountability of the cashier and increasing the coin accountability.

When the theft of \$7 million in slot revenue was first uncovered at the Stardust Hotel in the mid 1980s, it was considered to be physically impossible since the theft of that amount of money would be equivalent to stealing truckloads of coins. As indicated below, there is no necessity of moving the coins—the improper conversion of the coins into currency facilitated the theft of the cash.

In the Stardust slot theft situation, the amount of coin transferred to the slot booths was understated. This understatement was possible because the coins were counted only by weight. The amount of coin transferred to the cashier was understated to maintain number balance. The amount of understatement created by underweighing the amount was later converted by the cashiers. When the coins were resold by the cashier, the extra currency (approximating the underreported amount) was deposited into a special box where \$100 bills were periodically removed by a casino executive. Thus, the balance was maintained, and the slot coin theft was converted into currency that could be more readily removed from the casino.²

RECONCILIATION OF FILL SLIPS

One of the key steps in the process of verifying the integrity of the count, win calculation, cashier, and vault balance process is the reconciliation of the fill and credit slips. The fill slips are the evidence of the most common type of

payout made by the cashier and are also an integral part of the determination of the game performance—the game win or loss. The correct physical handling of the fill slips is important. The fill slip copies, together with the summary log, are usually cleared from the cashier to the vault at the end of the shift. They may occasionally be held in the cashier's area and included as an item on the cashier accountability report. When the fill slips are transferred to the vault, the same fill slips constitute a payout item for the vault until they have been integrated with the game revenue computation.

Vault processing of the fill slips includes the following steps:

1. The copies of the fill slips transferred from the cashier to the vault are matched against the fill slips that are removed from the table game drop boxes. They are examined and matched for the following:
 - a. Numeric sequence
 - b. Agreement of date, time, shift, and other data
 - c. Amount of fill or credit
 - d. Verification that all proper signatures are on all appropriate copies (the cashier copy should have the security runner signature, but only the drop box copy should have the pit supervisor and dealer or boxman signatures)
 - e. Agreement with all elements on the request-for-fill documents
2. The fill slips are included in the computation of the game win or loss for the shift and the day. The win or loss is computed for the entire day. The net amount of win is determined in addition to the vault amount.

The win for the day is included as a vault increase. This increase due to win is then decreased by the amount of the deposit to the bank. Once again, the balance in the vault is restored to the imprest balance amount.

There is an additional reconciliation step that takes place for the fill slip procedures. There must be a verification that the third copy of the fill slip locked in the continuous form dispenser machine (or "whiz" machine) is in agreement with the other two copies of the fill slip. This reconciliation is done only by personnel from the accounting department. The reconciliation includes assuring the unbroken sequence of the fill slips in the machine, matching the table numbers and dollar amounts from all copies of the fill slips, and verification of the number of signatures and the propriety of the signatures. This reconciliation is done between the fill slips that were processed in the count area, transferred to the vault, and eventually transferred to the accounting department, together with the day's bank deposit slip and daily work. In computerized systems, the log of the numeric copies is compared rather than the actual, physical, third copy of the fill slips. This third copy verification is critical to assure the integrity of the revenue reporting system and to eliminate possible errors.

REVENUE COMPLETION

The final task of the vault or main bank cashier is to complete the revenue reporting system by reporting the results of operations for the day. A sample revenue form is shown in figure 10-10. The form summarizes the gaming revenue first—accounting for all amounts of drop from the count process and the net of fill/credit activity. This is customarily reported on a shift-by-shift basis. If a single 24-hour drop is used, there will be only one set of numbers presented. The second set of revenue numbers come from other areas such as slot drop, if not already reported as part of the count process.

The next major section lists the miscellaneous revenue and expense items arising from various restaurants, a hotel operation, and other turn-in banks from different areas of the casino. In addition, disbursements for various purposes are listed as reductions to the revenues. Finally, the revenue calculation is made—reported by shift if available—and the amount of the bank deposit is prepared.

BANK DEPOSITS

The deposit to the bank is the final accounting step in the flow of funds in the casino. The bank deposit is prepared in order to document the amount either won or lost by the casino in the accounting period—usually a day. The bank deposit is prepared by the vault cashier after the compilation and verification of the win or loss for the day.

The bank deposit is usually transmitted to the bank physically by a representative of the accounting department accompanied by a security guard. With widely dispersed tribal casino locations, there is an increasing use of armored-car transportation services to move the deposit to the bank. Once the deposit is receipted by the bank (an independent third party), the deposit slip is returned to the accounting department where the deposit and win are recorded in the general books of account. The bank deposit serves as an ultimate control over the integrity of the revenue reporting process. It allows the casino to be sure that no diversion of funds occurs between the count room and the final deposit of the funds. If the deposit agrees with the results of the count activity and all other areas are in balance, then the consistency and integrity of the accounting system are assured.

VAULT SECURITY

The large dollar value as well as volume of cash, chips, and currency handled by the vault requires that the area be physically very secure. In addition to physical security, all the cashier, vault, and count areas should be subjected to a very high level of surveillance.

Some of the typical additional security procedures include limiting access

REVENUE REPORT

DAY:	BJ	POKER	POKER PROG	
Drop				
Net Fill /Credit Win /Loss				DAY
Win /Loss				[]
SWING:	BJ	POKER	POKER PROG	
Drop				
Net Fill /Credit Win /Loss				SWING
Win /Loss				[]
GRAVE:	BJ	POKER	POKER PROG	
Drop				
Net Fill /Credit Win /Loss				GRAVE
Win /Loss				[]
	GRAVE	DAY	SWING	TOTAL
VLT				
Drop (+)				
Payout (Check) (-)				
Payout (Cash) (-)				
Win (=)				
VLT Check Payout				
Keno				
Bingo				
Sports Book				
Pull Tabs				
Other Check Payout				
Coyote Buffet				
Rock Creek Deli				
Elkhorn Café				
Retail				
Cigarettes				
ATM Commission				
Coffee Kiosk				
W-2G Withholding				
Found Money				
F & B Floater				
Restroom				
Entertainment Sales				
Legends Restaurant				
Legends Banquet				
Legends Bar				
Arcade				
Arcade Snack Bar				
TOTAL REVENUE				
Keno Fills				
Variance - Cage				
Variance - VLT				
Other Ck Payout				
Coupons				
Poker				
Gift Certificate				
ATM Receivable				
ATM Comm. Rec.				
TOTAL PAID OUT				
NET REVENUE				
DEPOSIT				

IN BANKER: _____ BADGE #: _____

NATURE: _____ DATE: ____/____/____ SHIFT: _____

Fig. 10-10. Revenue Report

to the vault storage areas to certain key vault personnel during each shift; having the count areas in the casino separate from the vault working and storage areas (keeping in mind that the areas cannot be widely separated since there is a security and physical problem associated with moving money or coin over long distances); and having established standards regarding count procedures, count room organization, employment guidelines, and procedures for count personnel.

Other examples of special vault security include the maintenance of closed-circuit video, windows and one-way mirror observation areas, and the use of glass partitions in the vault itself. Also, the extensive use of unannounced inspections and surprise counts by auditors and security personnel helps assure good controls over the vault. Other desirable procedures include the periodic counting and balancing of the vault areas during shifts, including periodic test counts of the long-term storage areas.

Personnel controls over the vault operation include limiting access to the vault to only selected persons outside of the vault personnel. Senior executives should be allowed only under careful observation and supervision. A final control includes the use of vault and count personnel who are not associated in any way with personnel from casino operations.

Temporary Vault Increases

At certain times, and as a result of certain transactions, the vault and the cashier may experience temporary increases in the amount of the vault or cashier balances. These temporary increases usually occur if a large payoff of a keno ticket or slot jackpot takes place. Under these circumstances, the general accounting office prepares a check for the amount of the large special payoff. This check is then transferred to the vault as a temporary increase in the vault accountability. The vault transfers the check to the cashier as a special short-term item. The cash or check is given to the customer in exchange for the properly completed documentation of the payouts, such as either the keno win ticket or a slot payout document. Then the payout is transferred back to the vault, and the cashier's accountability is reduced. The customer slot or keno win is included in the loss for the day. At the end of the count process, the paid-out item has been properly considered and has been accounted for in the daily overall win or loss of the casino, and the temporary increase to the vault has also been properly accounted for. Also at this time, any ancillary records such as IRS form W2-G or currency transaction report forms must also accompany the payout documents submitted to the accounting department.

Casino Credit Accounting

Recognition of the role that credit extension plays in casino operations is important in developing a proper understanding and appreciation of the necessary internal controls and procedures for credit accounting. The availability of casino credit is a crucial element of a casino's marketing and operating strategy. While the importance of credit is indisputable, the necessity of maintaining controls over the credit procedures is equally important. This chapter discusses the accounting and procedural controls over casino credit.¹

Credit in the casino has been most commonly called *marker credit*. Other minor forms of credit include deposits in advance of playing in the casino, the use of casino scrip or other restricted types of casino chips, and liberal check cashing policies.

CREDIT PLAY AND DOLLAR AMOUNTS

Casino credit in its purest form—marker credit—is restricted to only the largest casino operations, and generally only within certain specific markets. The most established markets for casino credit are the Las Vegas Strip and Atlantic City. Tribal locations with considerable credit play include Connecticut tribal casinos and tribal casinos in parts of Wisconsin, Minnesota, and the San Diego, California, area.

The importance of casino credit on the dollar volume of casino activity is not easily documented. However, prior research has tracked the credit activity in Atlantic City casinos.² During the research period, about \$1.47 billion worth of markers were granted. If we assume the casino win averages in the range of 15%–20% of the total gaming activity, the total betting activity would be in the range of \$7.5 billion to \$9.9 billion. Thus, the gaming done with

credit represents between 15% and 19% of the total play in the casino. This is a very significant amount.

Out of all the total marker credit issued, close to 80% of the amount was redeemed before the patron left the casino and before the marker was processed through the banking system for payment. This calculation is consistent with the long-term hold percentage on most table games of about 20%. Of the remaining 20%, which was processed through the banking system, 87% was collected, with 13% being written off as bad debt.

Bad Debt Amounts: Recent statewide Nevada data indicates that of total games revenue, about 6.9% is written off as bad debt expense. For the largest casinos on the Las Vegas Strip, about 9.6% of games revenue represents bad debt expense. The Las Vegas bad debt numbers are a few percentage points lower than Atlantic City. These differences could be explained by different credit policies, different credit administration, and even different volumes of play on credit.

OTHER FORMS OF CASINO CREDIT

The discussion of casino credit should also recognize that in the absence of a formal credit granting policy, the existence of a liberal check cashing policy for personal checks in the casino will in fact present a form of credit granting. The check cashing procedures should mimic the credit granting procedures and be subject to similar collection policies as regular marker credit.

In addition to internal credit administration, a number of independent third party services have been established that grant credit usually based on regular credit card cash advances or other lending. These services are independent of the casino, and assume the responsibility for credit granting, repayment, and collection outside of the casino operation itself. The only role the casino plays in these systems is to advance the funds from the cage on approval by the third party. The casino then is reimbursed by the third party, with a commission paid to the casino based on the amounts advanced to the customer. There are also a number of third party check cashing services which operate in largely the same manner.

CREDIT CONTROL AND ABUSES

The need to control the losses incurred, as well as to prevent improper write-off of the credit, has given credit control a very large and important role in modern casino operations. The actual process of credit extension and the skills and talents necessary to evaluate casino credit are more properly discussed elsewhere.³ The present concern is the accounting and financially related controls over credit.

Credit extension in a casino is essential to effective marketing. The avail-

ability of credit, as in traditional retail or consumer markets, results in more widespread purchase and consumption of the product. Thus, the availability of credit invariably results in higher betting activity on the part of casino customers.

There are several interesting trends in casino credit today. The most significant is the formalizing of the process of credit granting, which is similar to regular commercial credit. For example, in New Jersey credit extension can be accomplished only in the presence of a signed negotiable instrument—a check, which can only be held for a specified period of time and must be negotiated through the regular banking system within a very short period of time.⁴ Increasingly, other jurisdictions have formalized their credit instruments as virtual counter checks.

CREDIT PERSONNEL

The credit manager of the casino is responsible for all credit granting and collection. In some smaller casinos, senior management or other casino personnel may be involved in the process. In this case, they perform these credit tasks in addition to their other regular managerial activities. Casino hosts, pit personnel, and the owners or senior management also participate in credit activities.

The prudent management procedure is to vest control over all aspects of the credit function in one person.⁵ This responsibility includes the accounting and supervision of the issuance of credit, the evaluation of the creditworthiness of the customer, and the final collection of the debt. The only functions that should be organizationally separate for good accounting and internal control are the actual custody of the casino markers themselves and the processing of the payments received on the markers.

A related area that often involves the granting of casino credit is the junket, a tour conducted to the casino primarily for the purpose of gambling.⁶ Junkets typically are arranged for groups of good gambling customers: transportation, food, and rooms are provided free of charge. This special treatment is in exchange for the customer spending a relatively large amount in gaming activities. Controls over the granting of junket credit—and collection afterward—are especially critical because of the large volume of credit that even a small and limited-term junket can generate, coupled with a long-distance credit collection problem. Over the past ten years, the importance of organized junkets has been reduced. More and more customers are electing to visit gaming locations on an individual basis and are arranging their credit through the casino directly, without the intervention of a junket host. Some casinos even invite patrons to apply directly to the casino over the internet.

CREDIT PROCEDURES

Credit granting and control procedures can be illustrated and divided into four main activities:

1. Credit investigation and approval
2. Cashier credit issuance
3. Table credit issuance
4. Payment and collection administration

Credit Investigation and Approval

The process of granting credit can be divided into two distinct phases: granting credit to new customers, and granting credit to established customers. Some of the more detailed procedures associated with granting credit to new customers should periodically be repeated for established customers to assure that good controls are maintained over the changes in creditworthiness.

The credit approval process is initiated when the customer asks for credit. The basic procedure is to have the customer fill out a credit application and bank reference form. The application also asks for the estimated amount that the customer would like to have for credit extension purposes. A limit of a certain amount of credit per day or per visit to the casino is usually suggested to the customer. This control is intended to prevent the casino from extending more credit than it wants to or than the customer has requested. Another reason for this limit is to allow cooler heads to prevail during a period when the customer may wish additional credit. If the customer is given additional unauthorized credit during a losing streak and the losses increase, the customer is frequently upset that more than the basic amount was extended. If the limit is exceeded, the casino may have a difficult time collecting the full amount. Figure 11-1 shows a sample credit application. The credit application can be completed at the casino or even online prior to a visit in order to assure pre-authorization of credit privileges. The credit application also may come with a list of conditions and terms which the credit applicant must acknowledge.

After the credit application has been completed and an authorization has been secured, the next step is to contact the customer's bank to confirm the balance and transaction volume in the customer's account. A first-time courtesy credit amount may be extended before the bank account can be verified. Occasionally, the customer is asked to wait until the next business day for verification of credit.

Because of the 24-hour nature of the gaming business in Nevada and the widespread availability of credit privileges, several services have developed that allow the verification of credit at any time of day or night. This inde-



CREDIT APPLICATION

CUSTOMER INFORMATION

Fields marked with an asterisk * are required.

* Limit Requested \$

* First Name Middle Initial * Last Name

* Residence Phone () - - Cell Phone () - -

* Residence Address * City

* State/Province Please Select * Postal Code * Country

* Name of Employer

* Business Phone () - - ext

* Address of Employer * City

* State/Province Please Select * Postal Code * Country

* Type of Business * Position with Employer

* Social Security Number: - - Email Address

* Date of Birth (mm/dd/yyyy) / / * Expected Arrival Date (mm/dd/yyyy) / /

* Mail Marker Information To: Home Office Alternate

Alternate Address City

State/Province: Please Select Postal Code Country

BANK ACCOUNT INFORMATION (Checking Accounts Only)

* Primary Bank (1) Name and Branch ABA#

* Street Address * City

* State/Province: Please Select * Postal Code * Country

* Personal Account Number: Business Account Number:

Name on Business Account: Bank Contact and Position:

Bank (2) Name and Branch ABA#

Street Address City

State/Province: Please Select Postal Code Country

Personal Account Number: Business Account Number:

Name on Business Account: Bank Contact and Position:

pendent service is provided by Central Credit, Inc., which is a private credit reporting facility for the gaming industry only. It has records on customers of all casinos, and the information is generally shared throughout the credit reporting process. If a customer is known to Central Credit, and it is able to provide a positive credit history, then the credit can be extended fairly quickly. If there is no casino credit history, then the conservative procedure is to grant a nominal amount of credit and then to verify the credit directly with traditional sources such as lending institutions and banks on the next business day. The growth of large corporate groups of casinos has resulted in the growth of independent corporate credit data banks, which has in turn given rise to centralized credit screening on behalf of the entire organization.

Issuance of Credit

Once the credit is approved, issuance of the credit is the next step. The recording of the credit issuance at the cashier's cage is fairly simple: usually the customer signs a document resembling a check or a marker that is given in exchange for casino chips. The extension of credit at the table is somewhat more complex.

There is widespread discussion of the most appropriate payment in exchange for the marker. Some casinos give ordinary casino chips; some give unique chips that cannot be readily exchanged for cash. Other casinos issue special scrip-like coupons in exchange for casino credit. The reason for the issuance of these special types of "money" to the credit customers is to avoid an obvious problem where the casino customer is granted credit, gets the chips, plays very little, then converts the remaining chips back into cash and departs from the casino with the money. The customer may then refuse to pay the marker debt and has essentially stolen the amount of the marker—in cash—from the casino. A variation of that process is that the customer merely pockets the chips, moves to another casino, and cashes the chips—away from the scrutiny of the issuing casino.

Issuance at the Cashier's Cage: The issuance of credit at the cashier's cage may be accomplished through the regular cashier or, in some cases, may be handled through a special cashier whose only responsibility is to handle various credit transactions. The first step is the creation of a customer check or marker. A sample marker form is shown in figure 11-2.

The multipart marker document created by the cashier has three to five complete parts. This includes the original copy of the marker, which becomes a negotiable instrument (a check) with the magnetic ink coding on the bottom. The second copy is retained by the cashier in order to provide a record of the paid-out amount, and enables the cashier to maintain the proper balance

TO _____ NAME OF BANK	ABA NO. _____	CASHIER _____
_____ NAME OF BANK	AUTH. _____	
_____ CITY STATE ZIP	DATE _____ 20 ____	T# _____ TIME _____
PAY TO THE ORDER OF _____		
<small>For value received, I represent that amount is on deposit in said bank subject to this check and is hereby assigned to payee, and I guarantee payment with exchange and costs in collecting.</small>		
STREET ADDRESS _____	SIGNED _____	
CITY & STATE _____		
PHONE () _____	PRINT NAME _____	
C00017 (1M) 07/82	BANK ACCOUNT NO. _____	

Fig. 11-2. Sample Marker

in the cash accountability account. The third copy is typically detached from the marker itself immediately after issuance, and is retained in the cashier's cage. Other copies of the marker may include a copy used to record when and if the repayment is made and a numeric record copy. The numeric copy is typically separated from the original at the time the marker is issued and is retained in a numeric control file in the accounting department.

The recording of the issuance of the marker by the cashier is somewhat simpler than issuance at the table, since the money is taken out in a true cashiering situation and the addition or reduction of the money does not affect game win statistics.

An operational benefit is that the casino credit can be more easily controlled through a central location that issues all the credit. (If the credit is issued at the tables, the customer can move from table to table or from pit to pit and gain more credit in total than should be allowed, should communication between the pits be poor.) However, restricting the credit issuance to a single cashier may have a negative impact on convenience to the customer and the smooth functioning of the game flow in the pit.

A second key step that the cashier should accomplish, besides basic identification, is to assure that the customer to whom the credit is being extended is indeed the person who is qualified for the credit. It is increasingly common to ask the patron for some picture identification prior to issuing the marker and advancing the funds.

The third procedural step is to record in some manner the amount of credit extended. This type of record is essential to assure that the cumulative amount of the credit does not exceed the amount authorized and that the records of the borrowing transactions have been made for future reference. This also serves to create a record of the borrowing transactions, which can

be used to evaluate and judge future credit extensions. The recording of the credit extension may be a manual record on the individual's record sheet, or may be performed much the same as accounts receivable within a computerized cage or cashier system.

The issuance of credit to a customer may also be recorded on a master sheet that serves to summarize the credit transactions for a particular shift. This type of record is similar to the fill and credit summary (stiff sheet) that the cashier prepares for other casino operations when money is transferred to the tables. This master credit sheet acts as a quick and convenient summary of credit activity during the day and can be used by the casino management to verify the activity, and to indicate to whom the credit is being extended, with what frequency, and in what amounts.

From an accounting standpoint, the issuing of credit by the cashier is a fairly simple process of recording the paid-out amount and creating a memo record of the total outstanding credit at any time. The cashier must also be mindful of the situation where the previously extended credit together with a new request may exceed the limit on the customer's account or be close to that limit. In this case, the cashier should bring the matter to the attention of the relevant credit person who decides whether to extend additional credit or to refuse the credit. The cashier's prime responsibility is to identify the situation and to abide by the rules specified.

Preauthorization of Credit: Where the volume of credit extension is expected to be very substantial, such as in the case of special events, groups arriving, or junkets, it is customary to provide for preauthorization of the junket credit. In this case, all that might be required is some identification and the signature of the customer on forms that are already filled out, with the amounts of chips set aside, ready to be picked up. Preauthorization procedures also help to build the goodwill of hotel guests or other visitors to the casino.

Credit Rules: The basic credit rules of the casino, including the procedure for handling over-limit customers, must be decided on initially and specified in writing. The reasons for this care are twofold. The first is that the casino must have credit policies specified in some detail. This allows the management to make decisions on granting credit which avoid either indiscriminately loose credit that would create collection problems or restrictively tight credit that would limit the effectiveness of the casino marketing policy.

The second reason for these controls is that the regulatory authorities insist that credit extended in violation of the casino's own established policies is not allowed as a deduction from the gross gaming revenue and is therefore subject to gross revenue tax. The improper extension of credit is intended to be restricted by applying this type of penalty taxation.

Ideal Credit Marker Systems: The basic operating goal for the ideal marker control system would be ease of issuance of the credit instrument as well as ease of repayment. In addition, the system should have the ability to record the transactions of issuance and repayment, provide status reports for the various credit customers, and account for full or partial repayment. The system should also have the ability to identify the impact of the credit extension on the games accounting and should assure that no distortions of game win result from the issuance of credit or the repayment of credit at the table.

In addition, the system should ensure the smooth tracking flow from pit to pit as the credit customer moves from one area to another. Finally, there should be a smooth flow of the credit instrument from the pit back to the cage. Typical controls over the casino credit instruments are listed below:

1. Providing numeric control over all markers issued
2. Preventing deliberate or inadvertent destruction of the credit instrument
3. Ensuring accurate and complete recording of the marker and summary update information
4. Controlling the overall credit extension procedures and recording the total amount of dollars extended in casino credit
5. Assuring proper custody over individual customer subsidiary ledger accounts and accurate summarization of the total amounts of casino credit outstanding by each customer

Care should be taken that all these controls are operating properly and that the costs of administration are reasonable. The controls must be both cost-effective and efficient.

Credit Extension at the Tables

A major difference in the handling of credit recording and credit extension occurs when the location shifts from the cashier to the table game. There are two major ways the credit extension is handled at the pit location. The first is to allow the extension of credit at the pit, but to have the accounting and record keeping centralized at one location within the pit, such as the pit clerk's stand. The second method is to have the credit transactions handled entirely at the gaming table.

The main problem is accounting for the markers that are paid or repaid at the table. These credit extension transactions on the game are large cashing transactions that can severely distort the results of the game operation, while the repayment of a marker at the pit can make the game appear to be a large winner when this may not be the case. Also, the inclusion of the documents in the table game drop box tends to make the accounting for the game results (the win or loss) considerably more complex. It adds numerous paper items to the drop box that, in turn, can cause operational difficulties when the box

contents are counted. The communication between various pits and between the pit and the cage can also be difficult and may result in erroneous credit extension or overextended credit when this is clearly not the intention of the casino.

The first step in credit extension at the table is the establishment of certain preissuance procedures for the casino. If the customer is going to be requesting the credit at the gaming tables, then the customer should be preauthorized to receive the credit.

In addition to preauthorization, the table inventories for games where credit is to be extended should be increased in anticipation of the greater volume of cashing activity expected to take place on the table. Finally, some clerical arrangements should be made in order to assure that there is timely completion of the credit documents at the tables and that the extension process is handled smoothly.

Credit Preauthorization: Before preauthorization takes place, the basic credit information has to be gathered, processed, and evaluated. If it is satisfactory, then a credit approval is made prior to the customer's request. There are two important additional steps to be taken to prevent credit problems:

1. Steps must be taken to assure that the person receiving the credit is the person for whom the credit has been approved.
2. Steps must be taken to control the extension of credit, including granting new credit only to those customers who have fully repaid previous credit extensions.

A form of preauthorization might include the posting of "front money" by the casino customer. In this situation, the front money is played first; if the pattern of play and other operational aspects of the gaming activity appear proper, then additional credit may be extended at that time.

Credit Extension Procedures: Typically, when a customer requests credit at the table, the request is transmitted by the dealer or boxman in charge of the game to a pit boss or floor supervisor. The floor person then verifies the propriety of the request by asking the pit bookkeeper if the customer, who is known or identified to the pit boss or casino host, has a line of credit authorized.

The customers who are expected to request credit are usually indicated in a master pit record if they have preauthorized credit. Also, the amount of the total credit is indicated, and the credit that was previously extended is also recorded. In this way, the pit boss can make the credit granting decision very quickly and without keeping the customer waiting. If the customer's credit standing is not indicated in the pit clerk's records, or if the customer is over the limit, then it is the responsibility of the pit boss to refer the customer to the credit manager to discuss the limit or to establish or reopen a line of credit.

In some circumstances, if the customer is known to the casino and if there

are no current problems, it may be possible to activate a credit record for a customer from the pit, with the pit clerk adding the new customer to the files of active credit players after receiving approval from the credit cashier.

If the credit request is granted, then the pit boss authorizes the issuance of the credit at this point. The pit boss or floor person instructs the dealer on the table to give the customer the appropriate amount of chips. Marker buttons are usually used temporarily to indicate the amount of the chips advanced to the customer. The use of these marker or lammer buttons helps to speed the process of credit extension. The chips can be given to the customer immediately after the credit approval. The paperwork can then be completed, and the customer can sign the marker a short time later. Some casinos will keep memorandum records of marker advances for players until they complete their play for the day. At that point, a single marker is completed for the total amount (net of any repayments) that the customer owes.

The floor person receives from the pit clerk a blank marker to which the following information is added:

1. Amount of the transaction
2. Date and shift
3. Table number
4. Customer's name and other identifying information such as tour group or junket representative
5. Customer's signature

At the same time, the pit records are updated to indicate the customer's name and the amount of the transaction. The responsible floor person and pit clerk sign or initial the records indicating approval. The master record is brought up-to-date with the credit information.

The marker is then given to the customer, who signs the document. The marker button is now removed, indicating that the formal credit extension process is complete. Control must be maintained over the lammer or marker buttons to ensure that they are only removed after the marker has been properly signed by the customer. If a marker button is removed before the marker is completed, the granting of credit may not be properly recorded. In general, only senior pit personnel are allowed to touch the marker buttons, and only marker buttons of a particular color, shape, or type are used for credit extension. In this way, control is exercised over this critical temporary period of credit granting.

The marker is then returned to the pit clerk, who examines it for completeness and accuracy, checking to assure that the following conditions are met:

1. The marker is completed properly with the time and date stamped.

2. The amount of the marker is entered in the pit book as well as added to the game record.
3. The signature matches the credit application of the customer. This is accomplished in some casinos by showing the marker on a video camera connected to the main credit cashier where the signature is compared to other credit records.
4. The issuance stub is removed from the marker and put into the locked box used to control the markers from that particular pit.
5. The marker is attached to a customer's ledger card or else filed in sequence by name in the pit.

The pit book, maintained by the pit bookkeeper, functions as an overall control over the total amount of credit extended to a customer, and the table game record ensures that the amount of credit issued or repaid to a particular

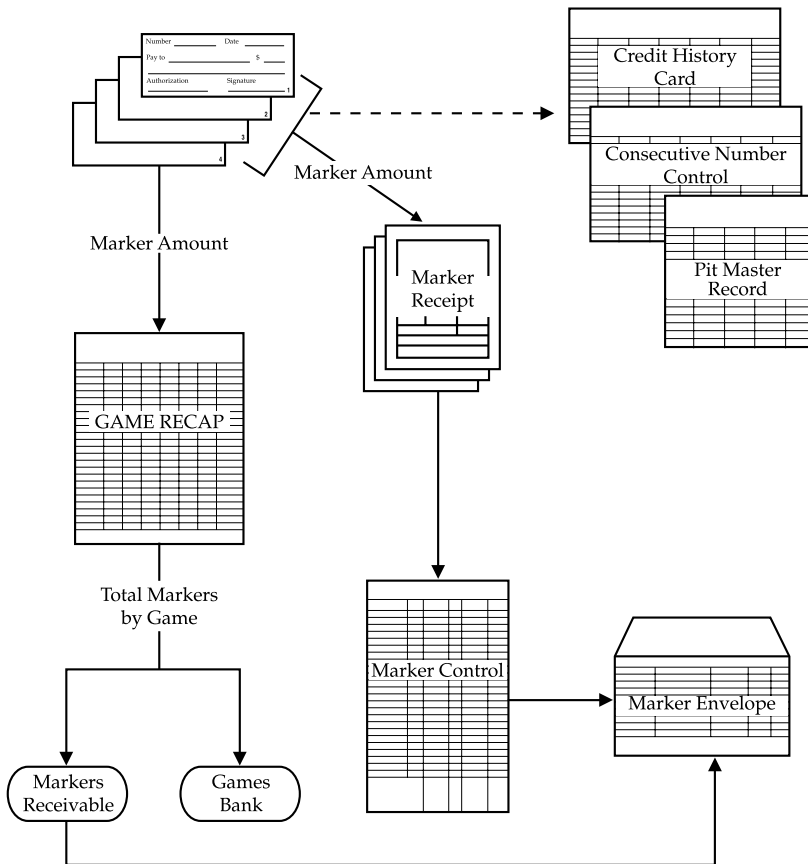


Fig. 11-3. Marker Accounting System

table is properly recorded so that the table inventory fluctuations are later counted properly in computing the win on the table.

The flowchart in figure 11-3 shows the basic document flow in the marker system. The actual casino marker is shown in figure 11-2, which illustrates the principal parts of the marker and their uses. The marker typically consists of four parts and is prenumbered, in most respects appearing to be the same as a check. The parts are detailed in the following list:

1. The original, which ultimately is kept in the credit office, is temporarily held in the casino pit until the end of the shift, at which time it is transmitted or transferred to the credit control file.

2. A copy is usually kept in the accounting department as a control copy. These control copies are usually filed in numeric sequence.

3. An issuance transaction copy may be either a complete copy of the marker or a stub at one end of the marker that is used to record the original issuance of the credit. Depending upon the system used, the issuance copy either goes into the drop box of the game from which the chips were issued, or else it goes into the central pit bookkeeper's box. It is later included in the count procedures in order to maintain control over the fluctuations of the table inventory resulting from issuing chips from the table for credit.

4. The repayment transaction copy (redemption slip) is used to record repayment of the marker made at the table. The repayment transaction copy is used only if repayment is made prior to the transfer of the marker to the credit cashier. If during the shift the customer wins or otherwise wishes to repay the marker, then the table inventory is increased, and some document is necessary to record that transaction. The repayment copy is used for this purpose; upon completion, depending upon the system used, it is put either in the game drop box or in the locked pit marker box.

Repayment Procedures: The control procedures that are followed if the customer wishes to make a repayment of the marker are outlined below. The procedures vary, depending on whether or not the marker is still in the pit area or has been transmitted back to the cage.

If the repayment is less than the full amount of the marker, the amount of the repayment is indicated on the face of the marker and on the repayment copy. The marker, if paid in full, is usually canceled by the pit bookkeeper, the repayment is recorded on the master game and pit sheet, and the marker is returned to the customer. If the marker is only repaid in part, it is retained by the pit clerk.

It is increasingly common practice to cancel the old marker if a portion of the marker is repaid and to prepare a new marker for the amount of the remaining balance. This simplifies the subsequent collection, where a single

document can be presented for payment rather than a document that may have been altered in some way to reflect the partial repayments.

In all of these repayment transactions, the dealer and the floor person both sign the repayment copy of the marker indicating that the amount of money, either in currency or in chips, has been added back to the table. Currency is dropped into the table drop box, and the chips are added to the table inventory.

Repayment of Markers at the Cage: If the markers are not paid at the pit, as usually occurs if the customer is gambling over a longer period of time, the markers are transferred to the credit cashier and the repayment of the marker must be made at the cashier's cage. The transfer of the markers to the credit cashier is offset by the issuance of credit slips in the amount of the markers transferred. The credit is issued to the respective tables that issued the chips for the marker in the first place. Any repayments are also taken into account in completing these credit slips. The amount of the credit slip is actually for the net marker activity for the table during a particular shift.

A second way to achieve this proper control and accounting is merely to include the issuance copy and repayment copies, if any, in the soft count routine where they are considered to be either fill or credit slips in arriving at the determination of the game win or loss.

The markers are cleared through the revenue system to the vault, and are transferred to the marker bank maintained by the credit cashier. When the markers arrive at the credit cashier, they are recorded on a master sheet, and the total amount of accountability is updated.

Marker Control and Collections

The control over the markers that are outstanding in the casino, as well as the procedural control over the collection processes, is very critical to a casino. The first key issue is the necessity for safekeeping of the credit obligations, including markers and other similar instruments. In general, hold checks (bank drafts that have a future presentation date), as well as true markers, must be controlled both individually for credit collection purposes and for aggregate accounting purposes as well. The same types of controls should be exercised over ordinary checks that may have been returned from the bank for other reasons.

The first element of control is to assure that the respective accounting files are properly updated and that the current credit status is recorded. This can be particularly critical if the credit customer is close to the credit limit. Thus, at the end of each shift, the total credit outstanding to a particular individual should be updated to ensure that any subsequent credit decisions are based

on current information. This avoids the potential problem of extending credit to a customer in excess of agreed maximum amounts and the related problem of subsequent collections.

The second element of control is the necessity of assuring that the procedures for both the original issuance and subsequent collection efforts are in line with various regulatory requirements. In this situation, in order to avoid having to pay the gross gaming revenue tax on uncollected markers, all appropriate steps must be taken to ensure that credit was extended in good faith and that an effort has been made to collect the marker. Simply losing the marker does not satisfy the requirement.

A third element of control over markers is the need to maintain accurate and complete records for financial reporting purposes. This is reinforced by the necessity of being able to provide independent, governmental, and regulatory auditors with adequate detailed information that will allow them to perform necessary testing and valuation of the receivables.

The fourth and final control element regarding markers is the problem of assuring that adequate controls exist over the collection process so that the amounts actually extended in credit are collected by the casino. Various controls over these procedures can be implemented by the casino. For example, in New Jersey state rules call for the automatic presentation of all counter checks within three banking days of the original granting of credit. This effectively means that the credit on the books cannot become old, either through management delay or through mere neglect.

Credit Collection Procedures

The practices and procedures of casino credit are largely the same as the collection of any other form of debt. The general principles of timeliness, together with adequate communication of the responsibilities of the customer to make the repayment, parallel standard commercial collection practices. Strong-arm collection tactics have long since ceased to be good management practice.

One area of importance in collection is the control that must be placed on persons visiting the casino in an organized group such as a junket. As a matter of course, most junkets or groups of gamblers will have markers outstanding at the end of the visit. Arrangements must be made to aggregate these markers and to collect the amounts due from the various customers.

The actual practice varies. In some cases, the junket master or another party assumes responsibility for the payment of all the debts of the individuals on the tour and arranges to pay off all outstanding markers with his or her own money. The junket master, in turn, assumes the responsibility for the collection of the markers, independent of the casino. In the past, this process has resulted in some instances of improper or particularly aggressive collection

efforts on the part of the junket master that have, in turn, damaged the reputation of the casino that was visited. In some casinos, the practice of the junket master assuming the debts of individuals has been discontinued. Instead, the junket master serves as a commission collection agent on behalf of—and in the service to—the casino. This allows more control by the casino over the collection process and removes the financial burden and responsibility from the junket master.

Marker Control Systems

The markers that are on file with the credit cashier are usually stored in individual envelopes, with a record on the outside of the envelope detailing the amounts of credit markers contained therein. If a marker is paid, then the balance on the envelope is reduced. The envelope may also contain other key information that could be used in contacting the customer or in notifying casino personnel if some problem exists.

In addition to the individual marker envelopes, there are also systems of control over the aggregate amount of markers receivable. These controls parallel a standard accounts receivable system with controls over the age of the receivable, records of adjustments and credits, and most importantly, records of the payments made and the total amount outstanding.

Another element in the marker control system is updating the individual customer credit record. The timely updating of this record is important in the extension of credit. There must be an accurate indication of the total amount of credit issued, the terms, the timeliness of repayment, and other factors so that future credit decisions can be based on good historical information.

A difficult situation for accounting control exists in cases of partial payment or partial redemptions of markers. If the partial payment occurs after the customer has left the casino, then the customary practice is to leave the marker in the envelope and to indicate the payments on the outside. Only after the entire marker amount has been paid is the marker returned to the customer. Proper adjustment of the amounts of aggregate casino markers must also be made to reflect these partial payments.

Another serious issue of accounting control is partial payment made while the customer is still in the casino. In most of these situations, the old marker in the higher dollar amount is returned to the customer in exchange for a new marker executed in the amount of the remaining obligation. This enables the casino to clean up its bookkeeping; should the need arise, a bank draft may be negotiated for the smaller amount with less difficulty than for a larger draft.

OFF-SITE CREDIT COLLECTIONS

There are key accounting controls over the collection of casino markers away from the casino itself. In this case, several important procedural controls should be followed. First, it is often necessary to have the original marker on hand at the location of the customer in order to secure payment. If a substantial marker is to be paid, then the customer almost always wants to have the marker returned at the time the payment is made. In this case, the original copy of the marker must be taken out of the control area and either transmitted to the customer representative in the customer location or carried by a casino collection representative directly to the customer. In these situations, a copy of the marker is retained in the marker envelope during the time that the marker is out of the casino, along with an explanation for the absence of the original document. This copy of the marker is either destroyed or canceled if the payment is made. The payment is also recorded on the outside of the marker envelope.

Other alternatives may be used if the customer does not immediately desire the return of the original marker. In these situations, a copy of the marker is sent to the customer or taken in person by a sales or collection representative, and the original is retained by the credit cashier. After complete payment is made, the original marker is indicated as paid and returned to the customer.

If the off-site collection is to be handled by a person other than a casino employee, some form of responsibility for the markers that are taken from the casino must be secured. In this case, a simple statement acknowledging the responsibility of the collection individual, such as the junket master, is sufficient. This individual's obligation is primarily for the custody of the markers; should they be lost or payment not be made, payment to the casino may be enforced.

Settlements

In some situations, the credit manager or collection representative may deem it wise to settle a marker debt for an amount less than the face value. This settlement encourages the payment of the balance due on the marker. The power to accept less than full payment gives the collection personnel a very great opportunity to manipulate the collection procedures. For example, this could result in the reduction of a marker from \$70,000 to \$50,000 when in reality the customer paid \$60,000, which allows the collection representative to pocket the extra \$10,000.

To avoid this potential problem, casinos have implemented administrative procedures to assure that the amounts of write-offs, including settlements for less than face value of the obligation, are subjected to extensive

management review. In general, a top-level committee of the credit manager, the casino manager, and the senior financial staff must approve the write-off or settlement of casino markers for less than face value. This review assures that individual collection representatives properly use the power they have to negotiate the settlements in order to collect the bills promptly and still be responsible for the full amount of markers assigned to them for collection. In some situations, customers may even negotiate a discount from the face value of markers before playing.

Collection Methods

Marker collections present some unique problems, which are attributable to the larger size of casino markers when compared to traditional consumer debt obligations. The first collection method is to have the casino debt replaced by other debt that can be paid off in installments by the customer. A second procedure is to arrange to have the casino customer pay off the entire amount. This may be facilitated by the liquidation of other assets or by special payment from a source such as a closely held corporation, partnership, trust, or other entity.

Finally, casinos may reluctantly accept programs of installments for the payment of the casino debt. This alternative is somewhat undesirable for reasons that are both financial and managerial. First, the casino is not set up to handle installment payment obligations efficiently, and the cost in administrative time is very high. Second, the casino does not customarily charge interest on markers, and the time payment plan costs the casino in terms of not having the cash available for other purposes. Finally, the casino customer is usually not granted any additional credit while paying off an existing obligation and is therefore emotionally unwilling to return to the same casino to gamble again. Thus, with the installment payments, the customer is lost for a substantial period of time and is likely to go to another casino, which might result in the permanent loss of that customer.

Collection Services

In the past, some casinos have used outside collection services for the markers. These services must be handled with great care, as problems can arise from several sources. The first is that the collection service requires a substantial percentage of the amount collected. This results in a smaller amount returned to the casino than if the debt were compromised or settled by the casino in the first instance. Second, the conduct of the collection service must be consistent with the desire of the casino to have appropriate collection methods. For example, if the casino believes in using less rigorous methods of collection, then the utilization of an aggressive collection service merely harms the image of the casino.

The accounting for items sent to outside collection services and the administrative controls over these assignments are as follows. The first control is accounting for delivery of the markers and other supporting documents to the collection service. In this case, credit cashier accountability must be reduced with a transfer to the accounting department. At this point, a memorandum record is created of the accounts transmitted and the dollar amount. Most casinos choose to write off the receivables at the time they are transmitted to the collection service. Then, if any recovery is occasioned in the future, the amounts are restored and indicated as paid at that time. Recording the write-off resulting from the assignment to the collection agency must be subjected to the same controls and administrative review as direct write-offs, reductions, and settlements. The aggregate amount of casino receivables must also be adjusted by the amount of the write-off.

Credit Reporting

In some instances, special forms of management-oriented financial reporting are required of the credit transactions. First, it is in the best interest of the casino to carefully monitor the efforts of all its collection representatives. If one person has a consistently high or low collection ratio or a high rate of settlement or other adjustments and reductions, that information should be brought to the attention of senior management. There may also be special regulatory requirements that necessitate recording the amounts and the persons for whom the write-offs are made. This allows the regulatory auditors to guard against a consistent pattern of write-offs being made to a single person or group. Finally, there may be special reporting requirements for write-offs for certain persons, such as junket representatives.

In conclusion, the careful maintenance of a casino credit system can be of major benefit to the marketing and profitable operation of a casino. However, the credit system is a volatile area and must be subjected to the most careful procedural, accounting, and internal systems control in order to be effective.

PART III

*Auditing, Taxation, and Financial
Management Issues*

Casino Auditing, Minimum Internal Control Standards, and Financial Reporting

This chapter describes the current practice and principal problems in the auditing of casino operations, the status of accounting principles as they apply to unique casino balance sheet and income statement items, and current problems regarding the financial reporting and disclosure requirements for the industry. Many of the issues that are discussed in this chapter have been either introduced or discussed in some detail in other chapters.

Other ongoing efforts regarding casino accounting and auditing are also discussed. The American Institute of Certified Public Accountants (AICPA) has issued an audit guide covering the casino industry.¹ The audit guide, originally published in 1984, constitutes the basis of authoritative accounting principles and auditing procedures for casino operations in the United States. As a result of considerable changes in the business and the growth of gaming into a multijurisdictional industry, the AICPA and the Accounting Standards Executive Committee (AcSEC) appointed a task force to revise the audit guide. The revised audit guide is expected to be completed and published, and would be applicable for audits of casinos beginning in 2009 onward. The later sections of this chapter reflect the current specifications of that audit guide.

THE CASINO AUDITING ENVIRONMENT

The modern environment of casino auditing is a result of a unique partnership among the following:

1. Casino management, including the casino internal audit department

2. Government gaming control agencies, including tribal gaming regulatory authorities
3. Independent certified public accountants (CPAs), including private- and public-company reporting as well as reporting to regulatory authorities

Each of these groups has its own unique interests in the integrity of the auditing process. This lack of commonality of interests leads to considerable differences in the audit objectives and procedures used by the different auditing groups indicated above. Within the independent CPA group, the increasing importance of the Public Companies Accounting Oversight Board (PCAOB) and SEC reporting has had a significant impact on how casino auditing for all purposes is conducted. The public-company reporting standards and procedures set the pace for changes, expansions, and improvements in all types of financial reporting for casinos.

A second problem arises in the auditing and reporting for tribal or small privately owned casinos, where the overall procedures and standards are sometimes subject to less scrutiny and somewhat less rigorous standards. Some tribal casinos may also be subject to auditing and reporting standards of the Governmental Standards Accounting Board (GSAB).

Casino Management and Internal Audit

The maintenance of an effective system of internal controls is of paramount importance to the proper operation of the casino. The complex operations of the casino, together with the large amounts of cash and chips in use, create a situation where ironclad controls are essential. Comprehensive systems of checks and balances are required to safeguard the assets of the casino, to assure accurate financial reporting, and ultimately to preserve the goodwill of the customers by maintaining an atmosphere of fair and square dealing within the casino. Maintaining this public perception of efficient and trustworthy operations is also vitally important to the continued existence of the casino industry and the marketing success of the individual casinos.

A second important dimension of good controls is that the continuing operation of the casino is only allowed by the regulatory authorities at their pleasure. It is vital that these regulatory authorities grant the authority to operate, continue to allow the casino to operate, and that the gaming license not be placed in jeopardy in any way. The shortest and easiest way to lose a gaming license is to be accused of cheating and to have it proven. Beyond the regulatory control, the overall public perception of the integrity of the casino operation is important in assuring that casino operations continue to be socially tolerated by the large majority of the public. Without this public acceptability, the image of the industry will be degraded, and the continuation of legalized gaming could be challenged.

Internal Audit Departments: It is the responsibility of the internal audit departments of the various casinos to act as top management's first line of defense in maintaining the integrity of casino operations. They are responsible for ensuring that the following conditions are met:

1. Designed internal control procedures are followed
2. Customers do not cheat
3. Employees do not cheat
4. Efficiency of operation is maintained

It could be said that these objectives are the traditional objectives of any good internal control system. While this may seem trite in such a volatile control atmosphere as a casino, the recognition of the importance of the various roles of the internal audit staff and the respect that top management, as well as regulatory authorities, have for the internal audit staff speak very highly of their importance.

As gaming operations become more and more widespread and multijurisdictional, the importance of the casino internal audit function is even greater. In these situations, there are often corporate-level internal audit staffs that are independent of the local casino operation. They help to assure not only the overall integrity of the operation, but also help to assure the accuracy of the reporting by various operating components or divisions of the corporation. Diverse organizations such as Harrah's or the MGM-Mirage are prime examples of a structure where corporate internal audit staff is a key feature of both financial and managerial control over their geographically diverse operations. In addition to corporate-level internal audit staffs, larger individual locations may also have their own internal audit personnel which coordinate and cooperate with the corporate-level staff.

These internal audit staffs must have several important characteristics in order to operate at maximum benefit. The first and foremost characteristic of a well-functioning internal audit department is a high level of operational independence. The head or the director of internal audit must have the freedom to report to only the highest level of the organization. This means reporting to the owners of the casino, the audit committee of the board of directors, or the tribal council. Any reporting to lower levels will impede the independence and respectability of the internal audit function. The second most important characteristic is the necessity of maintaining a high level of training competence, professional certification, and overall technical competence among the internal audit staff. In an increasingly computerized business environment, this also will include having systems auditing capabilities within the audit department. The third characteristic of a well-functioning internal audit department is the maintenance of an adequate level of staffing to assure that all key audit procedures can be accomplished within the required deadlines.

For example, various regulatory agencies call for the internal audit examination of key revenue areas such as gaming machines and table games on an annual basis. There must be sufficient audit personnel available to allow the staffs to conduct thorough and effective reviews in line with this regulatory requirement.

Governmental Gaming Control Authorities

The various state and tribal gaming control authorities have been described in considerable detail in the chapter 2, which deals with licensing and regulation of the gaming activities in their states.² A vital part of that gaming control is the regulatory auditing roles that they perform.

The auditing focus of these groups is somewhat unusual. The regulatory agencies are first and foremost concerned with the proper functioning of the casino operations. A secondary objective is proper reporting of the amount of casino gross gaming revenues. Since the most common form of gaming taxation is gross revenue taxation, the focus of the regulatory agencies is on the accuracy of the gross revenue reported from casino operations.³

Another important objective of the regulatory audit procedures is monitoring the extent to which the systems, procedures, and policies specified in the internal control system of the casino are followed in actual practice. In Nevada, the concern is the degree of adherence of the system—as submitted to the regulators by the casino—to the actual operation. In New Jersey, the primary concern is how closely the internal control operations of the casino fit with the prescribed statutory procedures for internal control. From these objectives, two benefits are derived. The first is that there is some indication of how well the casino is being controlled. The second is that, if there is a high degree of adherence in the internal control systems, there is an increased degree of reliability in the financial statements generated as a result of the accounting system operations. Finally, the integrity and propriety of the gross revenue figures is also enhanced.

Certified Public Accountants

A third element in the audit environment of a casino is the role of the certified public accountants—the traditional group most closely involved with auditing and financial reporting. The role of CPAs has emerged over a period of years in the state of Nevada, and the relationships fostered there have had a significant effect on the legislation regarding CPAs' role in casino auditing in New Jersey. CPAs are presently involved in the following areas:

1. Traditional financial audits, conducted on an annual basis
2. Submissions to the Securities and Exchange Commission

- a. Annual audits
 - b. Special audits
 - c. Quarterly reviews
3. Submissions to regulatory agencies
 - a. Annual financial audits
 - b. Annual internal control evaluations

These three basic areas of auditing vary slightly depending upon the type of organization that owns and conducts the casino business. For most of the larger casino operations, there is recognition of the necessity of an annual financial audit; even without a mandatory regulatory audit requirement.

However, it appears that the overall force driving the casino auditing business, particularly for many smaller casinos, is the regulatory requirement of annual financial audits and annual internal control evaluations.⁴ Clearly, many casinos would not voluntarily have annual financial audits if they were not required.

The same generalization regarding the size of the casino is applicable to those casinos that have publicly traded stock. These organizations, which are typically the largest casino companies, understand and accept the necessity of regular public reporting within the traditional SEC guidelines and requirements. The audits of these types of organizations have become a major source of information about the gaming industry throughout the country.

It is of interesting historical note that CPAs have been required to attest to the adequacy of the internal control system for casinos—starting in Nevada—since 1975. The introduction of this requirement was viewed with considerable enthusiasm by the public accounting profession at the time. Over the years there have been some considerable changes in the nature and structure of this reporting, and the internal control reporting continues to be one of the foundational principles of casino financial reporting today. The adoption of these internal control reporting requirements predated the broader application of similar certifications under the Foreign and Corrupt Practices Act and the Sarbanes Oxley Act, section 404, by a considerable number of years.⁵ Internal control evaluations, together with the standards for conducting such audits and the reporting standards for such activities, are discussed in detail later in this chapter.

SCOPE OF AUDIT RESPONSIBILITY AND TYPES OF AUDITS

This section outlines the various types of audits performed on casinos by persons other than the regulatory agencies. It also briefly describes the scope of the audits typically encountered.

Financial Audit

The traditional objective of an examination of a casino's financial statements by an independent CPA has been a question of fairness as to the presentation of financial position, results of operations, and changes in financial position. This objective is still the predominant factor in most casino financial audits. However, several major changes or special factors in the financial audit that can have a significant impact on the audit scope should be recognized.

The first issue involves the entity that is being audited. For most publicly traded corporations all operating units, including subsidiaries, clearly must be included in the financial audit. This can cause some monumental headaches, since the casino operations may be just one part of a larger enterprise. In these cases, the casino operations must be audited and the results presented in some manner so that the regulatory authorities have the necessary information. This means that a separate set of audited financial statements must be made available for the gaming operation alone, which should be submitted to the appropriate regulatory authorities. In addition, the overall corporate financial information must be submitted to the regulatory bodies.

If more than one operating entity is involved in the casino operations, then the propriety of cost allocations, cost division, or cost-sharing arrangements must also be considered part of the overall audit scope and subjected to appropriate audit tests. For smaller casino operations, where only one operating entity is involved, the casino operator may wish to have supplementary information provided in order to determine department-by-department profit or loss. In this case, the audit scope must be clearly defined in order to decide if the audit procedures are to include just the overall financial statements, with supplementary information not being subjected to full audit scrutiny (with appropriate disclaimers), or if all statements, including departmental information, are to be audited.

Another concern is whether a hotel-casino operation is considered to be a single line of business (or segment) with supporting hotel, food, and beverage operations, or several separate lines of business, each requiring separate disclosure. The majority of practicing CPAs regard the casino operation, with its typical support facilities, as a single line of business that should be reported as such.⁶

The second factor of the audit scope is the time period under audit and the related issue of other auditors who may or may not have performed audit services for the casino client. In general, the audit period is customarily a calendar or fiscal year. Short-period audits may occur during changes in ownership or when opening a new casino. Where other components of a casino operation are audited by other accountants, then an appropriate divi-

sion of reporting responsibilities may be included in the wording of the audit opinion.

Some problems may arise if the auditor is appointed after the end of the fiscal year or if a change in auditors has been made. In general, due to the requirement of having casino financial statements audited, reliable prior-years information is usually available upon which to base comparable financial statements, eliminating most of the time-related scope problems. Existing procedures relating to predecessor auditors in the professional literature appear sufficient to guide the casino auditor in most other areas when a change of casino auditors has taken place. As long as the new auditor can make reasonable determinations of the accuracy of inventories and year-end cash counts, then the appointment of auditors after the year's end should not present any significant problem. If there are some reservations, then the appropriate scope limitations should be outlined in the auditor's opinion.⁷

Other scope issues regarding the examination of specific items, accounts, or the general limitations on material items should be taken into consideration in the initial specification of audit scope or in the determination of appropriate wording of the final audit opinion. For example, failure to obtain satisfaction regarding the valuation of casino receivables would cause a scope limitation in a casino audit, just as it would in the audit of any other firm. For good client relations, however, these potential scope problems should be anticipated and critical areas subjected to some review and discussion with the client prior to accepting the engagement.

Regulatory Filings

There are two different types of regulatory filings that must be made with the gaming control agencies. The first are reports that are unique to the regulatory agency. The second are reports that are generally given to owners, managers, the secretary, or other regulatory agencies. Copies of these reports must customarily also be filed with the gaming control agency. (The primary concern of this discussion is the first area, the filings with the gaming regulators.)

The first required filing is a set of standardized financial statements.⁸ These financial statements utilize standard definitions of revenue sources and major expense categories, and utilize standard formats which allow the compilation of statistical information for analytic purposes. These standard financial statements are also a key data source for regulatory review of casino financial health by the gaming regulators. The second filing is the submission of the CPA's evaluation of the system of internal controls for the casino. This document is discussed in detail in later sections of this chapter.

The process of completion of the standard financial statements is a fairly

simple clerical task. These statements do not require the auditor's opinion and are often prepared by casino personnel rather than by the independent auditor. The standard financial statements consist of four main parts: (1) balance sheet; (2) income statement with details for each of the major operating divisions, including casino, rooms, food and beverage, and other departments; (3) detailed revenue reports produced by different games and gaming devices; and (4) various items of statistical information such as hotel room occupancy. The process of providing this information can be fairly difficult if the accounting system of the casino is not designed in a manner to make the information from the basic financial statement compatible with the standard financial statement format. The simplest solution that most of the casinos have adopted is to use a chart of accounts or general ledger that closely approximates the structure of the accounts necessary to provide the regulatory disclosure.

The Nevada report is required to be filed on a June 30 fiscal year-end basis to coincide with the state financial reporting cycle, regardless of the actual financial year-end for the casino. New Jersey requires its annual report to be filed on a December 31 year-end basis, again regardless of the actual casino year-end. Other state regulators tend to follow one of these two models for the reporting cycle where a standard financial statement is required.

At the present time, no standard statistical report is required to be filed by tribal gaming operations with the National Indian Gaming Commission. The apparent mandate for national-level regulation of tribal gaming by the NIGC does not include any plans for the review of standard financial data or the compilation of statistics on tribal gaming operations.

Internal Control Filings

As mentioned above, most state regulators as well as individual tribal gaming authorities typically require filings of an independent CPA's review and opinion of the system of internal controls in place in the casino. These reports originally were to be a full assurance attestation by a certified public accountant or public accountant licensed to practice in the respective state. The specific statutory requirements are set out in the various gaming regulatory statutes.⁹

The internal control reports that are required to be filed vary somewhat between Nevada and New Jersey. The Nevada regulation has two significant requirements that are not found in New Jersey. First, the independent accountant's report in Nevada must include references to all instances and procedures that he or she believes are not in conformity with the systems of internal control relative to gaming operations that have been submitted to the Gaming Control Board. This disclosure must be made regardless of the materiality or nonmateriality of the exception. This same standard applies to

both the internal control over gross revenue, as well as casino entertainment receipts and the corresponding tax liability.

This standard of reporting, regardless of the materiality of the transaction, is not found in the New Jersey regulation, where the traditional auditing standard wording “in all material respects” is retained. If, however, there are material weaknesses in the system of internal control, then a trigger mechanism comes into play and the accountant must report all weaknesses discovered, regardless of the individual materiality.

These differing materiality standards, particularly the requirement in Nevada, are somewhat counter to present professional standards and represents one of the most significant differences between regulatory reporting requirements and the reporting required under generally accepted auditing standards. The use of the “Nevada standard” out of all the exceptions being reported, regardless of the materiality, has been widely adopted in other state jurisdictions and by tribal gaming authorities as the reporting standard.

A second requirement in the Nevada internal control evaluation is an affirmative statement by the independent accountant as to the “continuing effectiveness and adequacy of the systems.”¹⁰ This not only puts the accountant on notice for the evaluation of prior transactions under the internal control system but, as some people have suggested, also calls for a professional judgment as to the quality of internal control expected in the future accounting periods. The New Jersey regulation merely specifies that the internal control system be evaluated “during the period covered by his examination” (of the financial statements).¹¹

These internal control filings must clearly meet the letter of the law. However, they can often contain wording that exposes management and independent auditors to burdensome reporting requirements as well as substantially increased risks of legal action. This factor, together with the increasing cost of the internal control examinations, led to changes in 2004 in Nevada and with the NIGC national regulations, which allow the CPA or properly authorized internal control staff of the casino to perform “agreed upon procedures” to report on the internal control.¹² This change and the impact on the form and content of the internal control reports are discussed in the next section of this chapter.

Other Reports Required

Another group of reporting requirements generated in the course of a regular financial audit are required to be filed with the appropriate gaming control agencies. Independent accountants commonly issue letters and recommendations to management, pointing out problems of internal control, operating areas needing improvement, and ways to increase overall efficiency or to improve the effectiveness of certain tasks. As mentioned above, those items

pertaining to internal control problems must be disclosed in a separate report to the gaming control authorities. In addition, the complete management letter or list of recommendations to management must usually be forwarded to the gaming control authorities.¹³

Other notifications that are required to be sent to the gaming authorities include copies of all SEC-filed documents (including annual 10-K and quarterly 8-K special reporting forms), details of all loans, borrowing, and leases. Also required to be reported are installment purchase contracts, as well as all changes in the capital structure, including dividends, withdrawals, or additions of capital.¹⁴

The purpose of these miscellaneous regulatory filings is to assure that the gaming control agencies are well informed of any significant or material changes or problems in the casino operations. The broad-ranging disclosure requirements are a significant administrative responsibility for both management and independent casino accountants.

CASINO INTERNAL CONTROLS AND CONTROL EVALUATIONS

In addition to evaluating the casino's system of internal control for financial statement purposes, the independent auditor is also required to report on the system of internal control itself. This separate reporting requirement demands an evaluation that goes beyond the scope of the traditional internal control evaluation used in other industries.

Reliance on Internal Control

The importance of the evaluation of internal control in the casino operating environment cannot be overemphasized. Strong internal controls are the only way that the integrity of the operation and the financial statements can be assured. While this seems like a truism for many industries, the nature of the revenue generation process—the physical aspect of games and the various coin-operated gaming devices—together with the control risks of the coin, currency, and chips in the casino, makes extremely tight controls mandatory.

In addition, accountants may be called upon to perform a variety of services with respect to internal control systems. Typically, they will be asked: (1) to help in the design of the initial internal control systems for a new casino; (2) to attest to the adequacy of the internal control systems as a part of the annual regulatory reporting requirements; or (3) to assist in the redesign or improvement of elements of the internal control systems. Given the extensive involvement of accountants in the internal control system and the system's overall importance in casino operations, it is necessary that every casino accountant have a comprehensive understanding of the system of internal control.

A Historical Note—Submitted Systems and Minimum Internal Control Standards

Until the mid 1970s, Nevada regulators left the design and operation of internal control systems in the casinos largely to the individual casino operators. With the birth of New Jersey gaming there was an emergence of a new method of internal control and internal control regulation. The New Jersey industry has multiple large, homogeneous casino operations which utilize an internal control model with most of the main elements centrally prescribed by the external gaming regulatory agency. All casinos in New Jersey had to conduct their gaming operations within the same uniform set of operating rules. In spite of limiting individual operations and reducing the flexibility of the operations to a degree, the uniformity that the prescribed system provided was viewed positively from a regulatory standpoint. For the gaming regulators, it was much easier to move from casino to casino and to conduct their audit reviews and examinations. About this same time, the Nevada regulators were concerned with both an increasing variety of internal operating procedures, as well as the effect that these many sets of different procedures had on the regulatory audit efficiency. While New Jersey continued their prescribed system of internal control, the Nevada authorities embraced the concept of the submitted system of internal controls.

Submitted System of Internal Control

The key to the internal control evaluation process is the use of the concept of the “submitted system.” In most state jurisdictions, all casinos—whether new or existing operations—are required to file a documented system of internal controls with the respective regulatory agencies. These narrative and diagrammatic descriptions would normally provide a plan of organization and a description of the procedures and records that are designed to provide reasonable assurance that the following objectives will be obtained:

1. That the assets are safeguarded
2. That the financial records are reliable
3. That transactions are executed in accordance with management’s general or specific authorization
4. That transactions are recorded as necessary to
 - a. permit proper recording of gaming revenue, and
 - b. maintain accountability of assets
5. That access to assets is permitted only in accordance with management’s authorization
6. That the recorded accountability for assets is compared with existing assets at reasonable intervals, and appropriate action is taken with respect to any differences

These documented systems give the gaming control agencies, as well as the independent and internal auditors, a basic documented standard against which to make their internal control evaluations. The idea behind the system is that the casino should determine and document what its system of internal control should be and then follow that system. This method allows considerable latitude for innovation in control procedures, which in turn allows acknowledgment of the differences between various casinos, a problem that is particularly significant with the many different sizes of casino operations in Nevada.

These control systems, which are required to be submitted to the control agencies, are then evaluated by the regulatory authorities; where weaknesses are encountered, changes are made by the casinos. The process of evaluation of these submitted systems can take a very long time following the initial submission. The variety of forms used, extent of procedures, and complexity of the submissions make the evaluation process by the gaming control authorities very difficult.

The key in Nevada is that each of the submitted systems has to meet the minimum standards as specified in the gaming legislation, regulations, or internal evaluation policies of the Gaming Control Board. Since Nevada allows each casino to design its own internal control system to meet its unique needs, there is considerable variation in the systems described and submitted. This variety calls for a very high level of understanding on the part of the gaming control evaluation personnel; thus, the evaluation and review process takes a very long time to complete.

The New Jersey system, on the other hand, has specified a very strict and uniform system of internal controls for virtually all aspects of the casino operations. Although submissions of the internal control systems are also required for New Jersey casinos, the differences among casinos are very minor. This high level of consistency allows only slight changes or innovations in controls, but does simplify the job of evaluating the adequacy of the internal control system, as well as the job of casino oversight and regulation. Given the more uniform and more restrictive nature of the casino industry in New Jersey, this approach is very satisfactory. Nevada, however, would need a different system.

Minimum Internal Control Standards

The use of the submitted system concept in Nevada was viewed by some as quite burdensome, and made the process of changing and adapting the internal control systems to meet changing conditions very difficult. By the mid-1980s, the Nevada gaming regulators embarked on a new control regime based on the concept of minimum internal control standards, which became known as *MICS*.¹⁵ The purpose of these minimum standards was to both ac-

commodate the large variety of gaming operations by specifying minimum standards (a regulatory floor) rather than absolute standards. The second purpose of the standards was to bring a greater degree of uniformity to the internal control procedures, especially for the smaller and midsized casino operators.

These new minimum internal control standards were specified in various regulations, and were accompanied by a new set of documents known as MICS checklists. These checklists were initially created to serve as a highly specialized internal control evaluation questionnaire for all casino operating areas. The benefit of the introduction of these MICS checklists provided guidance for both the casino operator (and the internal audit departments) as well as external, independent CPAs in reviewing the casino's internal controls.

In the years since the initial adoption of the MICS, other jurisdictions have followed the lead of Nevada and have adopted various forms of minimum internal control standards. The NIGC has provided a set of minimum standards which they require each individual tribal gaming operator to follow as well. Since the initial specification of the minimum internal control standards, the various regulatory authorities have periodically changed, updated, modified, and extended the standards to meet changing operating and regulatory needs.

One of the most interesting areas of the minimum internal control standards has been the specification within the standards of the minimum expectations for the review of the internal controls on an annual basis by both internal auditors and by independent CPA auditors. This is discussed in detail later in this chapter.

Challenges of Casino Internal Control Systems

The internal control systems of a casino present several unique challenges which must be recognized and discussed. These challenges have arisen from recent professional pronouncements regarding the evaluation of internal control risk.¹⁶ That professional standard calls for the recognition of five factors which govern internal controls. Of these, there are three main factors and two minor factors.

The three main factors in the internal control system evaluation are:

1. the audit environment—or tone at the top;
2. the controls implicit in the formal accounting system; and
3. the nonaccounting control systems and procedures.

While the first two factors are critical and must be considered when the degree and quality of internal control systems are evaluated, it is the presence of the third type of control that is so very important in the casino auditing environment. Many nonaccounting control systems and procedures are com-

monly found in a casino operation and are unique to that industry. These nontraditional internal controls, such as surveillance, are available to augment the more traditional accounting-based methods of assuring good internal control.

Casino Revenues: The first problem area of casino operations is that the revenue generation process is very open and not easily adaptable to documentation of the transactions. Quite simply, you cannot put a cash register on the gaming table to record the betting, payoff, or house win transaction. The recent invention of computer-based tracking systems has provided some additional levels of control over the revenue-earning process on the gaming tables. Newer slot machines and the various computerized slot management systems allow a higher level of automatic recording and tracking of slot transactions. However, for the immediate future, the uncertain nature of revenue documentation in casinos will continue. Under the current systems, the earliest point at which the revenue is formally recorded and documented is during the daily count of table drop and slot machine drop. Once the count has been performed, there are adequate accounting documents that form the basis for subsequent financial controls.

A second problem is that the revenue generation process is the result of rendering an intangible service, and there are no ancillary records of the sale of goods or services to which the revenues can be meaningfully compared. The development of customer relationship management systems (CRMs), which provide a data base of customer gaming activity, has made some small contributions to the recording of the amount of revenue flowing from the customer side of the transaction. However, this is not a formal part of the revenue-recording process.

Other Control Procedures: Because of the uncertainty of documentation in the revenue areas, and also because of the risks associated with casino operations, various types of nontraditional controls have been developed which are used to assure good internal control in the casino. Some of these are listed below. These controls must also be tested in the process of assessing the adequacy of the overall internal control systems of the casino. Examples of other controls include the following:

1. Surveillance or "eye in the sky," which includes both observation platforms and various types of video and audio electronic surveillance of the casino floor, cashier cages, count rooms, and other sensitive operating areas
2. Extensive supervision of all aspects of operations, including such apparent redundancies as numerous pit supervisors, security guards, cashier supervisors, and duplicate count room personnel

3. Extensive separation of duties, accompanied by the necessity of multiple signatures on documents and multiple checks and counting of transactions between separate casino operating departments
4. Almost absolute access and key controls, as indicated by the nearly universal use of locks and controlled access to all parts of the casino, coupled with very restrictive policies limiting the access of some personnel to sensitive areas
5. Extensive use of highly standardized and regular procedures, which are reinforced by continuous training for critical casino operations

Information Technology Control Concerns

In addition to the above control concerns, the increasing use of computerized operating procedures, as well as extensive information technology for both computerized accounting and control reporting, makes the detailed review of all aspects of information technology controls a mandatory part of a good internal control evaluation. If the internal or external auditors do not have the requisite knowledge, then it is strongly recommended that a specialized information systems auditor be brought in to perform that control review.

The professional literature of the accounting profession has lagged behind the development of information technology (IT) systems over the past few years. It is essential that the operating efficiency, the degree of application controls, as well as the overall general levels of controls over the information technology utilized in the casino, be periodically evaluated.

Scope of Internal Control Evaluations

The requirement of a separate evaluation of casino internal controls requires extensive additional professional effort—beyond that necessary to express an opinion on the financial statements.¹⁷ This recommendation was first formalized by the gaming committee of the Nevada CPA Society in 1975, and has been reinforced by the requirements contained in the Statement of Auditing Standards, Section AT 501, and the PCAOB, Standard #2. All these professional standards address the requirements of evaluations of internal controls for a variety of reporting situations.

In general, when the requirement of a regulatory internal control evaluation is coupled with the traditional financial audit, most accountants merely extend the testing of the internal control procedures. The testing is extended to a degree sufficient to meet the higher standard and utilize the results of the evaluation to determine the subsequent scope of the substantive testing of the other financial records.

A second major issue of significance for the scope of the internal control evaluation process is the recognition of the critical nature of time in the pro-

cess of internal control. The quality of internal control may vary considerably over the period of a year, or possibly even over a quarter or month, depending on many factors. Thus, the internal control procedures in a casino may be very good for the off-season, but fail to meet the requirements of a high-volume transaction period. It is therefore recommended that the auditor be aware of the possibility of these types of problems and consider the use of multiple testing periods during the year in order to validate the internal control evaluation.

Finally, the concept of materiality of the exceptions noted in the process of testing the internal control is a long-standing professional concept that has been radically changed by the regulatory guidelines requiring the reporting of all exceptions. Careful consideration should be given to procedures in order to identify all exceptions for regulatory reporting by the accountant, while the collection of these exceptions, and the overall materiality judgments within the traditional financial auditing framework, should also be documented adequately during the evaluation of the internal control system.

Agreed-Upon Procedures

In January 2004, the Nevada Gaming Control Board implemented new regulations which altered the nature and the responsibilities of the external independent CPA for the evaluation of the casino's compliance with the minimum internal control standards.¹⁸ As mentioned earlier, Nevada issued a detailed set of guidelines and evaluation questionnaires to provide CPAs with standardized agreed-upon procedures, sample sizes, documentation standards, and report formats required by their Regulation 6.090. The change that Nevada made altered the nature of the internal control review in two significant ways. First, the scope of the internal control assessment was to be an agreed-upon procedures engagement, and the procedures to be used were specified by the regulatory authority through the use of the detailed CPA checklists. The second change was to allow the internal control staff of the casino to perform a substantial part of the agreed-upon procedures testing, subject to approval of the internal audit function by the independent CPA, and a requirement of minimum retesting of internal audit staff procedures performed by the independent CPA. This change in reporting was justified by the fact that all CPAs would be performing the same procedures, and that by standardizing the procedures the regulatory authorities would be able to review the CPA's work in a more efficient manner.

The Nevada authorities still required the casino to submit a written system of internal controls (the submitted system) and for that submitted system to be approved by the CPA as having met the minimum internal control standards. The CPA's report on agreed-upon procedures, together with the identi-

fication and explanation of all exceptions to the checklist, was to be submitted to the regulatory authorities. In 2005, the National Indian Gaming Commission followed the lead of the Nevada regulators and required this new form of internal control reporting to be used for tribal casino gaming.

Other Critical Internal Control Areas

Another issue related to the scope of internal control evaluation is the recognition of the importance of certain specific areas as being of critical concern to the overall casino operation. Thus, when the internal control for the areas listed below is being evaluated, a somewhat higher standard of performance should be expected and fewer exceptions allowed. An important element in the materiality decision is in recognition that the performance of systems in these critical areas has a significant impact on the accuracy and integrity of casino operations and overall financial statements. Some of the particularly critical areas in a casino are listed below:

1. Credit or marker play procedures, including credit and collection activity
2. Revenue accounting, including drop, count, and all cashier cage-to-table activity, such as fill and credit procedures
3. Cage and vault procedures and main bank reconciliation including bankroll

Internal Control Evaluation Procedures

The process of evaluating internal control procedures has been substantially eased by the existence of guidelines, checklists, and other documented systems of internal control that are required by the gaming control agencies. The practical benefit of this regulatory requirement is to provide any auditor (whether it is the regulatory agency auditor or the independent auditor) with a strong sample system of minimum internal controls. These documents lead to substantial savings of audit time and improved audit results. In prior years, a significant amount of time was spent preparing documentation regarding the internal control system. Under ideal circumstances today, all that needs to be done is to review the internal control documentation and, in subsequent time periods, review the changes that have been filed with the regulatory authorities. The evaluation of the system documentation is the key first step in the process of internal control evaluation.

The second step in the evaluation involves a three-way comparison of the system of internal control. The components of this comparison are indicated in figure 12-1 and outlined below:

1. Compare the system as it is described and the ideal as specified in the minimum statutory requirements. This assures that the casino systems are not in violation of those requirements.

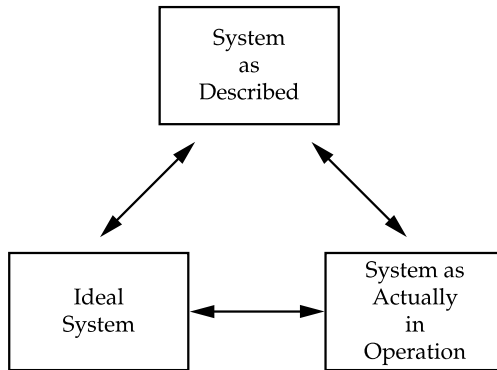


Fig. 12-1. Internal Control System Evaluation

2. Compare the system as it is described and the ideal requirements for a casino of this type. This leads to improvements in the system as the nature of casino operations change and develop over time.

3. Compare the system as it is described and the system as it is actually operating in the casino. This assures that the controls are not merely window dressing, but are actually operating effectively.

At each comparison step, the weaknesses in the internal control systems should be noted, properly documented, and gathered together in order to determine the overall materiality of the errors found.

In order to facilitate the comparison between the internal control system as described and the minimum standards specified in the control statutes and regulations, the following steps are suggested:

1. The auditor should become familiar with the current requirements for minimum internal control standards. Updates and changes regarding requirements must also be considered to assure that all minimum requirements are being met, while unnecessary or excessive levels of control are avoided.

2. Questionnaires, checklists, or other documents from the respective regulatory agencies should be used to evaluate the system of internal control. This allows the auditor to ensure that the key statutory or regulatory requirements have been met. These documents are generally available in Nevada and from the NIGC. The New Jersey control agencies have not made their internal control evaluation documents widely available.¹⁹

3. Differences uncovered should be investigated carefully to determine if a weakness exists or if some alternative procedure is adequate to meet the control objective.

4. Where control weaknesses exist, they should be documented, and the

nature of the problem should be disclosed and discussed fully with the client. If changes in procedures or new procedures are recommended, then those changes should be made to the system of internal control, and the regulatory authorities should be informed.

In the review of the differences between the internal control system as described and some measure of an ideal casino control system, the following general audit procedures are suggested:

1. Internal control procedures should be evaluated by reference to checklists, questionnaires, or other documents that may contain highly sophisticated control procedures. A typical source of these “ideal” questionnaires for a smaller casino operation would be a larger casino. Another source would be to consult senior regulators. For example, many of the NIGC tribal procedures are taken from the prior experience of the Nevada regulatory authorities. Finally, some aspects of New Jersey control procedures could also form the basis for improved procedures in a Nevada casino, and vice versa.

2. Consideration should be given to a careful analysis of hypothetical procedures or transactions that may deliberately try to stress or cheat the system. In this way, possible effects of these procedures could be used to suggest ways to strengthen the controls.

3. If applicable, internal control procedures from other industries could be used to provide guidance for suggested new procedures or the adequacy of existing procedures. For example, commercial bank operational practices for tellers and vault operations are relevant to controls in the cages and vaults of a casino.

If any suggestions are made for the improvement or extensions of the casino systems, they are generally presented as recommendations to management. Since they represent changes toward an ideal system, they are not considered to be departures from the present system and do not require specific disclosure to the regulatory authorities. However, these proposed changes should be fully evaluated for their costs and benefits to the client and discussed with appropriate personnel. If adopted, the changes should be communicated to the regulatory agencies.

Finally, with regard to the comparison between the described system and the internal control procedures as actually operating, some traditional audit procedures are suggested:

1. The audit program should select those areas to be tested, including the scope of the procedural testing.

2. Audit samples should be selected, using criteria such as anticipated error rates, time period coverage, critical nature of specific transactions, prior audit results, number of transactions, and client size and sophistication.

3. Specific criteria should be set to differentiate between errors that are considered material and those that are considered immaterial in an audit sense. Procedures should be in place to ensure the reporting of all errors, should the regulatory reporting require that standard.

4. Traditional procedural tests should be established to evaluate all the critical areas of the casino operation, including revenue, disbursements, and payroll:

- a. All steps, supporting documents, and procedures in these areas must be tested in considerable detail for accuracy and completeness.
- b. Adherence to control procedures such as key control and surveillance in all areas must be verified.
- c. All signatures and approvals of transactions must be verified.

The primary objective of procedural testing is to review a group of transactions in an extremely detailed manner and to examine each procedural step to assure that the transactions were generated correctly, summarized properly, classified correctly, and eventually posted accurately to the general ledger. The effect of the procedural test is to virtually duplicate the transaction and to review every aspect of its impact on the accounting system.

The next step of the procedural testing is to complete the testing of the nontraditional internal controls that are mentioned above. This includes verifying that the “eye in the sky” or surveillance has been performed and that the results of the observations have been documented, with exceptions noted and followed up. Procedural tests of access and key controls should also be conducted to ensure not only that the sensitive areas are locked properly, but also that the issuance and use of keys is in accordance with written procedures and guidelines. Where necessary, interviews with client personnel should also be conducted in order to assure that detail control procedures are being followed, and that the purpose for which they are being performed is understood.

Finally, tests should evaluate the effectiveness of supervision, separation of duties, and the use of standardized operating procedures by direct observation by the auditor. Only by observing the operation of these types of person-to-person controls can their effectiveness be determined.

Overall Internal Control Assessment

The last step in the internal control testing procedure for the casino operations is to make an overall assessment of the results of this procedural testing. This assessment is a critical step in determining if the conditions of control have been met and whether or not any further action is necessary. In general, there are several actions to be taken at this point:

1. If errors occur, a decision must be made regarding the materiality of the errors. At a minimum, the errors may cause the traditional scope of the financial audit substantive tests to be expanded.
2. A decision must be made regarding the disclosure to regulatory authorities. Depending upon the jurisdiction and the standard required, the problems encountered must be enumerated in the proper manner.
3. If errors are not significant, then the financial audit should proceed, while using the scope for substantial tests that was originally planned.

At this point, the procedural testing phase of the audit—both the requirements of traditional financial audit and the regulatory internal control review—is complete.

CASINO AUDITING: SUBSTANTIVE PROCEDURES AND FINANCIAL REPORTING

This section outlines the basic substantive audit procedures and financial reporting principles applicable to a casino operation. Many areas of casino accounting have been discussed earlier, when the various types of operational accounting procedures were outlined. This section discusses the overall issues of financial statement presentation, substantive audit approaches, and audit techniques applicable to casinos.

It must be recognized that a casino has many items of similarity with other businesses in terms of financial presentation. In the present discussion, only those items in which the casino business presents a unique set of problems of financial disclosure and auditing are discussed. An example of this situation was demonstrated in the 1984 AICPA *Auditing and Accounting Guide—Audits of Casinos*, which was substantially unchanged until 2005. During the interim period, only conforming changes resulting from changes in accounting principles in other industries or with widespread applicability were reflected in the revised audit guides.

Planning, Risk Analysis, and Analytic Reviews

The first step in substantive audit procedures is the planning of the audit, identification of both entity and account risk, and the role of analytic review procedures. Discussion of areas of audit importance should be based on an understanding of the nature of the casino operations and what accounts may be of significant audit risk and importance. Analytic reviews, as mandated by SAS 23, serve as an important method of focusing attention on various accounts.²⁰ In casino auditing, however, there are both significant advantages and disadvantages associated with the use of analytic reviews.

The most significant benefit arising from an analytic review is that there

may be working relationships among accounts and among the various components of the overall hotel-casino operation that can explain significant differences in financial results or behavior. For example, increases in hotel occupancy have a direct impact on the levels of restaurant and bar income, as well as having a direct relationship to gaming income levels.

However, some relationships may not be well understood, and misuse of the information can cause improper managerial or audit decisions to be made. For example, the shift of marketing emphasis from a high roller to a middle-market player can result in significantly lower levels of casino receivables. While this might seem beneficial, the shift in emphasis may result in the casino being less attractive to other high rollers, leading to poorer collection rates among the remaining casino receivables. In this case, the apparently desirable impact of less receivables could lead to an improper audit decision of devoting less time and attention to the valuation issues of casino receivables.

A second major limitation of the analytic reviews is the fact that various items of numeric or statistical behavior are dependent upon the assumptions that go into the development of the data. For example, merely redefining what items should be counted in the drop box can substantially alter the drop figures from one month to another and can distort previously stable figures. Comparisons between casinos cannot accurately be made for this same reason. Also, comparison of casino performance to industry sources, such as the Nevada Gaming Abstract figures, may not be accurate because of these definitional problems. By assuming a reasonable degree of stability in the gaming operation, however, several types of analytic comparisons can be made.

Types of Analytic Review Procedures: Analytic review procedures generally fall within three types. The first is the computation of year-to-year or multi-year changes. This is typically called *horizontal analysis*. The purpose of this type of analysis is to compare the results from last year to this year, noting any significant percentage or absolute dollar changes. These significant changes can then be focused on for further audit review and study. If multiperiod horizontal analysis is used, it is typically called *trend analysis*. This type of analytic review has a high degree of validity. Using these methods, the trends in certain selected measures over time—and for the same casino—can present an informative picture of various aspects of financial performance of the casino. The key issue here is that there must be a set of stable operating assumptions for the casino financial structure over the periods of comparison. Another useful procedure in trend analysis—particularly when comparing information of significantly different amounts—is to convert all data to index or percentage numbers. These index numbers can then be presented as a trend, and all the numbers share a common starting point of 100%—with all subsequent years being reflected as changes from that starting point.

The second broad category of analytic reviews is called *vertical analysis*. In these procedures, all balance-sheet and income-statement data is converted to percentages for the current year and prior years. This type of financial statement is also known as a *common-sized financial statement*. This conversion allows the meaningful comparison of accounts—particularly if there have been significant changes in the size of the operation, which results from merger activity or substantial internal expansions of the number of games or gaming locations. In this way, the attention is focused on the percentage of various accounts relative to the total—not just the absolute dollar size of the account.

The third and final category of analytic review procedures consists of various *financial ratios*. These ratios could include traditional financial analysis ratios such as profitability, liquidity, and long-term capital structure ratios. However, given the unique asset structure of casinos with very substantial cash amounts, traditional ratios used by industrial companies should be modified to account for unique casino situations. In addition, ratios of specific concern to casino operations must also be included in the analysis.

Risk Analysis in Casino Accounts: Another important step in establishing the substantive audit testing to be done in a casino is to analyze the audit risk associated with individual accounts. There are five main factors involved in the assessment of the risk of individual accounts in a casino. These factors are listed below.

1. Prior experience: Does the account have a history of audit problems? Have there been substantial previous adjustments required? In this case, the account should be considered a high risk one, and subject to increased audit scrutiny.

2. Dollar size: Clearly, large dollar amount accounts should bear some relation to the amount of audit effort. However, mere size should not be the only criterion.

3. Transaction volume: This factor is based on the presumption that larger transaction volumes increase the chances of errors in traditional transaction processing and misstatements in some accounts. In the casino industry, the transaction volumes in the revenue stream are very substantial. While this is typically covered in internal control testing, the impact on cash accounts is important.

4. Transaction complexity: Transactions which involve new or emerging areas of business practice such as derivatives or complex financing arrangements are often considered of higher risk than traditional business transactions.

5. Judgmental/estimate factors: Accounts and transactions that rely heavily on management or auditor judgments are also of high risk. A typical casino account in this category would be casino receivables or markers. The evalu-

ation and judgments about collectibility of various accounts would make it a high-risk account.

When these various risk factors are arrayed against the typical casino accounts, an effective plan for casino auditing could be developed. This plan would then be implemented in the audit process.

Overall Casino Financial Structure

In trying to understand the key issues of casino financial presentation and auditing, it is informative to analyze the overall casino financial structure based on a percentage distribution of revenues, expenses, assets, liabilities, and equity. While an overall financial profile could be constructed for a casino, there is such a wide variation—usually based on the size, type, and location of the casino—that each casino should track its own financial profile. In general, a casino operation could be characterized in the following manner.

Revenue: Casinos generate about 95% of their gaming revenue from table games and slots, with the remainder from other minor or side games. Depending upon the casino, the percentage of revenue generated by slots would fall between a low of 55% to a high of 85% of the total gaming revenue. Smaller, newer casinos—and especially tribal casinos—report slot revenue in the higher percentages, while larger or longer established casino operations in jurisdictions such as the Las Vegas Strip report slot revenue at the low end of the percentage range.

Expenses: The expenses of the casino operations are quite simple. The largest expense is payroll and related items. These typically amount to about 20%–25% of revenue. For tribal gaming operations, labor expenses could be 5%–10% higher than these figures. The next two items of expense are promotional allowances or complimentaries at about 10% of revenue, and gaming taxes at 8%–15% of revenue. Again in tribal casinos, the levels of complimentaries and taxes typically are much lower or (in the case of taxes) sometimes nonexistent.

Balance Sheet Accounts: On the balance sheet side of the casino operations, current assets constitute 15% of the balance sheet, mostly cash and receivables. Again, depending upon the style of operation of the casino, the receivable amounts may be virtually zero. Prepaid items are a minor amount at 1%–5%. Fixed assets reflect the capital-intensive nature of the industry, and typically make up about two-thirds (67%) of the total assets. Other assets, mainly deferred items, constitute the remainder.

The liabilities vary widely depending on the form of ownership of the casino. Publicly traded casino companies typically are more heavily leveraged than smaller, privately held casinos. However, a typical smaller casino

will most likely have liabilities of about 60% of the total assets, with owner's equity being about 40%. Within the liability section, long-term liabilities are about 40% of the total, while the current liabilities are approximately 15%–20% of total assets.

Within the liability area, accounts payable and the current portion of long-term debt each account for about half of the total, and accrued expenses and other liability items constitute the remainder. Long-term debt makes up about 35% of total assets, while other long-term liabilities, mainly deferred taxes, constitute 5%–7% of total assets.

By constructing an analysis of the individual casino being audited, the precise capital structure and revenue expense patterns can be compared to typical casino percentages and to prior years' internal data. In this way, any significant changes can be identified and evaluated in the audit process.

SPECIFIC AUDIT AREAS

Each of the key audit areas for a casino operation is discussed in detail below. Each area deals with audit procedures as well as key issues of financial presentation and disclosure for that account.

Cash

The operating environment of a casino necessitates having large amounts of cash on hand at any time. This type of cash is in addition to numerous bank accounts that would be typical of any large commercial enterprise. In a very real sense, cash is the working inventory of a casino. The principal audit and financial presentation issues of cash are as follows:

1. Assurance of a proper cutoff to provide accurate cash counts
2. Physical verification of all cash in all areas of the casino
3. Proper classification of cash, chips, and tokens, including recognition of the number of chips and tokens outstanding
4. Evaluation of cash balances relative to casino bankroll requirements

Cash Cutoff and Verification: The foremost problem of cash auditing is to assure a proper cutoff so that an exact accounting of all monies in the casino can be made. This problem is particularly acute in the 24-hour-a-day operating environment of casinos, where cash counts must be accomplished while not interrupting the normal gaming transactions and related cashiering activities. The first step in a cash audit is to ensure that an attempt is made to freeze the cash count at the end of the last shift of the last day of the fiscal period. In this way, an accurate determination of the cash accounts can be made. Certain specific cash audit procedures are suggested:

1. To the maximum extent possible, all cash on hand should be counted at the same time.

2. If a simultaneous count is not possible, a sequential count should be planned, starting from each area of the casino floor, timed to coincide with the respective end-of-shift for each functional area. The next step is to proceed backward to the casino cage, and on the next morning to the count rooms, and finally to the vault. (This procedure is equivalent to following the flow of cash through the casino.)

3. All cash-on-hand areas must be counted completely. This includes table trays, table drop boxes, cashier banks, slot machine loads, slot drop buckets, slot change banks, slot change aprons, keno banks, and bingo or poker banks. Finally, and most importantly, it must include the central vault or main bank.

4. For all cash counts, careful records must be kept of the denominations of all cash, coin, and especially the denominations of chips and tokens. Attention to this step simplifies the later determination of the chips and tokens outstanding liability.

Proper Classification of Cash: The proper classification of cash is necessary to avoid a misstatement by simply counting chips and tokens as cash for purposes of balance sheet presentation. It is common practice within the casino to regard these items as money and to maintain various change banks or funds with balances that include the chips and tokens as if they were cash. This is often referred to not as cash but as *accountability*, recognizing that the amounts are not all cash. The amounts of chips and tokens must be removed from the final cash count in order to arrive at the proper cash figure for purposes of external financial statement reporting.

A second minor classification problem may arise in the area of participation slot machines. In these cases, a machine is owned by someone outside the casino, who shares the revenue generated by the machine with the casino owner. Thus, a portion of any slot machine bank or load (the amount of coins actually contained in the machine), together with a portion of the slot drop, may belong to another business entity. The amounts of cash actually belonging to others must also be removed from the cash-on-hand figures. An alternative treatment would be to establish an account payable or other liability account to recognize the obligation to the owner of the participation slot machine, while maintaining the cash in the accounts of the casino. This treatment may result in a minor overstatement of casino cash, which may effect the testing of available cash to meet bankroll requirements.

Imprest Balance Accounts: Many casinos prefer to maintain virtually all of the operating banks, petty cash, and change funds on an imprest balance basis. This procedure generally simplifies the counting and auditing procedures by establishing a certain balance to which other accounts should be recon-

ciled in all cases after checkout. It also serves as a powerful management tool by clearly indicating to the employee responsible for the bank if the amount is not correct. This usually allows the employee to begin an immediate search for items that have caused the difference. This method also allows the audit procedures to be executed more quickly by simplifying the count procedures for audit personnel, facilitating test checking, and easing the reconciliation process for larger banks.

Cash Count Procedures: Due to the large volume of cash and coin in a casino, automatic count equipment is often used. They range from the simplest of devices, such as a container calibrated to hold a certain amount of coin (a coin-weighing machine), to a sophisticated, high-speed, cash-counting machine.

Where automatic equipment is used, it is an important internal control procedure, as well as an important part of the substantive testing, to calibrate and test the accuracy of the equipment. One of the major historic thefts of funds from a casino was accomplished by altering automatic coin-weighing equipment deliberately to undervalue the coins. The mechanical accuracy of these machines must always be tested and verified by the auditor.

Bankrolls: In order for the casino to operate, it must have sufficient cash on hand. The cash on hand must equal or exceed certain minimums set by the gaming regulatory agencies. The specification of the minimum bankroll requirements is indicated by formal gaming guidelines in most state-regulated environments such as Nevada.²¹ However, in many tribal environments, the bankroll requirements are specified by only informal guidelines. The National Indian Gaming Commission has implemented bankroll guidelines that are substantially the same as the Nevada requirements, but has not required that tribes use that formula for evaluating bankrolls.

The minimum bankroll requirements are necessary to provide amounts sufficient to protect the gaming patrons against defaults on gaming debts. The bankroll calculation assures that the casino can pay its winners in a proper manner. A test of the minimum bankroll is a key cash-auditing procedure. If the amount of the available bankroll falls below the computed amounts, the casino is obligated to inform the regulatory authorities, and to take immediate steps to cure the deficiency. Failure to inform the regulatory authorities or to cure the default is usually cause for regulatory intervention. Figure 12-2 shows an early worksheet used by the Nevada authorities in determining the adequacy of the cash on hand for bankroll purposes. This formula was first ascribed to a young Nevada Gaming Control Board agent, Dennis Gomes, who apparently created the first formula on a piece of scratch paper in order to determine a reasonable level of bankroll for a small Nevada casino. This informal standard was formalized in 1990 by the Nevada Gaming Control Board and continues in broad use today. In the early 2000s a new formula

BANKROLL REQUIREMENTS:	
GAMES:	
CRAPS, 21, AND ROULETTE	
NUMBER OF GAMES X TABLE LIMIT X10 =	_____
SLOTS:	
NONPROGRESSIVE:	
NUMBER OF MACHINES X \$50	= _____
PROGRESSIVE:	
TOTAL OF ALL PROGRESSIVE JACKPOTS=	_____
KENO:	
NUMBER OF GAMES X \$25,000	
(or game limit whichever is smaller)	= _____
OTHER:	
OPERATING ACCOUNTS PAYABLE	
(amount equal to two weeks payables)	= _____
PAYROLL FOR TWO WEEKS	= _____
DEBT SERVICE FOR ONE MONTH	= _____
TOTAL REQUIREMENTS:	= <u>_____</u>
BANKROLL COMPRISED OF:	
CASH IN CAGE	= _____
CASH IN BANKS, TCD, SAVINGS, etc.	= _____
CASINO CASH ON HAND	
(do not include slot machine bucket cash)	= _____
Less: SAFEKEEPING MONIES	= _____
TOTAL BANKROLL AVAILABLE:	= <u>_____</u>

Fig. 12-2. Casino Bankroll Requirements

and computation was adopted by the Nevada authorities. The currently recommended bankroll calculation for tribal casino operations suggested by the National Indian Gaming Commission is virtually the same as the Nevada form. The newer NIGC form is shown in figure 12-3.

Detail specifications and the content of the worksheet are outlined below. The immediate exposure column is intended to function as an analysis of current cash availability, reflecting total cash on hand less the games and slot machine cash requirements, as of the date the audit is performed.

Cash available for the cash-on-premises figure is restricted to cash and cash equivalents which are readily available for customer payouts. Coin in slot hoppers cannot be used in this calculation. The cash-in-banks figure should reflect book balance, as opposed to the bank's balance, to recognize any outstanding checks. Consideration will be given to restrictions on cash in banks. Amounts in trust funds or other bank accounts that do not allow unrestricted access should not be included in the cash-available figure.

The thirty-day exposure column functions as a cash flow statement, in

that cash flow for one month is added to total cash on hand at the time of the bankroll verification to project a cash position at the end of thirty days. Cash flow, as used here, includes revenues and expenses of all departments, not just those that are gaming-related. Gross revenues should exclude complimentary. As appropriate, delinquent payables or other delinquent debt payments may be another consideration in determining cash requirement if payments on these payables is required.

The computations used to determine gaming activity cash requirements shown in detail in figure 12-4 are as follows:

1. The average daily fill for each type of table game is determined by dividing total fills, as reflected in the accounting records used to prepare the most recent month gross revenue, by the number of days in that month. This is multiplied by two days to approximate the cash needed to operate table games.

	Immediate Exposure	Thirty Day Exposure
<u>Cash Available:</u>		
Cash on Premises	\$ xxxxx	
Less: Safekeeping and Front Money	(xxxxx)	
Plus Cash in Banks	xxxxx	
Plus Progressive Keno Game Bank Deposit	xxxxx	
Plus Restricted Race/Sports Book Reserve	xxxxx	
Plus Cash - Other	xxxxx	
Total Cash on Hand	\$ xxxxx	\$ xxxxx
Plus Gross Revenues (1 month - not including complimentaries)		xxxxx
Total Cash Available at end of 30 days		\$ xxxxx
<u>Cash Requirement:</u>		
Operating Expenses (1 month - all departments)		(xxxxx)
Payroll (1 month)		(xxxxx)
Debt Service (1 month)		(xxxxx)
Licensed Gaming Activity Cash Requirement - See detail below	(xxxxx)	(1)
Other (including delinquent amounts)	(xxxxx)	
Total Cash Requirement	\$ xxxxx	\$ xxxxx
Cash Excess/ (Deficiency)	\$ xxxxx	\$ xxxxx
<u>Note:</u>		
(1) Licensed Gaming Activity Cash Requirement – detail see page 2		

Fig. 12-3. Bankroll Verification Worksheet

<u>Games</u>	<u>Average Daily Fill</u>	<u>X</u>	<u>2 Days</u>	
				\$
Craps	\$	X	2	(xxxxx)
"21"	\$	X	2	(xxxxx)
Roulette	\$	X	2	(xxxxx)
Baccarat	\$	X	2	(xxxxx)
Big 6	\$	X	2	(xxxxx)
Other	\$	X	2	<u>(xxxxx)</u>
				\$
Total Games Exposure				(xxxxx)
Slot Machine Reserve				(xxxxx)
Keno Game Reserve				(xxxxx)
Race/Sports Book Reserve				(xxxxx)
Periodic Payments Owed				(xxxxx)
Other Progressive Payouts				<u>(xxxxx)</u>
				\$
	Total			<u>(xxxxx)</u>

Fig. 12-4. Gaming Activity Cash Requirement Detail

2. The slot machine reserve amount is determined by totaling items (a) and (b), or (a) and (c), as applicable.
 - a. The average daily fill and jackpot amount (which may be determined from the most recent month by subtracting "gross revenue" from "drop," then dividing the result by the number of days in the month) times the greater of:
 1. the number of days until the next slot drop; or
 2. two days.
 - b. For the average daily fill and jackpot amount for larger casinos (tribal casinos in Tier C), take the greater of:
 1. 20% of the total current progressive slot liability; or
 2. the single highest available progressive or nonprogressive jackpot.
 - c. For smaller casinos (tribal casinos in Tier A or B), use the entire progressive liability figure.
3. The keno game reserve is the standard keno game limit plus any current month's progressive keno liability.
4. The race and sports book reserve is the amount as estimated.
5. Other periodic payments consist of the present value of the total sums owed to patrons for annuities or periodic payments already determined. This amount must be included as a cash requirement until those sums are fully funded. The present value discount rate should be the current five-year federal funds rate.

6. Other progressive payouts include 100% of the progressive payout liability from games other than slots and keno.

The computation of the necessary casino bankroll using this form can vary substantially from previous illustrated computations. The old forms relied heavily on the amount of the individual table limits or maximum jackpots on slot machines. It was somewhat imprecise, and resulted in substantially higher bankroll requirements than the newer form, which is more reflective of the actual day-to-day and monthly exposures and bankroll requirements.

Casino Receivables

Perhaps the most unique accounting item in a casino are casino receivables. Casino receivables result from the extensive use of credit for casino play. Receivables are also known as markers, hold checks, or IOUs. Although not formally acknowledged, liberal check-cashing policies that are inevitably accompanied by a number of checks without sufficient funds or checks that are deficient in other ways result in informal credit being extended by some smaller casinos. However, the amounts involved in check cashing are generally quite small when compared to the transactions of credit departments in larger casinos. For present purposes, returned checks are regarded as miscellaneous receivables and are not the main concern of this section.

There are extensive internal control procedures involving checks and balances built into casino-operating systems relating to the issuance, collection, and administration of casino credit. These have already been discussed in some detail in the chapter on credit accounting.

In auditing casino receivables, there are five main audit objectives or assertions which must be fully supported. These assertions are: the existence of the receivable; the rights of the casino to collect the receivable; the completeness of the receivable amounts; the valuation of the receivable; and finally, the presentation of the receivable amounts. From an audit and financial presentation standpoint, the primary audit objectives are:

1. Valuation of receivables
 - a. Specification of proper amounts of receivables, including proper accounting for the markers and any payment made against the total balance
 - b. Recognition of the bona fide nature of the debt through traditional procedures of confirmation
 - c. Adequacy of valuation reserves, including those for uncollectibles, as well as provisions for foreign exchange losses on markers denominated in a foreign currency
2. Consistent methods of revenue recognition from the credit play in the financial statement presentation

The other assertions or audit objectives assume correctness and completeness of the receivables accounts, but are of lesser importance than the valuation and revenue recognition.

Legal Status of Markers: The common law status of gaming debts is that they are legal debts, but are not legally enforceable with respect to collection. This status has been modified somewhat by New Jersey and other states that have legalized casino gaming after Nevada. In New Jersey, an unredeemed check issued to a casino is a debt upon which collection can be legally enforced within the state of New Jersey. Early Nevada case law maintained the unenforceability of the collection of gaming debts. However, legislative changes in the mid-1980s allowed the full collection of gaming debts provided certain conditions are met.²² With the widespread extension of casino gaming, gaming receivables generally are considered legal, fully enforceable, and collectible, even across state lines.

Confirmations: The traditionally accepted method of evaluating accounts receivable has been to perform various confirmation procedures. In casino receivables, confirmations have not been widely used. There are several reasons for this. In the early days of casino credit granting, there often was very loose control over the debt, and it was extended in a highly personal manner. Thus, many casino receivables did not include a proper customer name or address. The absence of this rudimentary information would lead to a dead end in the process of traditional mail confirmation. A second factor in lack of confirmation procedures was the adverse public reputation of casino gaming during the early years. Many persons did not want their gaming obligation to be a matter of public disclosure, including even the delivery of mail bearing a casino return address. Also, many individuals did not want friends or family members to be aware of their gaming debts. Finally, the casinos themselves did not want to draw undue attention to the amount of customer gaming debts.

Faced with the possibility of embarrassing a valued customer, casinos did not routinely perform confirmation of casino receivables. Under these circumstances, a number of important alternative confirmation procedures were developed and used. The most common technique is to use subsequent collections or payment as evidence of the debt. Other alternative confirmation methods include telephone confirmation and personal contact with the customer. These methods, if handled discreetly, minimize the risk of embarrassment to the customer and the risk of potential customer loss to the casino. A third alternative method is to verify the customer's creditworthiness by consulting banks or other financial or credit institutions regarding their general creditworthiness. Third-party credit authorization companies have grown

up for the casino industry, which also serves as a way to validate the casino receivables.

The growth and dominance of corporate gaming, coupled with requirements of public disclosure of financial results to the Securities and Exchange Commission for publicly traded corporations, have resulted in the increasing formalization of the entire credit procedure—from credit approval, including preauthorized credit cards, to more traditional collection methods (including regular monthly statements), which are more reflective of traditional commercial accounts receivable. Under these circumstances, the procedures and process of confirmation, both positive and negative where appropriate, is finding increasing use in the auditing of casinos.

Allowances for Doubtful Accounts: The methods used to estimate the allowances for doubtful accounts have traditionally been a combination of the following: statistical analysis of past payment and collection activity; and detailed analysis of large individual accounts. This hybrid system of determination of the allowance amounts also recognizes the relatively immature nature of the industry and the presence of only a few long-standing guidelines dealing with the evaluation of casino receivables. One of the few guidelines applicable to general business that also applies to the casino business is that after three months casino receivables rapidly lose their value, and after six months they are virtually uncollectible. This reflects more traditional accounts-receivable administration.

Major changes in economic events, ownership of the casino, or other environmental factors can also result in the necessity of large write-offs of receivables. This is particularly the case when a change of ownership occurs. In most of these circumstances, payment rates on markers plummet.

From an audit standpoint, there should be an extensive examination of the procedures used to estimate the uncollectible amounts, as well as full and proper testing of the procedures used to declare amounts uncollectible and remove them from the books. Estimates of uncollectible balances should be discussed with knowledgeable casino credit executives and should be tested by reference to industry norms, past individual casino experience, general economic conditions, and individual account evaluations.

Discounts on Receivables: It has become an increasingly common business practice in the administration of casino markers to offer customers a substantial discount from the face value of the markers in order to encourage prompt and orderly payment of the amounts due. If this is the practice of the casino, then it should be considered as one more factor in assessing the valuation of the receivable. However, the largest challenge would be to document the procedures and to assess the consistency of application of the discounting proce-

dures in order to avoid improper write-offs. The discounts should be viewed as any other form of write-off, and subject to senior management review. Patterns of discounts by casino hosts or executives should also be periodically reviewed for propriety.

Foreign Exchange Losses on Markers: With an increasing amount of credit play being used by foreign nationals, a few casinos issue credit instruments denominated in foreign currency. Given the fluctuations of these currencies relative to the U.S. dollar, the actual value of the debt can change as the foreign currency value changes. In the past, some Las Vegas casinos have experienced substantial losses on Mexican peso-denominated markers during currency devaluations. In order to protect themselves from these losses, most casinos are issuing their casino receivables only in U.S. dollars. In this way, the casino is protected from significant foreign exchange losses, although the payment experience may be substantially slower following major shifts in relative currency valuations. Adequate audit procedures should be performed to determine the amount of foreign-denominated casino receivables, if any, and to assess appropriate adjustments that should be made to allow for accounts that are expected to result in substantial impairment of value.

Credit Policy Disclosure: The increasing number of casino operations that are owned by publicly traded corporations has raised various issues of mandatory disclosures (in some considerable detail) of the credit policies of the casinos. These disclosures should be through informative footnotes to the financial statements and, if material to the operation, should also be a component of the Management's Discussion and Analysis (MD&A) portion of the annual report. The disclosure of credit policy should reference major assumptions behind the granting of credit and the collection process. It should also describe the key procedural elements of the credit-granting and collection procedures.

Prepaid Taxes and Fees

The taxes that a commercial casino pays are numerous and substantial in dollar amount. Earlier chapters have described in detail the taxes, their structure, and their application. In general, the taxes that are subject to prepayment are those gaming taxes and fees levied by the federal, state, and local jurisdictions against the gaming operation. Virtually all of the taxes are prepaid, and the casino auditor must be prepared to deal with a very large and complex accounting for prepaid taxes.

The audit procedures to determine the proper amounts and classification for these prepaid taxes, licenses, and fees are the same as would be followed for any prepaid expense. The primary difference between prepaid expenses in other industries and prepaid expenses in a casino lies in the very signifi-

cant amounts of money involved. Therefore, these items should be subjected to considerable audit scrutiny.

The basic audit objectives should be the following:

1. Valuation of prepaid amounts
2. Anticipated realization of prepaid amounts (with special attention given to the limited transferability of many fees and the long-term nature of the prepayment)
3. Tests of proper amortization of prepaid amounts during the year and expense computation
4. Proper cutoff testing of prepaid amounts during first-year operations, expanded operations, or changes of ownership

The auditor must also be concerned that the proper amounts of taxes are being paid. This has important implications for the continuing operation of the casino. Failure to pay the proper amount of taxes could result in at least bad publicity, and at most revocation or conditioning of the gaming licensee by the state. This tax amount verification can be most effectively performed during the time that the validity of the prepaid taxes and fees is being audited. The basic audit procedures are outlined below for the prepaid taxes and fees.

1. Verify the beginning balance for prepaid taxes, including a detailed breakdown of all of the taxes, fees, and other license amounts that should be paid.
2. Verify the time period of time to which the taxes and fees apply, in order to determine the proper amortization period.
3. Verify the accuracy of the taxes paid, including assuring that the base upon which the taxes are computer is correct.
4. Verify the completeness of payments by referring the required payment to funds transmitted electronically or checks written.
5. Verify the accuracy of the amortization calculations by recomputation.

There should also be some detailed testing, either here or in the procedural testing area, for the accuracy of computation of tax payment and expense amounts. Given the virtual certainty of audit scrutiny by the gaming authorities and the heavy penalty provisions, the auditors should satisfy themselves that all tax payment amounts have been properly interpreted, computed, and paid on a timely basis.

Where there may be questions about the realization of the prepaid amounts due to an anticipated change in ownership or the discontinuance of the operation, special analysis of the amounts to be realized from the prepaid taxes should be considered.

There should be a client-prepared amortization schedule that indicates the amortization of prepaid tax amounts for either the quarter or the year, de-

pending on the payment schedule for the tax. The amortization of the prepaid amounts should be tested for numerical accuracy and traced to the appropriate expense account to assure correct categorization and accuracy of the posting. Finally, where participation of shared revenue exists, the payment of all taxes and fees should be tested to ensure the following:

1. All fees that are the responsibility of the casino have been paid.
2. Where the sharing or participation agreements call for the division of the taxes, the participation owner has been billed for his or her share of the fees and taxes.

In addition to these detailed audit tests, the auditor should also endeavor to test the reasonableness of the various prepaid amounts, as well as the tax expense amounts.

Given the high likelihood of tax assessments from the regulatory authorities, there should also be some special consideration given to footnote disclosure of possible future liabilities for taxes, either assessed and under dispute, or for assessments likely to be made but as yet unasserted if the amounts are thought to be material.

Accrued Gaming Tax Liability: This related area of the accruals of tax liability for percentage gaming taxes and license fees could also be dealt with at the same time that the prepaid taxes are being analyzed. A few of the taxes, primarily gross revenue taxes, are due in arrears. In such circumstances, the above audit steps could be repeated in order to assure that the accrual calculation of the taxes due is correct as of the financial statement date. Where the gross revenue taxes are subject to progressive rather than flat rates (as in the state of Illinois), the procedure should specify the casino's estimate of the expected average tax rates applied to gross gaming revenue.

Other Prepaid and Deferred Items: Other significant prepaid items may exist on the casino's balance sheet that require audit investigation and disclosure. Typically, these other prepaid items arise from the deferral of various expenses, such as preopening expenses, gaming licensing fees paid, expenses incurred, and, in some cases, the front-end costs associated with the establishment of a major entertainment program in the casino. An emerging area relating to tribal gaming is the payment of amounts by casino operators to tribes in order to assure the rights to manage the soon-to-be-established tribal casinos. Another type of prepayment is the payment of amounts in advance in order to be issued a gaming license or other payments necessary to enter a particular gaming market. These payments may include royalty fees or other amounts to governments or gaming agencies in various jurisdictions.

In these areas, the traditional audit tests that are used for the testing of the adequacy of noncasino prepaid items should be followed. These tests typically include:

1. Verification of amounts of payment to assure the proper computation of the amount of the prepayment
2. Verification of estimates of future benefits, including assessment of the likelihood of future benefit
 - a. Determination of time periods of estimated benefit
 - b. Estimation of the ultimate benefit of the prepayment
3. Verification of the computation and method of amortization of the prepaid items

The existence of the deferred expenses and prepayments can be unusual and may represent a significant dollar amount. In this situation, careful estimates of the future value of the expenditures and realization of these amounts must be made. In evaluating the ultimate realization and valuation of the prepayments, the auditor should consult prior experience of the same casino in similar ventures; prior experience or reputation of the licensing jurisdiction or viability of the entertainment show producer; or consult independent experts in the field to assure the propriety of the deferral and prepayment classification. If the ultimate realization of the amounts is in any doubt, substantial write-offs may be appropriate.

In the event of major and material advance payments or up-front investments in new gaming ventures, there should also be appropriate disclosure of the amounts, terms and conditions, and any possible conditions for refunds of these amounts. These terms should be included as footnote disclosures in the financial statements.

If the dollar amounts are significant, these advance payments should be separated from other prepaid items, must be capitalized, and should be written off over an appropriate time period. The appropriateness of the amortization period should also be examined in the audit process.

Fixed Assets

The audit concern for the fixed asset segment of the balance sheet again is based not on any unusual nature of the asset, but only on the very substantial capital investment in building, equipment, and furnishings that a casino operation requires. Typically, a casino has about two-thirds of the total assets committed to fixed assets. The audit and disclosure requirements of the fixed asset area revolve around several key points. The first is the general admonition that the accounting for fixed assets should be largely the same as followed by any other capital-intensive business operation. In this area, one detail for consideration is the proper accounting for construction projects in process. The proper valuation of these in-process assets is critical.

The determination of the accuracy of additions and deletions, and the amortization and depreciation calculations, is also important to the proper

determination of the casino financial position and results of operation. Where asset deletions—particularly gaming equipment—are concerned, casinos may have some downstream legal exposure. The problem is that many states do not allow the possession of unlicensed slot machines or other gaming paraphernalia. Thus, the casino should have controls in place to assure that old slot machines and other gaming equipment are disposed of only to approved or licensed distributors.

Another major issue in the fixed asset area concerns the necessity of revaluation, write-off, or adjustment—or at least disclosure of any problems with respect to the impairment of the value of fixed assets. This asset impairment may result from bankruptcy, changes in legal status of the gaming operation, or major economic shifts in the gaming markets. Changes in the useful lives or other valuation issues of casino assets should also be disclosed if significant. A recent issue regarding a Mississippi casino centered on the interpretation of the depreciation life for a barge upon which the floating casino was constructed. Was the barge a boat—with a ten-year depreciation life—or was it a structure, with a thirty-nine-year life? It was ruled to be a barge!

Cards, Dice, and Other Inventories: Another area of consideration for the casino is the proper accounting for, and audit examination of, inventories. There are two major issues in this area. First, with regard to gaming supplies, while the dollar amount is often insignificant, there must be excellent internal controls over the inventory of casino gaming supplies such as playing cards and dice. Second, there may be significant amounts of assets and expenses involved in traditional inventories in the support functions of the casino. These inventories include food and beverage inventories; maintenance supplies inventory; and uniform and clothing inventory.

The most important area of control is over the playing cards and dice. This inventory area should be subject to careful life-cycle controls. The purchasing approval process should be subject to careful authorization. The receipt of cards and dice should be subject to careful supervision and review. Once the inventory is on hand, it should be tracked and recorded carefully, stored under secure conditions, and issued for play with proper records and authorization. Finally, when the cards and dice go into play, they should be subject to inspections, and when they come out of play they should be inspected and stored securely until they can be cancelled or destroyed. Although these are largely procedural controls and are usually examined as part of the minimum internal control standard testing, these procedural steps can easily be tested when the inventory dollar amounts are being confirmed by the auditors.

In the areas of food and beverage, maintenance supplies, and uniforms, there should be some consideration given to examining not just the year-end inventory balances, but analyzing the annual expenses related to maintain-

ing these inventories. Unusual or excessive dollar expense amounts or trends should be analyzed and tested.

Liabilities and Owner's Equity

The audit procedures for the liability and owner's equity section of the balance sheet are focused on traditional items of liability. As a matter of fact, the liability section of a casino balance sheet has a very regular commercial structure, with substantial amounts of current liabilities—which are mostly trade accounts payable—together with fairly substantial amounts of long-term debt. As with many businesses, casinos also have a substantial deferred income-tax liability and a few other deferred items such as deposits on hand.

Two unique accounts that exist on the liability section of the balance sheet are those associated with progressive slot machine payout liability and chip and token liability. A third emerging issue is the appropriateness of classifying participation games and slot machines as leases, with appropriate capitalization policies, rather than treating them as a joint-revenue division or as a participation liability. Each of these is discussed in detail below.

Progressive-Slot Jackpot Liability: Progressive slot machines commonly used in a casino have a series of meters located immediately above the machine. These meters indicate a jackpot amount that increases or progresses at a fixed rate based on the number of plays on the machine. For example, a \$1 slot machine progressive jackpot may increase \$1 for every \$25 played on the machine. As the meter amount increases, the amount of the jackpot to be paid also increases.

As the amounts in these progressive meters increase over time with a corresponding increase in unpaid jackpots, it is common practice in casinos to provide for a liability accrual equal to the amount of the unpaid progressive jackpots. This provision is then increased or decreased to bring the account balance into agreement with the detailed meter readings. The amount of increase or decrease in the progressive slot liability is accompanied by an offsetting entry to reported slot machine income. This most commonly results in a reduction of the slot revenue.

The audit procedures to ascertain the proper progressive slot liability are outlined below:

1. Verification of client-taken progressive slot machine meter readings or direct observation by the auditor to assure the accuracy of the meter readings
2. Testing of the progression of the slot machine readings by comparison of readings for a broad period of time
3. Testing of the computation of the dollar amount of progressive slot liability
4. Tracing of the adjustment of progressive slot liability to the general ledger

Although a single progressive slot machine may not have a material jackpot payoff indicated, the increasing use of the “super jackpot” machines, the increasing number of larger-denomination slot machines, as well as the creation of the wide-area progressive (with the progressive jackpot being shared over a number of different casinos—often in diverse geographic areas), has created a significant dollar liability for the casinos and a significant area of audit concern. The main auditing and accounting disclosure issue revolves around the proper determination of the amount for which the casino is legally liable. In some cases, large payoffs may be the responsibility of third parties (such as the game supplier) or may be subject to payoffs over an extended period of time (twenty-year installment payments). In these situations, the progressive slot liability should be limited to the amounts estimated and legally payable.

Chip and Token Liability: A second unique issue of casino liability is the existence and nature of chip and/or gaming token liability. Virtually all casinos have issued various denominations of gaming chips for use on their table games. Some foreign casinos also issue gaming plaques (similar in size to a large business card) for use in table games.

Following the introduction of the Susan B. Anthony dollar and the limitations on the availability of the larger \$1 Eisenhower coins, casinos sought and secured permission from the U.S. Treasury to issue their own gaming coins or tokens for use in slot machines and in gaming operations within their casinos. The introduction of these slot tokens avoided the cost of refitting all the \$1 slot machines to handle the new coins.

Chip Redemption: From an operational standpoint, the chips and tokens that a casino has outstanding must be redeemed by the casino upon presentation by a patron or another casino. At any point in time, the amount of this liability for redemption (or *chip float*, as it is informally known) is the difference between the total amount of chips and tokens issued by the casino and the amount actually on hand within the casino. Over a period of years, the amount of chip liability generally tends to increase, as the casino has more and more of its chips and tokens outstanding in circulation.

The primary reason for this increase over time is not merely transaction float in the immediate casino trading areas, but also the propensity for customers to keep chips and tokens for souvenirs. A second factor is that the redemption of the \$1 tokens from casino to casino is lagging, since the physical separation of \$1 tokens in the coin count process is very difficult and time consuming. There is currently a large number of \$1 gaming tokens outstanding in Nevada casinos. The reasons for this are not well known; however, the most likely reason for this large token float is the attractiveness of these tokens as souvenirs with minimal expenditure by the customer.

Chip Liability Audit: The determination of the chip liability is a complex task, and the audit of the area is also difficult. The basic procedures are outlined in the chapter dealing with game accounting. Also, some of the audit procedures involving the counts of chips and tokens are included in the cash-count audit procedures discussed earlier, and include the following:

1. As outlined in the cash-count areas, an accurate count of the number and dollar amount of chips and tokens on hand must be conducted. This includes chips and tokens in all public cashier or gaming areas, as well as a very accurate count of chips in the main cage, vault, and storage areas.
 - a. Chips in storage are not often used. Therefore, there is some opportunity for theft from this reserve stock. Careful evaluation of storage access procedures, as well as the counting of storage chips and tokens, is an essential part of the cash-count procedures.
 - b. In order to reconcile the chips and tokens counts more easily, there should be a careful listing on the cash-count sheets by each denomination of chips and tokens in possession of the casino. When the final chip liability is determined, it is very helpful to the auditor to be able to reconcile each denomination of chips in use in the casino, rather than merely reconciling the entire chip liability as a single dollar amount.
2. An accurate record of the amount of chips and tokens purchased must be maintained. This chip purchase inventory may be an important audit carry-forward schedule from year to year since casino purchases of chips are often occasional and uncommon.
 - a. The face amount of purchase of chips reported should be verified by the auditor by confirmation directly with the chip supplier.
 - b. Any purchases during the current fiscal period should be tested in detail. Prior years' purchases should be accepted by reference to prior years' working papers.
3. Any removals from the chip inventory should be recorded. This includes use of chips and tokens for promotional giveaways or those withdrawn for display or direct souvenir sale.
4. If any cancellations or bulk disposal of chips were made during the year, these should be included in the computation of total chips purchased and in use. Disposal or destruction by outsiders or third parties should be confirmed with those third parties.
5. The amount of chips and tokens on hand should be computed from the various cash counts. Again, the counts should be separated by denominations for ease of reconciliation.
6. The difference between the amount of chips on hand and the amount of chips in use (purchases less cancellations) represents the amount of the casino liability for unredeemed chips and tokens.

7. An adjustment should be made to the chip liability account to recognize the increase or decrease in chip float during the accounting period. The adjustment is offset by either a decrease or an increase to the casino revenue account. The reason for this revenue adjustment treatment is to recognize that the cash received for the chip or token has not yet been earned and represents a future liability.

8. From time to time, cancellation of chip series or other decision may result in the reduction of chip liability. Also, on occasion the casino may determine that a certain amount of chips are more or less permanently in the hands of customers, lost, or otherwise never reasonably subject to redemption. When this permanent reduction of the chip liability is made, the revenue is credited. For audit purposes, the estimation assumptions and procedures followed should be examined, the reasonableness of the adjustment tested, and the adjustment approved by the auditor.

Participation Casino Games as Leases: As the casino industry has developed, many new games have been developed as well. These are both table games as well as specialized types of slot machines or electronic games. As these new games are developed and introduced, the originator or supplier often chooses—or offers to the casino—the option of either buying the game outright or sharing the profits of the game under traditional participation agreements. Traditional participation agreements call for a division of the net win of the game. Some of the participation games call for fixed payments. With the increasing use of these participation games, the issue has been raised about whether the participation agreement is really just another form of leasing of the game from a third-party supplier. There seems to be a difference whether or not the revenue (or rental payment) stream is fixed and determinable, or variable depending upon the game performance.

The answer seems to be to resort to the traditional lease-accounting procedures.²³ If the agreement meets the requirements of an operating lease, then the costs should be accounted for as a lease, albeit with a variable expense based on game win. If the agreement seems to meet the requirements as a capital lease, then those procedures should be followed, although the estimation of the capital value and the payable obligation would be somewhat uncertain since the amount and term of payments may not be known exactly.

The impetus for this lease accounting seems to be a desire to avoid having the casinos report revenue that is not absolutely part of the casinos' revenue stream. The deductions or offsets of the revenue from participation machines that are payable to third parties is thought to represent a sort of phantom income that current financial reporting is attempting to avoid.

Other Liabilities: Other deferred liabilities for a casino operation are relatively minor amounts that arise in the normal course of business. Typical transactions here include the classification of customer deposits of front money to be used in future gaming as a liability, either current or long-term, depending upon the time horizon of the customer's anticipated visit.

Another type of liability is that of long-term race or sports book bets made on various events well in the future. The standard operating procedure is to hold these bets in a suspense liability account until the actual sports event takes place or, in the case of some bets, until the sporting season is over. At this time, the bets on a particular event or season are then moved into revenue as appropriate. The only audit procedure involved in this area is the determination of the amount and propriety of these various deposit accounts. Of particular concern is the proper amount and classification of various customer deposits that are the property of the customer, and not the casino, and should not be included as casino revenue.

An emerging issue of deposits revolves around the use of electronic fund transfer (EFT) cards, which are issued by the casino and are preloaded with a certain amount of money. These cards are then inserted into gaming machines and used to fund the gaming activity. The card can be a stand-alone card (with a smart card chip) with a negotiable value like a telephone calling card, or it can be a card similar to a gift card, linked to a central account for actuation and approval. Under either situation, the casino has an additional source of liability to redeem the amounts represented by these cards. The accounting for these outstanding EFT cards should parallel that of the accounting for outstanding chip liability.

Deferred Income Taxes

Casino-deferred income taxes operate in much the same manner as deferred taxes in other business entities. The deferred tax liability arises from the use of differing methods of revenue recognition for tax purposes and for financial reporting purposes. Two other sources of deferred taxes for casinos are the use of expense deferrals for financial reporting along with the current expensing for tax purposes, and the use of accelerated depreciation methods for taxes and more conventional straight-line methods for financial reporting.

Audit procedures for the deferred income tax account for a casino should be the same as for other businesses. This includes the examination of tax returns, the verification or recalculation of the amounts of the deferred taxes, and the development of appropriate information for footnote disclosure.

Players Clubs, Loyalty Programs, and Incentive Programs

The growing popularity of players clubs within the casino environment has created some concern over the accounting for the present and future costs of the rewards offered under these programs.

The first category of costs are those so-called “incentive costs.” These are amounts offered to customers as an incentive to play in the casino. Examples of these types of costs include free rooms, food, beverages, and other amenities without cost. These free services are known as complimentary or promotional allowances in the industry. Other items may include various expenses paid for the customer by the casino, or the reimbursement of costs incurred by the customer. These costs typically have been accounted for as complimentary expenses, and usually are charged to the casino cost centers. Examples of these costs might include items such as golf green fees or reimbursement for air fare or other transportation expenses incurred in getting to the casino. In the industry, these are typically called *outside comps*.

The second type of costs involves those which are *loyalty-program* costs for customers based on gaming activity. Incentive costs include credits toward merchandise, free rooms, free meals, or even free casino play. In some situations, these credits could also be redeemed for cash. Players club points usually accrue at some rate, based on a schedule. An example would award one point for each ten dollars wagered in a slot machine. These points could then be redeemed according to the rules of the players club.

The accounting and auditing issue involved here revolves around the necessity of the casino providing some contingent liability for the estimated amount of players club points which could be redeemed by customers. The accounting issue is closely parallel to the accounting for airline frequent-flyer points, with the exception that the casino might allow points to actually be redeemed for cash. Consistent with the existing accounting principles for airlines, the costs of providing the free rooms, free meals, and even free play to the members of the players club would be accounted for using the incremental cost model. This approach would account only for the additional incremental costs of providing the service—when the redemption of the points occurs.

Revenue and Expense Accounts

The next area of audit significance is the measurement and presentation of various revenue and expense accounts. In general, the revenue and expense accounts in a casino are treated in a manner very similar to that of any commercial enterprise. The unique needs of revenue control over games and slot machines have been discussed fully in their respective chapters. Expense accounting is much more traditional, with only one area of uniqueness—that of

promotional allowance or complimentary services. Traditional audit review procedures for key expense accounts are usually sufficient in a casino audit environment.

Casino Revenue Recognition: A substantial issue of casino accounting revolves around the presentation of casino revenues and which method of revenue recognition to use. The controversy arises because in various jurisdictions, taxing authorities allow the use of a modified cash basis for the revenue reports for tax purposes. The gross revenue taxation reported, for example, to the Nevada authorities is always on a cash basis, with the issuance and collections of casino receivables being either added or subtracted from the actual cash-reported revenue figures. In larger casinos where there is a substantial amount of credit play, the differences between the accrual basis income and the actual cash income reported for gross revenue taxation purposes can be substantial. The second allowable cash method of revenue reporting is for federal income tax purposes. Again, for casinos with substantial credit play, the differences between the financial reporting revenue and tax basis revenue can be substantial. These revenue differences constitute the bulk of deferred income-tax liability found on casino balance sheets.

Smaller casinos, with little or no credit play, will find that the differences in revenue reporting are nonexistent, since virtually 100% of the casino activity is conducted in cash. Virtually all of the smaller casinos report their revenue on a cash basis that is identical to the amounts reported on a full accrual basis.

Presentation of Casino Revenue Figures: Casino revenue, measured on either a cash or accrual basis, can be presented as a single figure, usually described as *casino win*. Common industry practice regarding the presentation of revenue is to use only the single revenue win figure for the primary financial statements and not to present the drop and fill figures. Occasionally, drop and fill figures can be presented as supplementary financial information in footnotes.

Promotional Allowances or Complimentary Expenses: A major issue regarding the classification of various promotional allowances or complimentary items arises in the discussion of this unique casino expense. It is customary industry practice to provide many customers with complimentaries. From a practical standpoint, the services are usually rendered by the support departments of the casino, such as the hotel or food and beverage operation, in order to encourage customers to play in the casino.

The standard financial reporting rules for the Nevada Gaming Control Board require the inclusion of these complimentary services at full retail value in the reported revenues of the appropriate department (rooms, restau-

rant, or bar). This requirement follows the widespread hotel-industry practice of valuing these items at retail value. Although there may be many different ideas of what constitutes retail, most casinos have established standard charge rates, usually slightly below regular prices, for the valuation of complimentary services. The primary use of including these services at retail is to avoid distorting the operating ratios and performance measures in these support areas, particularly in the food and beverage area.

The treatment of the costs of these complimentary services is much less uniform. In some cases, the retail value is merely subtracted from the total sales to arrive at a net revenue figure. This presentation usually describes the deductions as promotional allowances and has become known as the *promotional allowance method*. The rationale behind this treatment is that the revenue is shown as being received, even though it was not really received, and should be immediately removed from further consideration. Also, its prominent location in the income statement clearly points out the amount and overall significance of that item to the operation of a casino. This approach is the method currently approved by the American Institute of Certified Public Accountants in the casino audit guide.

The second method, known as the *complimentary expense method*, treats the retail amount of the complimentary service either as a cost of operation of the department providing the service or, by using some form of transfer allocation, as a cost of business for the casino department. In some cases, the complimentary expenses are merely regarded as an overall administrative expense, and the retail value of the goods and services is included in this area of expense. This method tends to overstate the top-line revenues, but offsets the extra revenue with added expenses.

Under either method of reporting, the actual cost of the food, beverage, or support services for the room is contained in the operating expenses for the individual departments.

From an audit standpoint, the promotional allowance method of presentation is preferred and results in a more precise statement of the net income of the casino operation. Care must be taken to assure that the treatment of the promotional allowances or complimentaries is consistent from accounting period to accounting period. Also, steps should be taken to ensure that the casino revenues have not been improperly overstated when the complimentary services are considered.

As a result of well-publicized business failures in the early 2000s, there has been increased pressure to purify the top-line revenue numbers and not to include even the value of the complimentary services in the first revenue number. The AICPA is considering eliminating the presentation that shows the promotional allowances as an immediate reduction of the revenues, and may opt for the revenue to be stated net of any complimentary services. In

this case, the total revenue and complimentary expense would be shown in footnote disclosure only.

Other Mandatory Accounting Disclosures

A final area of concern in financial reporting for casinos is the presentation of other information that constitutes the necessary full disclosure of the casino operations.²⁴ Mandatory disclosure generally focuses on those items that constitute one of the following categories:

1. Description of the basis of accounting and significant accounting policies used by the casino
2. Explanation of individual items on the balance sheet or income statement that require some form of amplification or supplementary disclosure
3. Explanatory items of a general nature, which are needed to inform the reader of various conditions, problems, or contingencies that may have an impact on the casino

The first two categories of items have been dealt with in traditional accounting and financial reporting literature for a number of years. Basically, the first footnote to the financial statements should contain a full explanation of the significant accounting principles and unique accounting treatments of various items on the financial statements.

Typical disclosures of this nature include the following:

1. Basis of revenue recognition
2. Method of presentation of complimentary expenses
3. General policies on capitalization and depreciation of assets, treatment of leases and methods, and limitation of deferral of certain items

The second major area of footnote disclosure deals with providing additional information on material items contained within the basic financial statements. Examples include disclosures of some of the following:

1. The amounts and breakdown of accounts receivable and allowances for doubtful accounts arising from the casino and those arising from other operational areas
2. Disclosure of the amounts of complimentary expenses
3. Disclosure of detailed information on the value of assets, together with depreciation methods and information on the accumulated depreciation of each class of assets
4. Detailed information regarding terms, conditions, monthly payment, and collateral for various contracts, notes, and leases, both payable and receivable
5. Detailed information on the components that make up the deferred taxes for the casino operation

6. Detailed disclosure of capital structure including stock ownership classes, rights and privileges of each class, and terms and conditions of stock option plans

The third category of disclosure contains those items that are unique to the casino industry or do not specifically relate to an item on the financial statements, but are still necessary in order to inform the reader of the financial statements more fully. Some examples of these types of disclosures are listed below:

1. Discussion of material legal actions, with appropriate levels of disclosure or financial provision if amounts are known and the outcomes reasonably certain
2. Discussion of material commitment made by the organization, including purchase commitments, new construction underway or planned, or other major limitations on future financial flexibility
3. Description of the casino's major locations, gaming facilities, or gaming activities, in order to inform the reader of the extent of the casino activities in addition to more customary hotel and food-and-beverage activities (this is particularly important if the casino has operations in more than one geographic location)
4. Description of the terms and conditions under which gaming licenses are issued and the stringent regulatory environment in which the casino is operating (this serves to recognize the value of the gaming license and the permission to operate, which are factors that can affect the overall financial risk of the operation)
5. Discussion of any contingent liabilities arising from loan guarantees made by the casino
6. Disclosure of any advance payments made in order to facilitate entry into new or potential gaming markets, or payments made to insure management contracts for casino operations for third parties

FINANCIAL REPORTING FOR TRIBAL CASINO OPERATIONS

The main issue of tribal financial reporting depends on the purpose of the reporting; external (public) reporting or internal reporting. For internal reporting, the procedures for tribal casinos largely parallel those reporting processes of commercial casino operations. The terminology, organization, and other requirements are exactly the same for tribal entities as for commercial casino entities. For external reporting, the issues surrounding financial reporting become more complex and revolve around a definition of the reporting entity. There is an overall attitude in tribal casino reporting that seeks to maintain privacy in the financial statements.

Disclosure Requirements

The tribes are required to submit separate audited financial statements to the National Indian Gaming Commission. The regulations of the NIGC state

that these reports are not subject to public disclosure. Individual state gaming compacts may require filing of casino financial statements with state regulatory agencies. Other than the above NIGC requirement, there is no other necessary federal disclosure, except those required under the terms of federal grants and contracts. The Native American Finance Officers Association has stated that since gaming operations do not expend or administer—and are not responsible for—federal awards, no reporting of casino financial information to the federal government is necessary.

Financial Reporting Entity

Tribes have organized the structure of their casino operations in many different ways. There usually is a casino operating entity. There may also be an intermediate entity such as an economic development agency. The casino and the economic development agency are responsible to the tribe. There would typically be a set of financial statements for each of these entities. However, each entity could prepare different sets of financial statements.

Casino Entity: At the casino entity level, internal reports would follow standard commercial casino presentation, terminology, and organization. These internal casino systems have been adapted over the years from Nevada casino management systems. For external casino reports, the practice is also to follow concepts that are standard in commercial financial accounting. This allows tribal casinos to be compared to other casino operations.

Tribal casino financial statement reports use standard commercial audit presentations, consisting of a standard unqualified audit report; a standard balance sheet (comparative statements presented for two years); a standard statement of revenues, expenses, and changes in retained earnings and a statement of cash flows.

Tribal Governmental Entity: At the tribal level, there can be two different approaches, depending upon the attitude of the tribe towards disclosure. The first approach is to disclose the information. For example, in case of the Mille Lacs tribe in Minnesota, the casino operator was Grand Casinos, a publicly traded company which was separately required to disclose financial information. The tribal economic development entity and the tribal casino had separate audited financial statements. The casino operating results were also both presented in the overall tribal financial statements. The second approach is to separate the casino operating results, classify them as a component unit of the tribal government, and choose not to disclose them.

The Governmental Accounting Standards Board rules allow governmental business operations to be categorized as component entities or units. Component unit data should be included in the tribe's government-wide financial

statements. The approach used to include this data depends on whether the component unit is a part of the primary government activities or a substantially separate activity.

If an activity is an integral part of the primary government, then an approach called *blended presentation* can be used. Blended component units require inclusion of the financial information in both the government-wide financial statements and the presentation of individual proprietary-fund financial statements. However, since most casino operations are not considered part of the tribe's general governmental activities, they are usually not treated as blended units.

The alternative presentation method is called *discrete presentation*. This method carefully separates all the component unit information from the other government financial information. If presented, the component unit stands alone in its own classification category. Although the casino financial information could be presented in the tribe's entity-wide financial statements, there are procedures where the financial results of the component unit—the casino—could be omitted.

GSAB statements recommend that the auditor take responsibility for all components of the tribe's comprehensive annual financial report. However, it allows the auditor to be responsible for only the basic financial statements which cover the primary government activities, and to omit certain component units such as the casino operations. The omission of the casino component unit data would usually lead to a qualified auditor's report on the overall tribal financial statements.

Gaming Income Taxation

With the growth in the popularity and size of the casino industry, there is increasing concern regarding the taxation issues arising from casino operations. There is a desire on the part of accountants to provide services to casino clients, but the industry practices and operating policies are not well known. This chapter discusses a number of taxation issues that are unique to casino operations, as well as examining more traditional issues that are of significance or are applied in a unique manner in the casino industry.¹

The basic issues facing the casino industry with respect to taxation can be understood by dividing them into several areas, as listed below:

1. Issues of income taxation
 - a. Issues of casino revenue
 - b. Issues of casino liabilities
 - c. Other casino expense items
2. IRS information returns
 - a. W2-G and 1099 issues
 - b. Customer identification requirements
3. IRS tip compliance programs
4. Other taxation issues

Using this broad categorization of topics, this chapter focuses attention on some of the detailed issues of taxation for casinos.

ISSUES OF INCOME TAXATION

Income taxation issues generally revolve around the proper determination of the taxable income of the commercial gaming enterprises. While this is a

complex issue for the more traditional commercial gaming industry, this topic is of limited applicability to the increasing number of tribal gaming entities, as well as government-sponsored lotteries and other gaming activities. However, these noncommercial casinos must still comply with all IRS information-return requirements.

Casino Revenue: Unreported Income and Estimation Procedures

One problem of taxation in casinos during the past thirty years has revolved around the issue of unreported income, skimming, diversion of revenues, or outright theft of funds from the casino. However, modern accounting controls as implemented by all major casinos, reviewed by state regulatory agencies, and attested to by CPAs, create a financial reporting framework that assures a much higher level of overall regulatory compliance. This, in turn, minimizes the revenues that may not be reported. This regulatory and control framework, while intended to provide adequate controls, should not be considered absolute. They must be maintained in order to continue to be effective.

From the standpoint of income taxation, the status of unreported revenue is clear—it is taxable. In an effort to arrive at estimates of revenue for other businesses, it is common for the Internal Revenue Service to use various estimation methods in order to develop and sustain estimates of unreported income. It is very difficult to estimate casino revenue by indirect methods. Statistics presented by the Nevada Gaming Control Board point to differences in revenue even for the same game or machine, depending upon the size of the casino and its geographic location within a specific market. For example, for statewide hotel-casinos there is over a 50% difference in the spread between the lower quartile and the upper quartile in the reported win per game.

Another issue that prevents the accurate estimation of casino revenue is that the majority of casino operations are conducted on a cash or cash-equivalent basis using chips or tokens. Therefore, the ability to measure business activity in the casino through indirect measures such as bank clearings can be severely limited. Finally, the patterns of business activity in a casino may be subject to extreme fluctuations, both by days of the week and by seasons. This factor makes statistical analysis and projection extremely difficult and generally unreliable.

What Is Casino Revenue?

The term generally accepted for casino gross revenue is *win*. This concept is documented in various state legislative enactments and is defined as the amount won by the casino after all wagers have been paid to winning customers. Win, for the most part, is the result of betting activity carried on

within the casino on table games, in slot machines, and on games such as keno or bingo.

Rake-offs, commissions, or time buy-ins on poker games are other types of revenue to the casino that do not fit neatly into the category of win. Although the issue has been debated between casinos and regulatory authorities, all amounts—regardless of their character—are included in gross revenue for taxation purposes.

Credit Play and Revenue Determination

The computation of the win or casino revenue for a cash operation is fairly straightforward. It is the total amount of cash won by the casino. However, once casino credit play is introduced, the accounting treatment of these receivable items (commonly known as markers) and the computation of casino win become more complex.

Part of the complexity lies in the sometimes long collection period, the use of payment incentives (such as discounts and rebates), and the inevitable loss ratios on casino credit. Estimates of uncollectible amounts range from 30% to 45% of the outstanding balances at year-end. This creates a situation where a substantial amount of the casino revenue may never be collected.

For state gross-revenue taxation, markers are not considered part of the casino win until they have been collected. The long-standing practice in Nevada has been to include the amounts of credit win in taxable income—for state gross-revenue taxation purposes—only when the credit instrument is collected, and then only in the amount actually paid. While this presents opportunities for manipulation of the amounts, other controls over the issuance and settlement process assure that the amounts reported are correct. In some jurisdictions, the credit play is subject to gross revenue taxation, and no adjustment is allowed for nonpayment. This results in a substantial tax burden, but creates the financial incentive for the casino operation to be extremely careful in extending casino credit.

The exclusion of credit play earnings as taxable income for the casino has no basis in regulation, law, or court decision. It is the sole result of casino operating tradition, enhanced by years of accepted practice within the industry. This practice has been sanctioned by the current Nevada Gaming Control Board rules and accepted to a limited degree by the New Jersey Casino Control Commission reporting rules. The current rules exclude all uncollected casino receivables from casino gross revenue for Nevada taxation and limit the exclusion amount to 4% of gross receipts in New Jersey. This “when-collected” method of regulatory accounting for revenues has had the effect of limiting the IRS to revenue recognition methods that are consistent with state-sanctioned accounting practices.

Since almost all casinos exclude most, if not all, of their markers from revenue for state gross-revenue purposes, the same form of revenue reporting is widely practiced for income tax purposes. This puts most large casinos on a form of modified accrual accounting for tax purposes. The revenue results are being reported on a cash basis, and there is full-accrual accounting for expense items. This often conflicts with the standard full-accrual accounting method widely used for financial reporting and can result in a substantial amount of deferred income taxes for the casino operations.

This historical and traditional accounting treatment of revenue has its roots in the English civil law concept of the uncollectibility of gambling debts.² Since a debt arising from a socially undesirable activity was deemed not to be legally enforceable and collectible, the substantial uncertainty of collection seems to be a reasonable basis for excluding marker win from the taxable revenue of the casino until and unless it is collected.

Recent legislative enactments in various states with legalized gaming have provided for the legal collection of gaming debts. However, these changes are not expected to have any significant impact on the tax treatment of these winnings. The issue of interstate collection of gaming debts has not been definitively adjudicated, but is becoming a far more commonly accepted practice.

Court cases in Nevada regarding gross revenue assessments have narrowed the basis for not including markers in gross revenue. The regulatory bodies have disallowed the deduction for any marker that was issued without due care or in such an irregular manner as to render it virtually uncollectible.³

Cases regarding the federal income taxability of markers have not settled the issue either. In *Desert Palace, Inc., vs. Commissioner*, 72TC. No. 1033 (September 11, 1979), the court held that markers do not represent taxable income until collected. In *Flamingo Resort, Inc., v. United States*, 485 F. Supp. 926 (D. Nev. 1980), the court determined that markers represent taxable income upon their accrual. It appears that the current practice of excluding these amounts from taxable income will be continued.⁴

Revenue Reductions — Bad Debts

Another issue of casino revenue relates to the reductions of revenue allowed through write-offs of bad debts. Generally, through the operation of the modified accrual basis for taxation previously mentioned, large amounts of uncollected casino receivables or markers are not yet in the revenue stream and are not subject to taxation. If the markers are subjected to accrual income recognition—resulting from a more consistent application of accrual accounting principles—then it is reasonable to assume that appropriate revenue reductions through traditional bad debt write-offs or allowances will be accepted. Consistent treatment of the revenue and the valuation of the receivable are essential to rational tax policy.

However, the issue of bad debts is still present where a casino may have a substantial amount of check cashing (either payroll or personal checks). The checks cashed are assumed to be used to wager in casinos. If the check of the customer is returned by the bank and remains unpaid, then the casino is forced to write off the bad check. These write-offs are usually considered a reduction of revenue for both state gross revenue taxation and federal taxation purposes.

Most casinos are required by law to specify in writing their procedures for check cashing and other credit granting.⁵ Included in these procedures must be a way of evaluating a bad debt, assessing its collectibility, and approving the write-off. In a casino operation, there may be various departures from the stated procedures at any point in the check-cashing or credit-extension process. Often the violation in procedure has resulted in the disallowance of the bad debt as a reduction of casino win for state gross-revenue taxation purposes. This disallowance takes place regardless of the lack of creditworthiness of the debt instrument. It is solely based on the failure to follow either careful or previously required internal control procedures. This policy of disallowance, although appearing to be highly arbitrary, creates a powerful incentive for the casino to assure that proper controls are in place for bad debt write-offs for either income tax or gross-revenue tax purposes.

Slot Hopper Loads and Table Loads

The fourth revenue issue for casinos is the problem revolving around the monies (coins) actually stored within a slot machine or on the table inventory of a pit game. Typically, slot hopper loads are required when the casino is first opened or if a new slot machine is added to the floor inventory. At that time, a sum of money is placed into the slot hopper so that during the period of initial play on the machine, it is able to pay the jackpots that occur automatically. The coins deposited into the machine can go directly into the drop bucket located under the slot machine (and be included in revenue), or they can be diverted into the slot hopper in order to replenish the hopper (which may be at too low a level to meet normal operating requirements). In this case, some of the coins that are won by the slot machine are not placed in the drop bucket, and the revenue has been diverted and is underreported.

This problem has never been significant in the past. When the average slot hopper load for a 5¢ slot machine was only \$50 to \$60, the possible revenue error was very small. However, with the increasing popularity of \$1 slot machines, slot hopper loads are typically \$300 to \$500 per machine. The problem now has become significant from two standpoints. First, when the new slot machine is put on the floor, the process of filling the slot hopper must be considered a capital transaction and funded from cash on hand and not merely accounted for as another kind of jackpot payout, which are revenue

reduction transactions. The improper use of jackpot fills for funding a new machine results in the increase in the amounts paid out by the casino (with a consequent reduction in casino slot win) and leads to the understatement of taxable income.

A second problem is that the slot machine may be underfilled at the time of the casino opening. In a new casino with a minimum of cash on hand, this situation is not as unusual as might be expected. Over time, the gradual buildup (creep) of slot hopper loads from their original fill to the full amount (for example, from a minimum fill of \$100 to a normal \$400) can result in a significant understatement of slot win. This understatement of income arises because the winnings of the slot machines are not reflected in the slot drop, but rather remain in the slot hopper where they are not reported.

The procedure to avoid this underreporting of income is to count the machine hopper loads periodically. The result of these counts can then be evaluated against the original slot hopper loads. Any significant differences should then be considered an adjustment to slot income.

A similar situation occurs, but with somewhat less financial impact, with table loads. The table load or table tray inventory represents the dealer's working fund. The fluctuations in this inventory are accounted for either in the game opening or closing inventory procedures or by end-of-shift fills or credits. These inventory fluctuations, or end-of-shift fills, are included in the determination of game win during the count procedures.

Table inventories change. For example, table tray amounts may be increased for high-stakes players or during periods of increased gaming activity such as holidays or when special junket groups are in the casino. These special increases or decreases in table loads must be accounted for as capital transactions, just as with slot loads, with appropriate offsets to cash on hand. Current practice, which is concerned with the proper determination of casino revenues, requires that these changes in table inventory should not enter the revenue stream of the casino. If regular fill and credit slips are used to increase the amount on the table, then the inclusion of these fill or credit slips in the drop box results in the erroneous recording of casino table win for one period, with a second offsetting error occurring when the table inventory is reduced (showing a table loss).

Accrual of Casino Liabilities

Progressive Slot Liability: Progressive slot machines commonly used in a casino have a series of meters located immediately above the machine. These meters increase, progress, or increment the jackpot amounts at a fixed rate based on the number of plays on the machine. For example, a \$1 machine may increase its jackpot amount \$1 for every \$5 played on the machine. As the meter amounts increase, the amount of jackpot required to be paid increases.

As the amounts in these progressive meters increase over time with a corresponding increase in unpaid jackpots, it is common practice in casinos to accrue a liability equal to the amount of the unpaid jackpots. This reserve is then increased or decreased as appropriate. The amount of the increase or decrease in liability is accompanied by an offsetting entry to be reported as an adjustment to slot income. This most commonly results in a reduction of the revenue, which in turn reduces the taxable income.⁶

Casinos treat the total amount of progressive slot liability at year-end as a fixed liability directly related to current income. Therefore, it may be accrued and deducted in determining net income for income tax purposes. Although a single machine may have only a modest progressive slot adjustment from year to year, the introduction of many new machines with larger denominations and larger payoff rates has created a very significant tax issue.

Although it has been subject to differences with the IRS in the past, the Supreme Court has said that the deduction of an accrued progressive jackpot is proper if the liability was required by state gaming law and the amount could be determined with reasonable accuracy. The Tax Reform Act of 1984 enacted a requirement of "an all events test" which specifies that economic performance, such as payment of the progressive jackpots, must occur within eight and one-half months after the close of the tax year.

Progressive jackpot liability accruals also apply to the casino's portion of the liability for payment of wide-area or linked progressive jackpots such as Megabucks. In these situations, smaller jackpots are the responsibility of the casino, while the slot machine supplier is responsible for the actual payment of the grand prize. This grand prize may be payable in a lump sum, or as an annuity over an extended period of time.

Chip and Token Liability: Another type of unique casino liability arises from the existence and nature of chip or token liability. Virtually all casinos have issued various denominations of gaming chips for use in their casino operations. More recently, various casinos have sought and secured permission from the U.S. Treasury to issue their own gaming tokens for use in slot machines and in gaming operations to avoid the cost of refitting the coin acceptors in \$1 slot machines.

From an operational standpoint, the chips and tokens that a casino has outstanding must be redeemed by the casino upon presentation by a patron or other casino. At any time, the amount of liability or chip float is the difference between the total amount of chips and tokens issued and in use by the casino and the total amount of chips and tokens actually on hand. Over a period of years, the amount of chip liability has generally tended to increase, as the casino has more and more of its chips and tokens in circulation and unredeemed.

The primary reason for this increase over time is not merely the float in the immediate casino trading area, but also the propensity of customers to keep chips and tokens for souvenirs. The new \$1 tokens are difficult to separate and identify in counting procedures and are not widely redeemed between casinos. There is currently a very large number of \$1 gaming tokens outstanding.

The basic taxation issue is how much income should be recognized that is derived from the exchange of chips and tokens for cash. Of the total number of chips outstanding, it is not clear how many represent sales as souvenirs and how many may ultimately be redeemed. The souvenir sales portion should represent taxable income. The amount of income would be the face value of the chip or token minus the cost of the chip or token. In most cases, the cost has been written off long ago as an expense of casino operation, so the entire face value of the chip or token is considered profit. The IRS maintains that some portion of the chip float is permanent and that some portion of the total chip liability should be considered as sales income.

Current practice indicates that only at specific times, such as during the change of ownership of the club or at the introduction of a new series of gaming tokens, can a casino's actual liability for chips be determined. Upon redemption of all old chips and tokens, the actual amount of liability is therefore reduced to zero. Even then, exceptions exist. Harold's Club in Reno for years prided itself on honoring old gaming tokens discovered in obscure hiding places and redeemed at the club—as much as fifty years later. Only upon the closing of the casino was the chip liability reduced to zero.

Taxable Income from Chip Liability: Under most circumstances, the casino clearly has a continuing liability for the redemption of all gaming chips and tokens. Over time for income tax purposes, the amount of this liability is reduced and a portion of the outstanding chip liability is cancelled each year with an equivalent increase in taxable income. In general, however, the accrued chip liability and the related expenses are clearly properly allowable deduction items. Under a 1996 national settlement agreement between the IRS and casinos, the casinos are required to compute the reduction in chip liability under one of two methods. These two methods are called the *experience method* or the *percentage method*. These computations involve two key elements.

First is the establishment of a consistent date from year to year when the outstanding chip liability is to be measured. This date need not coincide with the fiscal or tax year-end, but must be consistent from year to year to assure a reasonable level of comparability.

Second, the amount of the outstanding chip liability is determined. This amount is then compared to the amount in the prior year, and the increase

in the chip liability should be recorded as an increase in taxable income. Reductions in chip liability would be treated as taxable income. The percentage method varies slightly in the computation of chips and tokens outstanding. Under the percentage method, chip exchange with other casinos, and the chips in the hands of patrons in the casino during the count procedure, are assumed to be fairly constant from year to year and are not included in the computation of the outstanding chip liability. The use of this annual adjustment to taxable income has resulted in some consistency in the treatment of this item for federal income tax purposes.

OTHER CASINO EXPENSE ITEMS

The last area of discussion concerns more traditional issues of taxation as they are specifically applied to casino operations. These areas are depreciation, repair and maintenance expenses, and preopening expenses.

Depreciation of Casino Assets

The principal taxation issues in depreciation deal with the estimated useful-lives salvage values, and methods of depreciation used. These areas have been substantially simplified following the enactment of the 1981 Economic Recovery Tax Act (ERTA), which removed much of the debate from the depreciation expense area by adopting the new Accelerated Cost Recovery System (ACRS) and the subsequent Modified Accelerated Cost Recovery System (MACRS). Useful lives of common gaming equipment are indicated in table 13-1 below.

One of the most critical decisions in depreciation policy is the selection of an appropriate useful life. For most casino equipment, there are factors of both technical and competitive obsolescence, as well as traditional wear and tear. Functional obsolescence of slot machines is a significant factor in accelerating the depreciation of those assets.

Equipment used in pit games, such as 21, craps, and roulette tables, are generally depreciated over a five-year period. Some differences may exist in the areas of slot machines and keno equipment. In both these cases, the rapid technological obsolescence has increased the rate of replacement of slot machines. In addition, slot machines have very high rates of physical wear and

TABLE 13-1 Depreciation Guideline Lives

	MACRS Guideline Life
Slot Machines	5 years
Pit Tables	5 years
Keno Equipment	5 years

tear. Depreciation lives of five years are common for slot machines. The IRS feels that the depreciation life should be seven years.

The general furniture and fixtures in casino public areas are subjected to extremely rough use and are generally worn out from a structural or appearance standpoint in about three to four years. For business reasons, keeping a casino looking clean and neat is of vital importance, so these items are frequently replaced or renewed. This tends to lead to shorter depreciation lives.

An interesting new issue has been raised as to the useful life of a riverboat casino. The IRS feels that the facility is a building and should be depreciated over thirty-nine years. The casinos feel the support buildings are indeed buildings subject to the thirty-nine-year life, but that the riverboats or the floating barges are ships and that a more appropriate barge life of ten years should be used. This is a very substantial difference.

Salvage Values: The issue of salvage values is a highly subjective one, and there are generally no reliable estimates of salvage value for most casino assets. Again, the changes in the ACRS system have eliminated many issues. The salvage values of game tables generally tend to be fairly high, assuming that there is a regular program of repair and maintenance. In this area, salvage values of 10–20% seem to be appropriate. For slot machines or keno equipment, there tends to be very little salvage value. The value, if any, is certainly not in the used machine market but only as parts to maintain other older machines. It has been estimated that the salvage value of most slot machines should not exceed 10%. This is especially true when most new machines are entirely electronic. The Internal Revenue Service has from time to time proposed salvage values in the range of 25% to 30%, but as this discussion has suggested, lower salvage values appear to be fully justified.

Depreciation Methods: The casino industry frequently uses a very conservative approach to depreciation in the adoption of the straight-line methods. The use of accelerated methods of depreciation is very infrequent. The application of bonus depreciation is also infrequent. There are also very few applications of the class-life system for casino assets. There seems to be no valid tax reason for the popularity of the straight-line depreciation methods used for tax purposes, other than their simplicity of application. This simplicity argument is expected to result in virtually uniform acceptance of the MACRS system for all new casino property acquisitions.

Maintenance and Repair Expenses

The decision to capitalize or expense various maintenance and repair costs is the same in the casino industry as it is in other businesses. The principal difference is that casinos operate on a 24-hour basis, with intense public usage of their facilities. This factor, coupled with the need for the casino to present a

pleasant appearance to attract and retain customers, makes casino operation a high-maintenance business. As previously mentioned, this maintenance is particularly high in the areas of slot machines and public-area furnishings. Repair and maintenance expenses are generally high and are almost always deducted currently from income, rather than being capitalized as substantial improvements. This represents a proper treatment of these expenses for taxation purposes.

Preopening and Preproduction Expenses

The preopening expenses of a casino can be very significant. First, there is a very long lead time associated with building or acquiring a casino due to the licensing, investigation, and background checking that must be completed prior to issuing a gaming license. Second, the preopening advertising and promotion costs are extensive. They are necessary to build a new customer base for the casino. Rules that allow the amortization of start-up costs over a period of sixty months after the business is begun are applicable to the casino industry; yet, under financial accounting guidelines, they may be immediately deducted. This creates an item of timing difference between the book and tax profits and a deferred tax item.

A second area of expense that is currently deductible is preproduction expenses for a stage or production show intended to run for a considerable period in a showroom. The expenses for financial accounting purposes are capitalized and written off over the estimated run of the show. In this case, a second but offsetting timing difference is created.

Expenses attributable to the expansion of an existing casino continue to be deductible. The current treatments of organization and preproduction costs appear to be a proper and realistic approach to the expenses of a casino operation.

Entertainment Facilities

Many hotel and casinos maintain off-premise facilities to entertain important customers and entertainers who appear in their showrooms. The general crackdown on "entertainment facilities" appears to have caught these premises in the net. The examinations have resulted in questioning whether these facilities meet the definitions of an entertainment facility, which threatens the disallowance of the expense. In general, the expense has been accepted by the IRS after proper verification of substantial customer and entertainer use. The deduction appears to be allowable if documented.

INFORMATION RETURNS, WITHHOLDING RULES, AND OTHER REPORTING

In addition to the casino's obligation for income taxation, the IRS requires information returns to be filed on customers who are involved in gaming ac-

TABLE 13-2 IRS Reporting Guidelines
Gaming Withholding and Reporting Threshold—Forms Needed

Game	Form 1099 Required	Form W-2G Proceeds Not Reduced by Wager	Form W-2G Proceeds Reduced by Wager	Form W-2G Withholding Required (1)	Form 1042-S Foreign Payouts Verifiable Payments (2)	Excise Tax (Based on the Wager)
Slot Win		\$1,200			Yes	No
Bingo Win		\$1,200			Yes	No
Keno Win (1–20 games)			\$1,500		Yes	No
Keno Win (over 20 games)			\$1,500		Yes	Yes
Sweepstakes, Lotteries, Wagering pools (proceeds more than 300 times the amount wagered)			\$600		Yes	Yes (State-conducted lotteries are exempt)
Sweepstakes, Lotteries, Wagering pools (withholding required regardless of payout odds)				\$5,000	Yes	Yes (State-conducted lotteries are exempt)
Wagering transaction with proceeds more than 300 times the amount wagered			\$600	\$5,000	Yes	No
Tournament—no entry fee	\$600				Yes	No
Tournament—with entry fee (3)					Yes	No
Pari-mutuel, including horse racing, dog racing, and jai alai with proceeds more than 300 times the amount wagered			\$600	\$5,000	Yes	No
Prizes received with no wager (drawings, promotions, etc.)	\$600				Yes	No
Sports events or contest (only reportable if proceeds exceed 300 times the wager)			\$600	\$5,000	Yes	Yes

NOTES:

- (1) Winnings must be reduced by the amount wagered and the proceeds must exceed \$5,000.
- (2) Payments made to non-resident aliens are subject to withholding and reporting on Form 1042-S (proceeds from blackjack, craps, roulette, baccarat, or Big Wheel 6 are exempt from withholding and reporting).
- (3) Tournaments with entry fees must be analyzed to see if the entry fee is a wager, and if the proceeds exceed the wager by 300 times or more, or if the tournament is a wagering pool.

SOURCE: IRS Publication # 3908

tivity. There is a complex set of rules regarding the filing of information to the IRS about customer winnings. These rules depend upon the type of gaming activity, the actual odds structure of the games in some situations, and, of course, the amount of money won.

There are three main issues. The first issue is to use the correct form. The second is to determine the reporting threshold for filing the return, and, finally, whether or not withholding is required. Table 13-2 summarizes the current requirements for filing information returns and the general circumstances for filing.

Forms to be Completed and Filed

Form 1099: In general, the simplest form of reporting parallels the general 1099 reporting requirements. If any gaming patron receives funds or merchandise with a fair market value exceeding \$600 in the value of prizes or a tournament with no entry fee, then such a form should be filled out and submitted to the IRS. The IRS has also extended the 1099 reporting to include winnings from tournaments involving slot machines, blackjack, or poker. In general, 1099s are issued when there is no direct wagering activity.

Form W-2G: The next level of information return required is the use of a W-2G. This form is used generally when the proceeds of the gaming exceed \$1,200—“not reduced by the wager” for slots and bingo. Where keno winnings equal or exceed \$1,500, a W-2G is also required. This \$1,500 keno win is reduced by the wager made. Several additional types of wins involving wagering—such as sporting events, contests, and pari-mutuel winnings with long odds (a payoff more than 300 times the amount wagered)—require a W-2G to be filed at the lower limit of \$600.

Withholding: The IRS withholding on W-2G reportable transactions for wagering pools, lotteries, and sweepstakes—regardless of the payout odds—is required if the winnings exceed \$5,000. Pari-mutuel wins exceeding \$5,000 are also subject to withholding.

Proceeds from blackjack, craps, roulette, and baccarat (most table games) are exempt from both withholding and reporting. Certain table games with variations that have a progressive or jackpot feature where the odds exceed 300 to 1 (such as Caribbean Stud) are, however, subject to the \$600 level of reporting with a W-2G.

Withholding Rates: Withholding rates on W-2G transactions are adjusted periodically. In 2006, they were 25% of the amount won, net of the amount wagered. Other withholding rates apply for other types of transactions. If a customer does not—or is unwilling to—supply a Social Security or other taxpayer identification number (TIN), then the backup withholding rate is 28%

(IRC Sec. 3406(a)). Backup withholding is applied regardless of the source of the winning—slots, bingo, keno, wagering pools, or race and sports books.

Some casinos, however, simply refuse to make a payment to a patron if there is a reporting responsibility and the patron is unable to supply a TIN. In these cases, the winnings are held until the customer can provide suitable identification.

Nonresident Reporting: If the customer is a nonresident, then a different IRS form (form 1042-S) must be filed. Along with completing this form, payments made to nonresidents are subject to withholding. Generally, the rate is 30% unless a tax treaty provides for another rate. For example, Canadian residents pay 15% (IRC Sec 871(a)(1)(A)). There may be other conditions where the nonresident is exempt or entitled to a reduced tax rate based on tax treaties. IRS publication 515 provides information about these reduced withholding rates.

Reporting Nonpayroll Withholdings: Amounts withheld, such as W-2-G or 1042S monies, require reporting on IRS form 945 on an annual basis, rather than using the traditional form 941. Deposits of nonpayroll withholding are to be made on the same schedule as payroll withholdings, using the IRS form 8109.

Excise Tax: Another issue reflected in table 13-2 is the liability of the casino to pay excise taxes on wagering transactions. While the IRS maintains some tax is due, the amounts represent one-quarter of 1% of the amount wagered and are applied only to a limited number of transactions, such as wagering pools or sports betting. The gaming excise tax is discussed more fully in chapter 3.

Splitting Winnings: An additional issue involves the splitting of winnings among players or between spouses and friends. In these cases, the total payment determines whether or not an information return is to be filed. If the amount exceeds the W-2-G reporting limit, then the IRS form 5754 is required to be filed. The form requires the amount paid to each participant to be specified and the identification for each payee to be listed.

Patron Identification

A substantial issue arises in the taxation area as to what constitutes proper patron identification in a casino environment. These identification requirements also cross over into the IRS area of responsibility for currency transaction reporting.

In general, the rule of thumb is that acceptable patron identification is any document which is governmentally issued; ideally with a picture, and of the type suitable for check cashing by nondepositors in common business practice. Some example forms of identification include a driver's license or state-

issued identification card for nondrivers; a passport; a military ID; an alien registration card (or “green card”—it’s really blue); and miscellaneous items such as a voter’s registration card or a Social Security card.

A secondary issue of the patron identification revolves around the presentation of a document which has a verifiable Social Security or other taxpayer identification number on it. Typical examples of documents that can be referenced for Social Security numbers include some driver’s licenses, wage payroll stubs, health insurance cards or documents, or an actual Social Security card.

Form W-9: In some circumstances, if the patron cannot produce a valid piece of identification with the Social Security number on it, the casino may choose to accept the IRS form W-9 in lieu of other documentation. The general procedure is to have the patron complete and sign the W-9, and to have the casino verify the patron’s identification through another form of ID containing a picture.

IRS TIP COMPLIANCE

Another substantial area of concern for casino management is the process of assuring that casino employees who receive tips (or “tokens,” as they are known in the trade) properly report them as income to the IRS. In recent years, the IRS has embarked on national tip-compliance initiatives in order to reduce the amount of unreported income. Since 1995, the amount of tip income reported has risen considerably, indicating an increasing level of compliance with tip-reporting requirements.

Casino Responsibility: As employers, casinos have an exposure to substantial legal responsibility as well as a significant monetary liability for the employee’s share of unpaid taxes on unreported tip income. The casinos’ responsibility to withhold the correct amount from employee wages includes the amount on tip income. However, tip reporting is the responsibility of the employee. Both the employee and the employer are subject to Social Security (FICA) taxes as well as Medicare taxes. The employer is also responsible for the federal unemployment tax on reported employee tips.

All tips over \$20 in a month must be reported, and are subject to FICA and income tax withholding. The employer must annually file a form 8027, which reports the total amount of tip income and allocated tips for all employees.

Tip Allocation Methods and Reporting: The degree of effort and the type of tip compliance program that the casino uses depends upon how employee tips are handled in the casino. Some casinos allow the individual employees to keep their own tips. Although this was the historical practice in most Nevada casinos, many tribal casinos still allow employees to keep their own tips. In these situations, the employees are required to report or have their tips re-

ported by the casino. Employees' self-reporting of tips to their employer is done by the employees on IRS form 4070.

Other casinos pool the tips among employees and divide or allocate the tips among all the employees working in an area. In these pooling situations, the tips can be divided and paid in cash by the employees themselves, then reported to the casino employer. In an alternative payment method, the pooled tips are counted by the employees, submitted to the employer, and paid by the employer on the employee's paycheck as a part of the regular payroll. This assures an adequate source of funds is withheld for employees who receive significant tip income on a regular basis. Otherwise the employees' wages might not be adequate to fund the withholding obligation.

IRS Tip Compliance Programs: If the casino knows with some degree of certainty the amount of the tip income, it can achieve compliance in tip reporting by treating the tip amounts reported (or included) in the regular payroll according to regular withholding and tax payment procedures. If, however, the employees are using other tip-reporting methods, or are not sharing tips, then other tip compliance procedures must be used. The IRS has two tip compliance programs that are relevant to this latter situation. The first is the general TRDA: Tip Rate Determination Agreement. The second is the GITCA: Gaming Industry Tip Compliance Agreement.

Under the TRDA, the casino is responsible for determining the tip rates for various job classifications based on the analysis of historical data. The IRS reviews the tip rates and, when approved, the casino allocates tips to employees based on the number of hours worked and the predetermined tip rate for that job classification. To utilize the TRDA, the employer is responsible for assuring that a minimum of 75% of the employees are participating and reporting under this agreement. With the GITCA, the process is largely similar, but only 50% of the tipped employees must sign the agreements to comply with the program.

If the casino can demonstrate substantial compliance with these tip programs, then the IRS has promised that it will not conduct extensive employee audits for unreported income, and it will not look to the casinos for the payment of the employer's share of employment taxes on amounts recovered from the employees under audit. This results in smoother payroll administration for the casino, known financial responsibilities, and no disruption of employee lives due to IRS audits.

REPORTING AND TAX STATUS OF COMPLIMENTARY SERVICES

Complimentary services offered to gaming patrons—in terms of their tax status—come in two broad categories described as *inside* or *outside comps*. The first type are complementary services such as free rooms or free meals

offered within the casino. In general, these are considered *de minimus* gifts, and are not subject to any informational reporting. They are also deductible as a cost of business by the casino. The second category consists of amounts paid outside of the casino for gaming patrons. These items might include reimbursement of air fare, payment of golf fees, or other outside costs. In this category, the amount is not reportable as payments to the customer—if casino employees are present with the patron. If there is no casino involvement, then the amounts may be reportable to the customer. Under any circumstance, the cost would be deductible by the casino. It has been generally settled that with respect to meals and entertainment expense, 100% of the cost is deductible by the casino and no informational reporting is required.

The expansion of legalized casino gaming from what was once a highly localized industry into a national industry has focused attention on taxation of casino operations. The issues of casino revenues subject to taxation currently rest on the foundation of widespread industry practice. Casinos expect to continue as they have in the past. No dramatic challenges appear to be forming from either the IRS or state taxation authorities for change. However, as tax reform is implemented, the adoption of a corporate minimum tax may affect casino corporations. Changes in partnership taxation may have an impact on the classification or deductibility of certain types of revenues and expenses passed through to partners by operating casino partnerships.

The issues of casino liabilities are far less predictable. The uncertain foundation of progressive slot and chip/token liabilities is under active attack by the IRS. In spite of cogent argument on each side, both types of liabilities appear to be fully justified and proper for inclusion in the computation of current income.

As the casino industry grows, the taxation issues will undoubtedly proliferate. However, it is fairly certain that these future issues will only expand on the fundamentals of casino revenue, and casino liabilities and expenses.

Managerial Accounting in Casinos

The traditional objectives of casino accounting usually focus on safeguarding assets and assuring accurate financial statements. However, increasingly, accounting systems are being called upon to provide analysis of data for managerial decision making and measuring management performance. These areas are usually described as *managerial accounting* as opposed to *financial accounting*.

MANAGERIAL ACCOUNTING — ACCOUNTING TO ASSIST MANAGEMENT

An emerging area of concern in casino accounting is the maintenance of various accounting systems to provide information for use by management. The issues of managerial accounting in the casino industry are considerably less understood than in many other industries or businesses. The lack of a traditional manufacturing environment and, perhaps, the unique aspects of its services have contributed to the lack of in-depth managerial accounting practice in the industry.

Providing information to assist management can be categorized in three sets of accounting processes. The first set is described as *attention-directing accounting processes*, which bring information to the attention of management. Often these attention-directing processes are part of, support, or are attached to, the traditional accounting system. Sometimes they exist as separate stand-alone systems. The second set is described as *planning and control accounting processes*. These processes assist management in areas such as budgeting and cost controls throughout the casino and related business operations. The third set could be described as *decision-making accounting processes*. This type of in-

formation provides input to various decisions that the casino management must make. These decisions include short- and intermediate-term decisions, as well as support for long-term strategic decision making.

Attention Directing

The attention-directing issues of accounting for a casino operation are focused in several areas. The most common application is specific, detailed cost tracking or cost analysis of a particular part of the casino (for example, the keno department) or of a specific activity (such as the profitability of a junket or bus program).¹

Analyses such as these give rise to various accounting and record-keeping systems that, while not a formal part of the accounting system, are nonetheless very necessary. Another example in this area is a player control system that not only records the amount of credit issued but also determines the extent and quality of the play (including amount wagered, duration of play, and so on) of the various customers. Another category consists of complementaries: record keeping of the total costs incurred by a particular complimentary customer or the total cost of a junket or bus tour when related to the amounts wagered by those junket or bus tour customers.

Other types of attention-directing decisions might include the use of break-even analysis and cost-volume profit calculations, which focus attention on cost behavior and might lead to a better understanding of casino cost behavior. Major contributions of accounting systems lie in cost-finding analysis for new games, assessing the cost impacts of revised operating procedures for the casino games, and analyzing relative profitability of junkets, bus programs, or complimentary programs.

In addition to these traditional managerial accounting areas, the use of various forms of departmental income statements is also important to hotel-casino operations. In many cases, the food-and-beverage and hotel departments exist to support the primary revenue generation of the casino. As a result, there is an expectation that the food and beverage department will lose money, largely due to the high level of complimentary services rendered. The use of supporting departmental profit and loss statements can help in controlling costs in the absence of a dedicated profit motive. (The objective is no longer generation of profits, but cost containment.)

Another way that managerial accounting can make a contribution is by providing departmental profit and loss statements on a contribution-margin approach. This contribution margin (or variations such as variable costing reports) could help the departments recognize their contributions to the overall hotel-casino profitability, while not confusing the actual operating results with numerous fixed costs or allocations of costs from other departments. By using the contribution-margin approach, there is an implicit recognition that

certain costs are controlled at the top management level and should not be charged against the individual department.²

Planning and Control Processes

A second area of management accounting is the development and use of various planning and control techniques for the casino operations. The most important of these is the use of budget systems. The simple fact is those casinos that have used a comprehensive budget process have experienced significantly improved operations in terms of operating efficiency, lower costs, and increased revenues. These factors contribute to improved overall profitability.

Budget System: The worth of a budget system lies in several factors. The first is that the process of construction of the budget forces the casino managers and supervisors to take a close look at the cost and revenue behavior. This may be the first time that many casino managers have even tried to understand their costs, and how the various factors such as seasonality, convention attendance, mix of customers, advertising, and perhaps even specific promotions may affect the number of customers in the casino and the amount of gaming activity.

In addition, focusing the manager's attention on the costs of operation may lead to realization for the first time of the extent of the costs, their nature, and what steps can or cannot be taken to control them. For example, the two largest costs in the casino department are labor costs and gaming taxes. The latter cannot be controlled, while the former can be carefully controlled even within a fairly short time horizon. Labor control can be exercised by more careful attention to the assignment of staff and, if necessary, reducing the number of staff on hand during the slow periods.

Budget Comparisons and Analysis of Variances: The companion element in the budget system is the necessity of having the accounting system set up to report the costs, to categorize them, and to report the results of the operation compared to the budget on a frequent basis. This feedback element allows the manager again to understand why costs behaved the way they did, focus attention on how costs may have changed from the original plan, and how to improve the process of future cost estimation and operations.

Finally, the use of a budget system could lead to the development of standards for employee performance. These standards would form the building blocks for the budget, and when budget-to-actual comparisons are made, attention could be directed toward the reasons why the standards were either met or exceeded. This process of identification and analysis of the variances is traditionally practiced in manufacturing operations, and could have widespread applicability in casinos.

Decision-Making Systems and Procedures

The third and final area of importance in managerial accounting is the use of various decision techniques or decision models to assist management. Decision analysis can focus on short-term decisions, such as the expected profitability of a new game or new promotion. In the intermediate term, analysis such as the use of financial forecasts or projections in order to evaluate or justify capital expansion programs could be utilized. Finally, examples of long-term or strategic decision making could include things such as comparative analysis of mergers or acquisitions, or the search for funding acquisitions from commercial lenders or public capital markets.

Supportive and Complementary Nature of Management Accounting

Although financial and managerial accounting are often thought of as two separate and distinct aspects of accounting, the use of management accounting techniques can contribute tremendously to improving the systems of internal control. Fostering better internal control is achieved in the following ways:

1. Accountants are often involved in the design of internal control systems for the casino. This involvement, whether by internal audit, internal accounting personnel, or external accounting consultants, has the effect of increasing the level of understanding of the control system by all accounting personnel. This leads to a higher level of assurance and confidence about reliance on the controls. In particular, there is a higher level of confidence in the casino controls on the part of independent accountants if they are familiar and comfortable with the operating and control procedures.

2. In addition to familiarity and reassurance, the use of managerial accounting analysis can provide an excellent ongoing source of information by which the effectiveness of the various financial and accounting controls can be judged. For example, monthly analysis of the profitability of a junket, complimentary, or bus program can be performed. Any unusual fluctuations in the profitability may indicate a problem with the program that should be investigated. In any case, the casino knows immediately that something is wrong and that action must be taken to correct a problem. This is substantially better than waiting for a quarterly or annual review of the profitability of the overall casino to try to diagnose the problem.

3. Another area where managerial accounting can contribute to the control of casino operations is in its focus, which typically is directed toward smaller elements of the accounting system, rather than the whole financial reporting entity. In this way, the managerial accounting has the same focus as the control interest—that is, the smaller operating units, which are responsible for implementing the key internal controls. Managerial accounting deals with

smaller units and is a better method to evaluate the effectiveness of these controls that might be overlooked in the larger audit focus.

4. Finally, the use of managerial accounting techniques to analyze statistical accounting information often leads the accountants to a better understanding of the trends and dynamics of casino operation. This lends itself to a better job of overall financial audit and control evaluation.

SPECIFIC MANAGERIAL ACCOUNTING APPLICATIONS IN CASINOS

Cost Allocations

The topic of cost allocations has generated an extraordinary amount of concern in the cost and managerial accounting literature. There are rational arguments both for and against the use of these allocations. There is also an increasing awareness of the psychological impacts that various cost allocations have on employee motivation and overall business success.

Complimentary Cost Allocation: The primary concern in a casino environment is the allocation of the various costs of complimentary services rendered to customers by the divisions other than the casino. As previously mentioned, the food-and-beverage and rooms departments often incur substantial costs without any revenue in the pursuit of good casino gaming customers. The accepted industry procedure is to allocate costs to the casino in an administrative cost category, with the rooms being charged at a standard rate and food and beverage at menu prices. These are reflected in the revenue of the providing department, while the expenses are charged to the casino department. This allocation procedure results in more accurate results in terms of the revenue of these service departments, when compared to their costs. However, the allocation to the casino department could be somewhat arbitrary and result in charges that could be excessive.

Another method of accounting for complimentaries is to grant the allocated revenue benefit to the service department but, instead of charging the costs to the casino department, to charge them to overall administration. The rationale behind this procedure is to recognize that the overall complimentary expenditure is usually a top-level management policy decision, and the casino manager is only charged with the implementation of the complimentary service program. Also, there are aspects of the complimentary programs, such as free drinks, that could be expressed more accurately as relating to the overall casino advertising policy. Therefore, it is more reasonable that these costs be recognized for what they really are—a form of advertising and promotion cost—and included with those overall administrative costs in that category.

A major debate rages throughout the industry regarding the monetary ba-

sis for these cost allocations. In general, a set price or value standard is used for the various service departments. This allows the casino to use a long-term average or standard cost over a long period of time and saves the executive time that is inevitably consumed in the process of agreeing on these allocated costs. In most circumstances, the following types of costs are used:

1. For hotel rooms charged to the casino complimentary account, the cost basis is usually a discount of 20–25% from the published room rate for the type of room, season, and other factors. This lower rate recognizes two factors. First is the slightly reduced cost of rendering the service, due to a lower level of billing and accounting. Second is recognition of the market realities that complimentary rooms are usually used most extensively during slow periods and the rack rate might have to be discounted in the open market to keep them occupied during these slower periods. The room rate is sometimes justified based on a perceived minimum cost for the room, including variable costs associated with the front desk, the reservation office, the maid and room service, and a portion of the utilities and debt service. Often, it basically represents a no-profit point for the room rental.

2. For food rendered to the casino customer on a complimentary basis, it is customary to use the menu price for allocation. This is based on the fact that most food operations in the casino are not designed to provide an operating profit, but rather merely to provide food at a minimum cost. Again, free or very cheap food is used as an advertising ploy by many casinos. Given the assumption that the menu must achieve at least a break-even point in its operation, the menu prices are a close approximation of the no-profit point for the food operation and thus are used as the key allocation price.

3. For beverage and bar service, a slightly different policy is used, again recognizing the basic costs of the materials in the drinks. For drinks that accompany food service, which include wine and mixed drinks, the menu or list prices are used much in the same manner as for the food operation. For beverages served directly at bars, as well as for drinks delivered to slot machine or table game players, the cost used for the allocation is the estimated cost of the drink. In these cases, the cost may be substantially below the selling price. In general, the allocated cost is approximately 50% of the menu or selling price of the drink.

Virtually no casino gaming is allowed on a complimentary basis, so there are usually no allocation issues in this casino department.

Other Administrative Cost Allocations: Some additional cost allocations are used in order to determine financial results in casino support areas. These financial results, after allocation, could be compared to industry standards for these functions. These comparisons are more accurate since all costs, includ-

ing the allocated cost of support activities, are now included in the expenses structure. This type of cost allocation might also be informative if there is some thought being given to outsourcing various business functions. Allocated costs must be recovered in some manner and usually cannot be avoided if out-sourcing is used.

In other areas, evaluations of profitability of individual business units, such as specific bars or restaurants, may require allocation of common restaurant or bar support activities to different restaurants in the casino before making any business decisions.

In addition, other common allocations take place in the general administrative area. Examples include allocated costs of corporate communications—telephone, executive expenses, and other items. For some casino operations with sales offices in various locations, the allocation of home-office expenses to branches enables a more accurate picture of the full costs of their operation. Fully integrated hotel-casino operations, which operate in more than one location or in more than one gaming jurisdiction, may use certain central head-office cost allocations to more accurately reflect the actual operating results of individual business operating units.

Responsibility Accounting and Departmental Statements

Another area of managerial accounting that is widely used in the casino industry is the development of various responsibility reporting models along with departmental profit and loss statements. The recognition of the importance of these statements as an integral part of the managerial control system in the casino has increased dramatically as the spread of legalized gaming has occurred.

Organizational Unit: Most departmental profit and loss statements are divided into locations, followed by the principal operating units of a hotel-casino. These main divisions are then further divided into individual bars, restaurants, or other food and beverage areas such as convention or banquet food functions. Within the casino functional operation, the highest level is the overall casino financial statement, which is the responsibility of the casino manager. Immediately below that responsibility level would be the departments of the slots, the pit, and support areas, including the cage and credit department. There may also be a subdivision of the financial statements into specific gaming areas, such as the high-limit area, which may include both slots and table games. In the slots area, as well as the pit for larger casinos, there may be separate reports for separate pit areas. Where specific pit areas are dedicated to certain games, such as a baccarat or craps, the reports might reflect their revenue and costs resulting in each of these subunits having a departmental profit and loss statement. For smaller clubs, the level of divisional

detail among the slots and pit is kept to a minimum in order to retain the overall readability of the financial statements.

Departmental Contribution Reporting: In the use of departmental profit and loss statements, the number of items of financial interest can vary considerably from casino to casino. Some casinos have attempted to include virtually every cost element incurred in the operation of a department or subdepartment, and have tried to report all of these costs with all applicable revenues for the department. This approach attempts to report virtually all of the costs in the casino, which includes using wide financial statements only on a departmental basis.

The primary problem with this approach is that many of the costs may be arbitrarily allocated. Another problem is the ability of the responsible manager to actually exercise effective control over the costs at the department level. The inability to control costs, and yet to be held responsible, may have an adverse effect on the manager's motivation. The problem of overallocation of costs and the frustration based on the uncontrollability of the reported costs are the most common criticisms leveled at these departmental profit and loss statements.

A proposed solution to this dilemma is to construct departmental contribution statements in place of departmental profit and loss statements. In these statements, only the costs directly attributable and controllable by the department are charged to that department. In this way, the costs reported at each responsible level are those costs that the manager should and can be concerned about. For example, charging the slot machine manager with a portion of the advertising budget based on the percentage of revenues may be a logical and rational allocation basis, but unless the slot manager has some say in how the advertising dollars are spent and how many dollars are spent, it is unreasonable to expect the departmental financial statements to reflect advertising costs. However, if the slot manager is empowered to grant complimentary privileges or free drinks to players, then it may be reasonable to include these costs in the slot department costs of operation.

The adoption of this contribution margin approach eliminates many of the behavioral problems associated with full-presentation departmental financial statements. Only the costs that are variable and controllable at the department level are considered.

Suboptimization Problems: One serious organization problem that has developed in the casino business is the growing suboptimization of the overall hotel-casino performance. There have been many reasons advanced for this situation. One of the most significant is that the importance of overall profit performance has become a widely recognized goal for managers within various training programs, as well as traditional educational institutions. The re-

sult of this “profit focus” is that new managers, usually trained in traditional areas of hotel management and food-and-beverage operations, tend to focus on the profitability of their individual departments and fail to recognize the complex interplay between the service or support functions of the hotel and the primary revenue-generating function of the casino.

The use of complex departmental profit and loss statements may have accelerated this process by focusing the attention on the bottom line of the departmental unit rather than the overall hotel-casino operation. Thus, the unfortunate situation arises where decisions are made to maximize the departmental profit—or perhaps departmental contribution—while the overall quality of casino customers is slipping, casino revenues are decreasing, or costs are being increased in the casino area.

The problem of suboptimization cannot be avoided simply by the use of one form of financial statement or another. Many types of financial statements create the illusion of “bottom line responsibility” for department managers. This may have contributed to some undesirable trends in hotel-casino management.

ALTERNATIVE FINANCIAL REPORTING

Many widely used performance measures, such as operating income, rely on internal financial information. Increasingly, companies are supplementing internal financial measures with measures based on external financial information (for example, stock prices), internal nonfinancial information (such as customer complaints, waiting times, or number of new player club members), and external nonfinancial information (such as customer satisfaction ratings and market share). These performance measures may be compared to similar data from other locations within the same corporate casino group or other organizations.

Designing Performance Reports

Designing such an accounting-based performance measure requires six steps. These steps help a casino manager design a reporting system that is internally consistent, reasonably well defined, and most likely to succeed. The key steps are outlined below.

Step 1: Choose performance measures that align with top management’s financial goals. For example, does operating income, net income, return on assets, or revenue best measure a casino’s financial performance?

Step 2: Choose the time horizon of each performance measure in step 1. For example, should performance measures, such as return on assets, be calculated for one year or for a multiyear time horizon?

Step 3: Choose a definition of the components in each performance mea-

sure in step 1. For example, should assets be defined as total assets or net assets (total assets minus total liabilities)?

Step 4: Choose a measurement alternative for each performance measure in step 1. For example, should assets be measured at historical cost or current cost?

Step 5: Choose a target level of performance. For example, should all of the casino's divisions have identical targets such as the same required rate of return on assets?

Step 6: Choose the timing of feedback. For example, should performance reports be sent to top management daily, weekly, or monthly?

These six steps need not be done sequentially. The issues considered in each step are interdependent, and a decision maker will often go through these steps several times before deciding on one or more accounting-based performance measures. The answer to the questions raised at each step depend on top management's beliefs about how well each alternative measure fulfills the behavioral criteria of goal congruence, management effort, subunit performance evaluation, and subunit autonomy.³

Different Reporting Models

Other industries have moved to alternative models of financial performance reporting. These alternative reporting models include reporting traditional return on investment (ROI), residual income (RI), as well as other objective measures. Recent innovations in financial reporting bring nonfinancial factors into the reporting mix. Three of these methods include balanced scorecards, economic value added (EVA), and various forms of quality measures.

Return on investment (ROI) is an accounting measure of income divided by an accounting measure of investment.

$$\text{Return on investment (ROI)} = \frac{\text{Income}}{\text{Investment}}$$

Return on investment is the most popular approach to incorporating the investment base into a performance measure. ROI has conceptual appeal because it blends all the ingredients of profitability (revenues, costs, and investment) into a single percentage. It can be compared with the rate of return on opportunities elsewhere, inside or outside the company.

Residual income (RI) is an accounting measure of income minus a required dollar return on an accounting measure of investment.

$$\text{Residual income (RI)} = \text{Income} - (\text{Required rate of return} \times \text{Investment})$$

The required rate of return multiplied by investment is also called the *imputed cost of the investment*. Imputed costs are those in particular situations

that are not usually recognized by accrual accounting procedures. The use of imputed costs is an attempt to obtain more accurate accounting measures of economic impacts. When investments are considered in performance measures, the imputed cost of the investment represents the opportunity cost or return forgone as a result of tying up cash in the investment rather than earning returns elsewhere on investments of similar risk. In RI computations, a 12% required rate of return, used to calculate the imputed cost of the investment, might include an interest outlay of say 5% on the amount of investment financed by long-term debt.

Economic Value Added: Economic value added is a specific type of residual income calculation that has recently attracted considerable attention. Economic value added equals after-tax operating income, minus the (after-tax) weighted-average cost of capital, multiplied by total assets minus current liabilities.⁴

$$\text{EVA} = \text{After-tax oper. income} - \text{Weighted avg. cost of capital} \times [\text{Total assets} - \text{Current liabilities}]$$

EVA substitutes the following numbers in the RI calculations: (1) income equal to after-tax operating income; (2) a required rate of return equal to the weighted-average cost of capital; and (3) investment equal to total assets minus current liabilities. When implementing EVA, companies make several adjustments to the operating income and asset numbers reported under generally accepted accounting principles. For example, when calculating EVA costs such as research and development, restructuring costs, and leases that have long-run benefits are recorded as assets (which are then amortized), rather than as current operating costs. The goal of these adjustments is to obtain a better representation of the economic asset, particularly those that are intangible, used to earn income. Naturally, the specific adjustments applicable to a company will depend on its individual circumstances.

The Balanced Scorecard: Some organizations present both financial and non-financial performance measures for their subunits in a single report called the *balanced scorecard*. Different organizations stress different elements in their scorecards, but most scorecards include the following: (1) financial or profitability measures; (2) customer satisfaction measures; (3) internal business-process measures of efficiency, quality, and timeliness; and (4) innovation or learning and growth measures.⁵ Some companies also use balanced scorecard measures to evaluate the performance of division managers themselves. Some performance measures, such as the number of new player club members, have a long-run time horizon. Other measures, such as direct labor variances, have a short-run time horizon.

The balanced scorecard gets its name from the attempt to balance finan-

cial and nonfinancial performance measures to evaluate both short-run and long-run performance in a single report. Consequently, the balanced scorecard reduces managers' emphasis on short-run financial performance, such as quarterly earnings. Nonfinancial and operational indicators measure fundamental changes that a company is making. The financial benefits of these changes may not be captured in short-run earnings, but strong improvements in nonfinancial measures signal the prospect of creating economic value in the future. For example, an increase in customer satisfaction signals higher sales and income in the future. By balancing the mix of financial and nonfinancial measures, the balanced scorecard focuses management's attention on both short-run and long-run performance.

The four areas of balanced scorecard measures for a casino are outlined below:

Financial measure: This measure evaluates the profitability of the strategy. Because cost reduction relative to competitors and growth are a typical casino's key strategic initiatives, the financial perspective focuses on how much of operating income and return on capital results from reducing costs and increasing revenue.

Customer measure: This measure identifies the targeted market segments and measures the company's success in these segments. To monitor its growth objectives, casinos evaluate information such as market share in the communication networks segment, number of new customers, and customer satisfaction.

Internal business-process measure: This measure focuses on internal operations that further both the customer perspective by creating value for customers, and the financial perspective by increasing shareholder wealth. The casino determines internal business-process improvement targets after benchmarking against key competitors. There are different sources of competitor cost analysis: published financial statements, prevailing prices, customers, suppliers, former employees, industry experts, and financial analysts. A casino studies competitors to compare their practices with its operation. This activity also helps estimate competitors' costs. The internal business-process perspective comprises three principal subprocesses.

1. The innovation process: includes creating products, services, and processes that will meet the needs of customers. The key to lowering costs and promoting growth is improving the technology of casino operations.
2. The operations process: consists of producing and delivering existing products and services to customers. Key strategic initiatives are: (a) improving service quality; (b) reducing waiting time to customers; and (c) meeting specified service goals.

3. Postsales service: includes providing service to the customer after the visit. Sales staff works closely with customers to monitor and understand how well their experience matched customer needs.

Learning and growth measure: This measure identifies the capabilities in which the organization must excel in order to achieve superior internal processes that create value for customers and shareholders. For example, a casino's learning and growth perspective emphasizes three capabilities: (1) employee capabilities measured using employee education and skill levels, surveys of employee satisfaction, employee turnover (proportion of employees who have left the company annually), and employee productivity; (2) information systems capabilities measured by percentage of front-line employees that have online access to customer information, and percentage of business processes with real-time feedback; and (3) motivation and empowerment measured by number of suggestions per employee, percentage of suggestions implemented, and percentage of compensation based on individual and team incentives.

Gains in the learning and growth perspective lead to improvements in internal business processes, which in turn lead to higher customer satisfaction and market share, and finally to superior financial performance. Key elements of strategy implementation—empowering workers, training, information systems, quality and process improvements, reengineering, and customer focus—filter through the scorecard.

Typical examples of these four categories of balanced scorecard measures are shown below. Financial measures include operating income, revenue growth, revenues from new products, gross margin percentages, cost reductions in key areas, economic value added, and return on investment. For customer measures, factors include market share, customer satisfaction, customer retention and return visit percentage, and time taken to fulfill customer's requests (wait time for jackpot payoffs). Factors of internal business-process measures include innovation such as unique service capabilities, number of new products or services, and new product or promotion development times. In the area of operations, process measures include labor productivity, error rates, and time taken to deliver services to customers. In the area of postsales service, measures include the time taken to resolve customer disputes. Finally, in the area of learning and growth measures, factors include employee education and skill levels, employee satisfaction scores, employee turnover rates, information systems availability, percentage of employee suggestions implemented, and percentage of compensation based on individual and team incentives.

A good balanced scorecard design has several features:

1. It tells the story of a company's strategy by articulating a sequence of cause-and-effect relationships. Each measure in the scorecard is part of a cause-and-effect chain—a linkage from strategy formulation to financial outcomes.

2. It helps to communicate the strategy to all members of the organization by translating the strategy into a coherent and linked set of understandable and measurable operational targets. Guided by the scorecard, managers and employees take actions and make decisions that aim to achieve the company's strategy.

3. The balanced scorecard places strong emphasis on financial objectives and measures. Managers sometimes tend to focus too much on innovation, quality, and customer satisfaction even if they do not lead to tangible payoffs. A balanced scorecard emphasizes nonfinancial measures as a part of a program to achieve future financial performance.

4. The balanced scorecard limits the number of measures used by identifying only the most critical ones. Avoiding a proliferation of measures focuses management's attention on those that are keys to the implementation of strategy.

5. The scorecard highlights suboptimal tradeoffs that managers may make when they fail to consider operational and financial measures together.

STATISTICAL ANALYSIS

The historical impetus for the preparation of statistical data for a casino was the original set of regulatory rules that required detailed information regarding the gaming activity. This included the financial performance of each of the various games and slot machines used in a casino.

The focus of the early statistical reports was on the control over the honesty of the gaming operation and, to a lesser degree, on assuring against any malfunction that might adversely affect the play of a slot machine. The controls over the games were oriented toward ensuring consistent performance in terms of win in relation to drop. Any fluctuations were to be thoroughly investigated, reconciled, and fully explained.

With the growth in the size of casinos, coupled with the increasing importance of slot machines, the traditional statistical reporting controls over the slot operations and table games have evolved into larger-scale, statistical data gathering and analysis process. As mentioned earlier in the gaming machine chapter, these slot management systems are an integral part of control over slot operations. These databases became available and formed a basis for managerial planning and control activities. This traditional control focus was replaced with a new concern for management performance and efficiency in the operation. This has been made possible by advances in data-collection

methods, database programs and data mining programs, and advances in microcomputer technology. Casinos can collect and analyze this data in an efficient manner for the first time.

The use of statistical analysis is a relatively new technique for casinos, but has found its way quickly into both minimum internal control standards, as well as casino management. The principal thrust of management's use of statistics is focused on evaluating the variables in past performance and forming a base for predicting the estimated future performance of a casino.

Overall Economic Data

In order to assess an expected level of business activity, aggregate economic or activity measures are used. Examples of these measures might include the following:

1. Auto traffic counts of visitors to a city
2. Airline passenger counts into and out of a city
3. Visitor hotel room inventory
4. Hotel occupancy statistics, both occupancy percentage and average rate
5. Average expenditures per visitor or admission

Much of the above information has been routinely collected by various governmental or community service agencies for a number of years. Significant new strides in understanding the business of casinos came from the analysis of these statistics. The statistics were not new—it was merely that their use was new.

The initial step in the analysis is to determine if there were relationships between various macroindicators of economic activity and the financial and operating results of a particular casino. For example, it was found that certain indicators that were very good at predicting hotel activity (hotel reservations and occupancy rates) were also very good indicators of the overall level of activity that could be expected in the casino. Thus, for example, staffing levels for the casino could be adjusted up or down, depending on the number of reservations in the hotel and the estimates of the hotel occupancy.

In analyzing activity within the casino, research indicated that in some areas there was a fairly close relationship between the amount of food and beverage sales and the gaming revenue. This relationship proved to be amazingly stable over time and over the various seasons of activity. Using this relationship, plans could be made for the ordering of food and beverage supplies based on the estimated gaming activity, which in turn could be estimated by hotel occupancies. Many of the old-time casino managers asked, "What's new?" They were certainly correct: they had been using these intuitive rules for years. However, the decision rules and relationships were brought to light by the application of concepts of statistical analysis.

Another analysis that proved of some significance, although it did not have much predictive capacity, was the use of various auto and airline traffic statistics to correlate with an individual casino activity. If the number of visitors to a city was high, then the casino was fairly sure—unless there was some problem or disruption—of having a high number of customers. If after-the-fact analysis indicated that the auto traffic was indeed high, yet the casino had only a modest level of activity, steps could be taken to find out the reasons for the deviation from the expected results, and action could be taken before any problem was allowed to get out of hand.

Slot Control Systems

Another bread and butter application of statistical analysis is the use of the data required for regulatory reporting of casino results linked to a more comprehensive program to evaluate performance of the various slot machines in the casino.

There are many slot management systems in use in the casino industry today. They were discussed in earlier chapters. The key to their operation is the use of the data collected, either on a real-time basis by direct linkage from the slot machine to the computer, or on a batch basis with the after-the-fact data entered from the manual meter readings. This data is then analyzed to determine if any significant deviations from the expected ratios of win (as determined by the mechanical or electronic setting of the machine) are occurring. This slot performance information is presented in a formal report that indicates both significant winners and losers. Another use of the analysis is to sort and segregate the slot machines by profitability, and to use the information about physical location, denomination, and type of slot machine to identify the most profitable types of machines. The proactive use of this type of statistical analysis moves analysis beyond the recording and presentation of data to create a dynamic tool for planning and controlling the casino activity.

Detailed performance reports allow the casino manager to develop performance conclusions on the effectiveness of specific games, specific personnel, various areas within the casino, different time periods, and could even be related to specific advertising or promotion activities.

Statistical evaluations have long been used to determine the anticipated performance or win whenever a new game is being proposed or introduced into a casino. Here, careful analysis of the statistical results of the play will determine if the new game is even licensed or adopted by the casinos. Finally, other applications of statistics might be to verify the randomness or performance of various games such as keno or bingo.

Limitations of Statistical Analysis

There are three severe limitations of statistical analysis that must be recognized by casino managers. If these limitations are kept in mind, then the statistical results can be used with care. Without knowledge of these limitations, the statistical results can be badly misused.

1. There must be a consistent definition of terms, units of measurement, and items that make up various data elements that are being analyzed. This applies across time and across units that are being compared. For example, the definition of *game drop* cannot be changed without resulting in the distortion of statistical analysis of the expected normal drop in a casino. In addition, if different definitions of a measure such as drop are used by two different casinos, their performance is not comparable, and statistical comparisons of the results of their operation should not be made on a reliable basis.

2. The stability of the underlying process is assumed in all statistical analysis. If the process is changed or disturbed, then the accuracy of the statistical analysis and the conclusions drawn from it are in question. For example, if the payoff structure on a keno game is changed, the results in terms of win of the game will change dramatically. Analyzing data on profitability before and after the change, without recognizing the underlying change in assumption, leads to invalid results.

3. The development of statistical measures has largely been limited to the explanation of past performance based on historically developed information. This can lead to other significant problems. The first is that care must be taken in making a general statement about the future performance of a gaming factor while relying solely on past data. The second problem is that the existence of a statistical relationship does not prove any causality of the factors. The lack of causality may mean that the analysis is treated with a “so-what?” attitude and that it has little significance in planning the future management activity in the casino.

Finally, there may be changes in the underlying factors or paradigm that created the statistical results. For example, the introduction of large denomination slot machines was a major market shift that prior data could not have indicated or anticipated. Thus, significant changes in the underlying behavior might limit the applicability of the statistical conclusions or results.

Even with these structural limitations, statistical analysis has found increasing use both in regulatory—after-the-fact reporting—as well as for future planning in the casino. It has also led to a better understanding of the interrelated nature of casino operations and financial performance.

The Human Factor: Statistical analysis is formidable and impressive, particularly for persons with little or no formal education in the techniques. Good

data results from analysis usually end up confirming management practices that have been proven over the years by intuitive, successful casino operators. However, good statistical results can often lead to bad judgment if various aspects of the human factor are not considered. An example of this type of factor occurred when a casino snack bar was eliminated due to its heavy financial losses (when determined by a department-by-department analysis of profitability). However, a factor not considered in the analysis was the impact that the drop in trade to the snack bar had on the play of closely adjacent casino tables and slot machines. During the first month of the discontinued snack bar operation, revenues in that section of the casino fell by 35% (even after consideration of the additional machines placed in the former snack bar floor space). The management reinstalled the snack bar and saw the casino revenues recover and eventually exceed the former levels. Clearly, the snack bar operation was tied to the casino activity. People dropped in for a quick snack and left a few dollars on the tables or in the slot machines. This aspect—the so-called “human factor”—was not adequately considered in the first decision to close the snack bar.

Cost or Expense Analysis

Another aspect of managerial accounting in a casino is the topic of cost or expense analysis. Cost analysis focuses on two primary characteristics. The first characteristic is the analysis of costs based upon volumes of business activity. This traditionally is a division between the fixed and variable costs that are incurred in the casino. However, other costs such as semivariable (which have a fixed and variable component) and step costs should also be considered. The second characteristic of cost or expense analysis is the degree or controllability of the cost. This may vary with time and the level of responsibility within the casino. The discipline of having the responsible casino managers perform the cost or expense analysis can result in a major education for the manager. The biggest contribution is to help them understand the factors that cause costs to change.

Capacity Utilization

Most casinos have a very substantial amount of fixed overhead costs that are uncontrollable in the short or intermediate term. The understanding of the necessity of maximum utilization of the facilities leads the casino managers to be more mindful of the effects of customer volume on overall profitability. By careful cost analysis, they begin to understand why things such as off-season promotions are so important to build a level of activity necessary to cover the fixed costs of operations during those slow times.

The analysis of how casino costs change with volume of customers or other measures of activity is usually the first step. The second step is attempting to

build a realization of the controllability of each of the costs. The exposure to the issues of cost controllability often lead to a change in the decision making, when managers realize that certain costs can be locked in for periods of time if a poor decision is made. The issue of controllability of the costs usually leads to a greater concern for making additional fixed cost commitments. After study of cost behavior and cost controllability, casino managers invariably are much more conservative in requesting additional projects or improvements that tend to increase the fixed cost burden in the casino.

The aggregate effect is that this type of costs analysis leads to an understanding of those areas where costs can be trimmed, controlled, or otherwise merely understood. Occasionally, when a cost appears to have a positive effect on casino activity or revenue, managers will be able to propose increases in the beneficial costs.

Labor Costs

One cost analysis area that is critically important to the casino business is labor costs. Labor in different areas can have vastly different behavior patterns. For example, labor cost in a keno game is largely a fixed cost, with a minimum of persons required to keep the game open. This means that during periods of slow keno play, the game could actually be losing money. For the slot machine area, the minimum labor requirement is fairly low, and the costs of labor change in fairly direct proportion the total number of customers playing the machines and the volume of business. For table games, the labor costs are really semivariable due to physical arrangement of the table games, with one dealer playing against anywhere from one to seven customers on a table. Given the work rules, once a dealer has begun a shift, the costs of labor are fixed for that shift since the dealer is customarily paid for a minimum of half a shift. The decision to open another gaming table requires making a minimum fixed cost commitment.

Labor cost controllability is a key area where casino managers may not be able to make too many decisions involving fixed costs on a short-term basis, but their increasing sensitivity to the costs results in some overall reductions over the longer period. Thus, for example, labor costs of support personnel in the casino cage, which are largely fixed, can be trimmed to a bare minimum during periods of slow activity.

Rational Cost Control

Again, as in the case of any business, the cost control concepts must have a rational limit. The costs in a casino can be minimized to the point where the customers are faced with degradation of service and, in a service industry such as a casino, will undoubtedly express their dissatisfaction by taking their business elsewhere. Thus, cost control must be balanced with the need

to provide adequate levels of customer service. The perception of what constitutes an adequate level of service must be an intelligent top-level management decision made by casino executives who have a clear understanding of the style of service and the needs and desires of their customers.

BUDGET PLANNING AND FORECASTING

One of the key contributions of managerial accounting to the casino industry in the past ten years has been the increasingly widespread use of budgets and budgeting techniques in all areas of the casino. The use of these budgets has led to a deeper understanding of the factors that drive the casino industry, the ways in which revenues are earned, and the manner in which all of the costs are incurred. The increasing number of large, corporate-owned-and-operated casinos has resulted in increasingly formal financial evaluations. An effective budgeting system is an integral part of that process of financial evaluation.

The use of budgeting in casinos has also had a significant behavioral impact on management. There are several important dimensions. First, the operating personnel are involved in the analysis and preparation of budgets. They subsequently become responsible for the implementation of the budget. Thus, they are sensitive to the operating problems and the cost structure of their departments. This process alone is a major benefit to the casino operation. Second, the involvement of the operating personnel in the budget cycle adds to their dedication to achieving the results that were planned. There tend to be fewer excuses made and a higher level of commitment to making the plan work. It is management-by-objectives in action. In a survey of Las Vegas casinos, it was found that twenty of a group of twenty-eight large casinos actually did some form of financial budgeting.⁶ The survey also reported on the budgetary procedures for those twenty casinos. It is significant to note that slightly less than one-third of the largest casinos did not do any budgeting during this period.

Budget by Organizational Unit

Most casinos prepare budgets according to the main operating departments and divisions within their operation. For a hotel-casino, the budgeting process includes all the support functions, such as food-and-beverage and rooms departments, in addition to the traditional casino areas.

Within the casino department, the principal budget division is pit games, with subdivisions for different games, such as 21, craps, baccarat, and roulette. The second division is the slot department, where all slot machine operations are budgeted. A customary third division involves the so-called "side games," which typically include keno, bingo, and card rooms. Following these principal casino departments, the budgets are organized to report the costs of the casino support departments, including the casino cage, credit,

vault, and count rooms. Other miscellaneous casino revenue functions are usually included only under a minor, miscellaneous department category.

Budget Development Guidelines

The casinos surveyed varied widely in the degree of budget development and the apparent effectiveness of those budgets. The overall budget procedure tended to be poorly defined, and only a few of the casinos had detailed budget manuals. The absence of clearly defined guidelines for budget development resulted in poor coordination during the budget preparation process.

The budgets were developed and organized according to each individual department or profit center as described above. The apparent degree of integration was not very high. The budget documents were typically prepared for an annual operating cycle, and only one casino prepared a budget that included a longer-range portion covering more than one year. The budgeting process typically occurred during the 3–5 month period immediately preceding the fiscal year for which the budget was prepared. There did not appear to be any circumstances where a rolling budget was used for the ongoing casino operations.

The budget organization process was most frequently a bottom-up process, with department heads contributing the key budget figures. In other cases, the budget process could be described as an iterative process, with some figures being determined on a top-down basis by top management, the controller, or financial vice president, and other budget items coming bottom-up style from various department heads. The budgets seemed to have a fairly high level of involvement, sufficient to assure that they would be accepted by the operating personnel.

In approximately one-half of the casinos studied, the budget, once set, tended to become static, with no deviations from the stated objectives allowed. The remaining casinos made frequent alterations to the budget on a monthly or quarterly basis to reflect changes. This budget update process resulted in considerably more effort, but the identification of budgetary variances was more accurate and tended to result in better acceptance of the budgetary information.

The typical development cycle of a casino budget has the following key components:

1. Historical data for each department's revenues and costs are prepared by the accounting department.
2. Significant plans and goals for the budget year are set by the executive management and communicated to department heads in budget-planning meetings.

3. The initial budgets are prepared by the operating departments. This step may involve more than one repetition, since the various factors with an impact on revenues and expenses are analyzed and decisions made regarding major operating items.
4. The budgets are reviewed by a budget committee or senior management personnel and with the general manager.
5. The budgets are refined and, if required, changes are made in the goals, revenues, or expenses for the operating departments.
6. The budget is compiled by accounting, and final approval is given by the top-level management.
7. The budget system is updated in data processing, and the budget figures form the basis for the subsequent reporting system.
8. In each monthly reporting period, the actual-to-budget comparisons are reported on each department's operating statement.
9. Department managers follow up significant budget variances, prepare explanations for variations, and take corrective action where necessary.
10. Information is collected for the next budget cycle.

The use of historical data for budget preparation is occasionally cited as a weak point since this system tends to perpetuate organizational methods and structures of the past. These may or may not be efficient. However, it is crucial to have good historic data on which to plan the budget. Given the attention to financial detail that the gaming regulatory authorities have traditionally required, virtually all casinos have excellent financial databases from which to develop comprehensive management information. The only possible limitation of these data is that the most detailed reporting is in the area of revenues generated, and the overall quality of the cost or expense information may not be as good as it is for revenue information. In addition to this historical information, the budget process should also include consideration of the major internal or external changes planned for the budget period. Examples include significant casino expansions, major new marketing efforts, or changes in the competitive environment or macroeconomic factors.

Other Budget Considerations

Another area of concern in the budget process is the degree of sophistication of the budget analysis and preparation procedure. In general, the process is quite simple (but somewhat tedious). The information taken from the past should be intuitively analyzed by the department manager and presented in the next budget. Some innovative changes have taken place merely as a result of the department manager taking a close look at the costs in the department. For example, the development of casino department-performance standards

has resulted from the managers trying to tie the costs of service to some measures of the results achieved. This is an early form of programmatic budgeting. Performance and budget standards are much more common in the area of food and beverage accounting where cost standards have been a part of management literature for a long time. In the area of casino operations, however, standards are emerging regarding service levels, number of personnel needed for a given level of activity, and the extent of other costs—such as complimentary—based on the number of persons in the casino and the level of wagering activity.

The quantitative tools used in budgeting can vary widely. One of the most productive is the use of regression analysis to develop an understanding of cost behavior or some of the more complex or interrelated costs in the casino. Also, econometric forecasting techniques, such as time-series analysis to predict aggregate levels of casino activity, are helpful in guiding the overall direction of the casino budget.

Flexible budgets, which give consideration to changes in both variable and various fixed operating costs—related to the overall volume of casino activity—can also be of considerable value in the casino budgeting process. The consideration of changes in business volume, particularly during periods of high or low activity, can help to make the budgeting process more realistic. It can also make the reporting of differences between the budgeted and the actual performance results more creditable to the responsible department.

Living with the Budget

An integral part of the success of any casino budget is the ability of the reporting system to provide timely and accurate follow-up and comparison of the budgeted figures and the actual performance figures. The casino accounting system is set up to provide almost daily information on the revenue flows into the casino, and the typical casino can provide very good monthly information on the costs. It is important that the system have some method to report only the responsible costs to the department manager. For example, it is counterproductive to charge the casino pit with its share of the annual property-and-casualty insurance premium, thereby creating large budget differences, when the casino pit manager does not have any control over the timing, amount, or payment of that expense. Again, the use of alternative financial statement formats, such as contribution-margin budget statements, might have a positive effect on the budgetary reporting system. Beyond the accuracy and integrity of the reporting system, there must also be a commitment of top management to the use of the budget system and to develop a program for follow-up of significant budget variances. Finally, there should be some management rewards and incentives related to managers meeting and living within the budget.

Analysis of Budgetary Variances

Another managerial accounting technique that has considerable validity as an application in the casino industry is the analysis of variances in both costs and revenues. For the casino operation, the product is a service with virtually no material component, yet it has an extremely high labor and overhead cost component. For this reason, analysis of labor cost variances and overhead variances can be a productive tool for assisting management of a casino.

In the area of labor cost analysis, including the use of variance analysis, the principal focus should be on the cost and usage of the labor. Traditionally, the casino industry provides a fairly low level of direct compensation for the dealers and other casino personnel. This low level of compensation is augmented by the tip earnings of the dealers. This structure has resulted in the focus of the management being primarily on minimum-wage employment or at least on wage levels substantially below comparable worth in other industries. The overall compensation to the employees is, however, roughly equivalent to employment in other industries. Thus, in most analytic circumstances, the labor rate variances tend to be very low or nonexistent. The primary reason for dollar variation tends to be the usage of different amounts of labor than may have been originally anticipated.

In the area of overhead variances, there are three major factors to consider: business levels, unforeseen circumstances, and the absolute size of the expense items. The level of business is of overriding importance due to varying levels of operation within the casino. This is particularly significant in places with wide seasonal fluctuations. In gaming markets such as Reno and Lake Tahoe, the levels of activity in the casino can swing as much as 60%–80% between the high and low season. Analysis of what are largely fixed overhead costs in this environment cannot be done meaningfully without a flexible overhead budget. The second factor to consider is that there are often unforeseen circumstances that can disrupt the budget. The best example here is the impact that a big snowstorm which closes mountain roads has on the level of economic activity in Reno. Gaming virtually comes to a stop in Reno if Donner Pass is closed for more than a day or so. These events, although unplanned, have to be at least anticipated and included in some way in the consideration of changes in the level of activity. The third and final factor to consider in the analysis of the overhead variances is the very significant size of the overhead in a typical casino. The overhead expenses are second only to the labor expenses and must be analyzed and controlled very carefully.

MANAGERIAL ACCOUNTING AND CONSULTING ACTIVITY

There are several areas of managerial accounting that form the basis for various consulting activities that individuals typically conduct for casinos. These

consulting activities are briefly outlined below, with some examples of the application of various managerial accounting and analysis techniques.

New Casino Feasibility and Financial Projections

An important consulting function is the examination of various plans of action for proposed new casino operations. Other activities include the preparation of financial projections when new stock is issued or when the purchase or sale of a casino occurs. These types of casino consulting activities involve several steps.

Financial projections for new casinos are based upon the design of the casino. The financial projections involve preparing lists of key assumptions to be used, including the detailed discussion of the revenue assumptions used in the casinos, as well a full and complete disclosure of the amounts of costs expected to be incurred. The comprehensiveness of this review is the key to achieving a reasonable result and, more importantly, a result that is creditable to the reader of the projection. In some circumstances, the process of financial projection can discover design faults in the casino or the supporting facilities and may result in a change in the physical design of the facility before completion. These financial projections also frequently find that the level of earnings anticipated for the casino would be insufficient to meet the anticipated debt service. In these circumstances, the casino project may be abandoned largely based upon the results of the financial projections.

The accounting technique used in these financial projections is quite simple and involves projecting forward the profit and loss statements of the casino. The time periods involved for the projections can be either quarterly or annually, or a mix of these time periods. For situations where the casino is proposed to be built, the projections usually use a contribution-margin approach and do not specify the operating profit, but rather show only the amount available to meet anticipated debt service needs or to meet other administrative and overhead costs. A second major difference is that except in a few circumstances, such as an expansion of an existing casino, the only projected financial statement that is prepared is the profit and loss statement. Projected balance sheets and statements of cash flow are usually not prepared. Regardless of the form of financial statement, it is customary to include a lot of detail of the assumptions used to prepare the statement.

The format of the projected financial statement usually parallels the traditional departmental statements with separate schedules for each of the major operating departments. There is usually a separate schedule for the general and administrative costs for purposes of these projections.

Casino Systems Consulting

A second major area of casino consulting activity on the part of managerial accountants has been in assistance with the design of various systems of internal control for the casino. Examples of these types of system design projects include slot machine revenue-reporting systems; new cage and vault accounting procedures and documents; design and implementation of new marker control systems; and the development of internal control documentation for new casinos in accordance with the various regulatory requirements.

Accountants and consultants are often called upon to perform these system-consulting activities for several reasons. The first, and most important, is that they may have experience in another casino and this knowledge can be easily and cost effectively transferred to the new consulting engagement. Secondly, the accountants' experience in the areas of financial controls is second to none, and the casino is buying the best experience available in the design of internal control systems.

Currency Transaction Reporting, Suspicious Activity Reporting, and Title 31

In 1984, the federal government was becoming increasingly sensitive to the problems of money laundering by criminal elements involved with the drug trade. In October of 1984, Congress passed the Bank Secrecy Act (BSA).¹ The purpose of this act, which became known as Title 31, was to require all banks and financial institutions to record and report all cash transactions which exceeded \$10,000 during a particular time period.

Although the original purpose of the BSA was to deter money laundering, the reporting requirements also served to notify the government about other types of large cash transactions which may or may not have been the result of criminal activity. More recent purposes have included identifying terrorist activity.

BACKGROUND

By 1995, the Department of the Treasury and the department which became responsible for the enforcement of Title 31 Compliance—the Financial Crimes Enforcement Network (FinCEN)—became increasingly aware of the need to include other types of organizations within the scope of the Bank Secrecy Act. At that time, they began to move aggressively to redefine the term “financial institution”—contained in the original legislation—to include casinos and a number of other businesses. This redefinition allowed FinCEN to extend the reporting obligations of Title 31 to casinos. After implementation of this redefinition, casinos throughout the country were required to track larger cash transactions involving patrons, other businesses, and in some cases even their own transactions, and report them to the federal government.

In the early 1980s, the state of Nevada recognized that casinos were by

their very nature involved with very substantial cash transaction activity. The Nevada Gaming Control Board originally issued Regulation 6A, which for many years has been the standard to which Nevada casinos have had to comply. This regulation also had the effect of limiting the application of the anti-money-laundering statute to casinos in other jurisdictions for many years.

For the period from the mid-1980s until 2005, there were essentially two sets of currency transaction rules in place. In Nevada only, Nevada Gaming Control Board Regulation 6A was the standard. In the rest of the country, including the expanding tribal casino industry, federal law—Title 31—was the standard. In 2006, the Nevada regulators finally agreed with the casino industry to eliminate the duplication and made Title 31, the federal law, the standard for anti-money-laundering compliance in Nevada.²

Money Laundering in Casinos: The term “money laundering” does not refer to the physical cleaning of money—mostly currency—but rather to a process involving several critical features. The first purpose of money laundering is to take a multitude of small denomination bills and try to change them into larger denomination bills. The second purpose is to take currency in large amounts and deposit it into bank accounts or other financial instruments. These bank accounts or financial instruments can be more easily transported or electronically transferred to other bank accounts around the world. The last purpose of money laundering is to take money from questionable or criminal sources, and try to make the source appear reasonable and legal. (An added feature of this step might be to change the criminal source funds into nontaxable, legitimate source funds.) These are often referred to in statutory parlance as: *placement*—moving money into legitimate financial institutions; *layering*—disguising or hiding the sources of the funds through multiple complex transactions; and *integration*—moving the funds into the legitimate economy as normal business transactions.

Since large gaming winnings in a casino represent a legitimate and common explanation of large amounts of currency, the casino industry was suspected of being a center of illegal money-laundering activity. The casino industry was thus targeted by FinCEN as an area where money laundering should be monitored and where Title 31 reports should be required.³

KEY COMPLIANCE REQUIREMENTS

The general compliance requirements under Title 31 require all casinos that have a gross annual gaming revenue of over \$1 million to adhere to the requirements of the Bank Secrecy Act. In general, this requires three broad categories of action. The first is the responsibility of the casino to implement systems and procedures to identify and report all transactions which exceed \$10,000 in cash in the casino during a single business day. The second is to

assure that a responsible official within the casino is designated to be held responsible for compliance. The third is the responsibility of the casino to establish and conduct an ongoing training program for all employees regarding the monitoring and reporting responsibilities of Title 31. Although not formally part of the regulations concerning casino reporting of large currency transactions, it is generally felt that if a small casino (with annual revenue below \$1 million) encounters a cash transaction exceeding \$10,000, then that transaction should be reported using IRS form 8300, which is the general-purpose reporting form used to report the receipt of cash over \$10,000 for any trade or business.

If these compliance responsibilities are not met, and there have been some spectacular failures to report large cash transactions in the casino, the FinCEN—acting through the IRS—can fine casinos up to \$250,000 per unreported transaction. To date, there have been enforcement actions in New Jersey, Mississippi, Nevada, and in a selected number of tribal casinos. The fines have ranged from \$1 million to \$5 million. These fines are not only substantial in a financial sense, but there is a serious loss of reputation capital by both the casino and the casino's auditors, who often bear responsibility for not finding the suspect transactions.

Because of the large financial exposure involved in not being able to demonstrate substantial compliance with the Title 31 regulations, the review and testing of currency-reporting procedures have become a key part of both the external and internal audit compliance testing in auditor's regular work assignments.

Reportable Currency Transactions

In general, all transactions involving cash coming into the casino (from a customer to employees) are aggregated together over a 24-hour period (defined as the gaming day) and must be reported on a "currency transaction report" (CTR). Some examples of these transactions include the following:

- Purchases of chips and tokens—regardless of whether the purchase is done at the cashier cage or at the gaming tables
- Cash paid out by the casino to a patron
- Player bank deposits involving cash (this includes front money deposited for junket or group play as well as safekeeping deposits and withdrawals)
- Cash payments or advances in cash received in exchange for any form of credit instrument
- Currency receipts or transfers using wire transfers
- Purchase of or cashing of a check or negotiable instruments
- Reimbursement in cash of customer expenses such as travel or entertainment

- Cash for cash currency exchanges, including exchange of foreign currency
- Any tournament buy-in made in cash

One of the key distinctions made in the regulations and illustrated in these samples is that these cash transactions are segregated as cash-in and cash-out transactions, and are never combined. If they were, much of the cash activity in the casino would be double-counted, resulting in inaccurate reporting.

Aggregation Requirements

A second key issue involved in the currency transaction monitoring is the requirement for the systems and procedures in the casino to provide for aggregation procedures. These aggregation requirements call for the casino to monitor cash activity across all gaming areas of the casino. This means that cash gaming on the tables, at the slot machines, and even transactions with different cashiers' cages must be monitored and, if necessary, combined to see if they exceed the \$10,000 reporting threshold.

Tracking Transactions

A reporting system that a casino must have in place is one that tracks cash transactions at lower amounts, such as \$2,500 or \$3,000. The purpose of this lower tracking threshold is to allow the casino time to gather information from the customer; it may be required to complete a formal currency transaction report when the cumulative impact of the smaller transactions exceeds the reporting limit. These interim or lower-amount tracking documents are usually called "multiple transaction logs" (MTLs). The original Nevada Regulation 6A required these MTLs, while the federal regulations do not require tracking documents at lower dollar amounts, but common practice has resulted in their widespread adoption.⁴ The recent adoption of suspicious-activity reporting requirements that require reporting of suspicious transactions has made the use of the lower-threshold multiple transaction logs almost a necessity.

A separate subsystem of currency transaction reporting requires that record keeping be established to create a monetary instrument log. These logs are used in connection with extensions of credit in the casino which exceed \$2,500, and any negotiable instrument transaction which meets or exceeds \$3,000. These monetary instrument logs are usually kept in the casino cage.

A sample of the multiple transaction log is shown in figure 15-1. A sample monetary instrument record is shown in figure 15-2.

Timing Issues and the Gaming Day: The law requires reporting of cash transactions which exceed \$10,000 in a single gaming day. The definition of the "gaming day" is left to the discretion of the casino, and can be any 24-hour



**GOODTIME
GREENLEES**
RESTAURANT/CASINO

CAGE DEPARTMENT MULTIPLE TRANSACTION LOG (MTL)

From: 6:00 am Date: 06/08/2007 To: 5:59:59 am Date: 06/09/2007 Page _____ of _____

Customer/Agent Name: MONEYBAGS_JOE Social Security Number: 123-45-6789

Time AM/PM	Window #	Amount	CUMULATIVE Cash Out	CUMULATIVE Cash In	TRANS. TYPE	SEX	RACE	HAIR	AGE	BUILD	HT	CLOTHING DESCRIP.	REMARKS	Employee Signature/Id Number
3:25	am/pm	3	2,500		10	M	C	1	3	M	3	BLUE JEAN	922 First Avenue	B. TELLER 11012
4:40	am/pm	5	3,000	550	5							WHITE "T"	Boonville, WV 98765	B. TELLER 11012
5:45	am/pm	MRK	5,000	10,500	9								DOB: 12-08-65	
	am/pm												Exp. 12-08-07	
	am/pm												MD067892 NV	

Customer/Agent Name: TERRY TABLEGAMER Social Security Number: 987-65-4321 AGENT: SALLY SLOTTIER Social Security Number: 999-99-9999

Time AM/PM	Window #	Amount	CUMULATIVE Cash Out	CUMULATIVE Cash In	TRANS. TYPE	SEX	RACE	HAIR	AGE	BUILD	HT	CLOTHING DESCRIP.	REMARKS	Employee Signature/Id Number
7:25	am/pm	MRK	7,000		5	M	C	4	3	M	4	WHITE/GREEN	123 Spender Lane	C. PAYDAY 14356
4:40	am/pm	5	3,000	550	8							POLO	Spentston, CA 99814	C. PAYDAY 14356
	am/pm											BROWN SLACKS	DOB: 06-14-40	
	am/pm												Exp. 06-14-07	
	am/pm												BZ468102 CA	

- 1-4 CASHIN**
 1. Chip / token purchase
 2. Front money / sleeping deposit
 3. Marker payment
 4. Other cash receipt
 Cage Supervisor Review
- 5-11 CASHOUT**
 5. Chip / token redemption
 6. Front money / sleeping withdrawal
 7. Any other cash disbursement
 8. Slot jackpot payout
 9. Marker payout
 10. Checks cashed
 11. E-check transaction

- TRANSACTION TYPE**
- BACE**
 C - Caucasian
 B - African American
 H - Hispanic
 A - Asian
- HME COLOR**
 1. Black
 2. Brown
 3. Blonde
 4. Gray
 4.85 +
 6. Bald
- AGE**
 1. 21 - 29
 2. 30 - 50
 3. 51 - 65
 4. 65 +
- HEIGHT**
 1. Under 5 feet
 2. 5ft - 5'6"
 3. 5'6" - 6ft
 4. 6ft - 6'6"
 5. 6'6" or taller
- BUILD**
 H - Heavy
 M - Medium
 T - Thin

TITLE-31 REVIEW:

Fig- 15-1. Multiple Transaction Log


 <p style="font-size: small; margin: 0;">GOODTIME GREENLEES RESORT AND CASINO</p>	<p>GOODTIME GREENLEES CASINO MONETARY INSTRUMENT LOG (MIL)</p>
<p>In accordance with Title 31, a separate record is needed containing a list of each transaction between the casino and its customers involving negotiable instruments having a face value of \$3,000 or more.</p>	
<p>From: 6AM DATE: _____ To: 6AM DATE: _____</p>	
<p>Type of Instruments:</p> <ol style="list-style-type: none"> 1. Personal Check 2. Business Check 3. Official Bank check 4. Cashier's Check 5. Third Party check 6. Promissory Note 7. Traveler's Check 8. Money Order 9. Jackpot Order <p>Settlement Method:</p> <ol style="list-style-type: none"> A. Cash B. Marker C. Payment D. Chips E. Deposit F. Other - describe 	<p>Date: _____ Time _____</p> <p>Name _____</p> <p>Address _____</p> <p>City, State, Zip _____</p> <p>Social Security Number (if over \$10,000) _____</p> <p>Cash Club Number (if applicable) _____</p> <p>Type of Instrument No. _____ Desc. _____</p> <p>Settlement Type: _____</p> <p>Name of Issuer or Drawee _____</p> <p>Check Number _____</p> <p>Dollar Amount _____</p> <p>Cage Cashier Name & Badge # _____</p>

Fig. 15-2. Monetary Instrument Log

period. The customary procedure is to define the business day to coincide with the end-of-day activity involving the shifts of pit supervisors, pit clerks, and cashiers. This would assure that the end-of-shift accounting activity could naturally include completion of the multiple transaction logs and the necessary CTRs. For some unusual gaming activity, such as a cruise to nowhere, the business day could be defined to be the cruise day—which consists of an afternoon cruise and an evening cruise each day.

CURRENCY TRANSACTION REPORTS (FORM FINCEN 103)

The actual currency transaction form used by casinos to report transactions which exceed \$10,000 in cash is called a "currency transaction report by casinos," or CTRC. It was originally designated as IRS form 8362, and some of the official documentation still refers to the old IRS form number. Effective March 2003, the form number was changed, although the contents of the form remained virtually the same. Figures 15-3A and 15-3B show the current form 103. It is a one-page form, with a second page required if multiple persons are

involved in the transaction. A copy of the form and instructions are available for download from the FinCEN website.⁵

The report form has three main parts. Part I is the identification information regarding the patron on whom the report is being prepared. There are also requirements for reporting not only the principal person involved in the transaction, but any agent acting for the principal. The main items of identification are name, address, and taxpayer identification number. The form also requires that the person's identity be verified by some other form of identification which contains a picture. In general, these identification requirements are consistent with the patron identification procedures outlined in the tax chapter. If the customer is a known customer to the casino, and that person's identification has been verified earlier—for example, through a players club or player-tracking system—then the casino can indicate that on the form and no additional identification from the customer is needed. The casino should have procedures in place to document the fact that the known customer's identification was verified, and be able to demonstrate that the information in the casino files on these known customers is accurate and reliable.

Part II of the form calls for the identification of the amount and type of transaction that is being reported. Notice that there are two separate areas, one for cash-in and one for cash-out. The dollar amounts are totaled, and if foreign currency is involved, that should also be specified.

Part III of the form is the casino identification information. This part of the form is usually signed by the BSA compliance officer in the casino and dated on the day the report is completed. Usually the date of the report is within one or two days of the actual transactions, but occasionally the date of the transaction on the form may be considerably different from the date the report is filed.

IRS and FinCEN regulations call for the prompt filing of the report. The report must be submitted to the IRS data processing center within fifteen days after the transaction. That processing center is currently in Detroit, Michigan. In addition, the casino has a record-keeping responsibility to retain copies of all form FinCEN 103s filed for a period of five years from the date of filing.

Other Issues: Title 31 compliance programs must strive to balance the reporting requirements with the need to provide good customer service to the casino patron. This customer service may include trying to provide a degree of anonymity to the patron. While the first thing that comes to mind is to simply tell customers about the reporting requirements and possibly assist them in avoiding the reporting, this type of action is prohibited by the CTR regulations. Also, as we will discuss later, actively counseling a customer to avoid the reporting requirements is considered a prime category of suspicious activity which may require a separate suspicious activity report to be filed.

Currency Transaction Report by Casinos

▶ Previous editions will not be accepted after December 31, 2007.
▶ Please type or print.



OMB No. 1506-0005

1 If this Form 103 (CTRC) is submitted to amend a prior report check here: and attach a copy of the original CTRC to this form.

Part I Person(s) Involved in Transaction(s)

Section A—Person(s) on Whose Behalf Transaction(s) Is Conducted (Customer)

2 Multiple persons

3 Individual's last name or Organization's name 4 First name 5 M.I.

6 Permanent address (number, street, and apt. or suite no.) 7 SSN or EIN

8 City 9 State 10 ZIP code 11 Country code (if not U.S.) 12 Date of birth (MM/DD/YYYY)

13 Method used to verify identity: a Examined identification credential/document b Known Customer - information on file c Organization

14 Describe identification credential: a Driver's license/State ID b Passport c Alien registration d Other

e Issued by: f Number:

15 Customer's Account Number

Section B—Individual(s) Conducting Transaction(s) - If other than above (Agent)

16 Multiple agents

17 Individual's last name 18 First name 19 M.I.

20 Address (number, street, and apt. or suite no.) 21 SSN

22 City 23 State 24 ZIP code 25 Country code (if not U.S.) 26 Date of birth (MM/DD/YYYY)

27 Method used to verify identity: a Examined identification credential/document b Known Customer - information on file

28 Describe identification credential: a Driver's license/State ID b Passport c Alien registration d Other

e Issued by: f Number:

Part II Amount and Type of Transaction(s). Complete all items that apply.

29. Multiple transactions

<p>30 CASH IN: (in U.S. dollar equivalent)</p> <p>a Purchase(s) of casino chips, tokens, and other gaming instruments \$ _____ .00</p> <p>b Deposit(s) (front money or safekeeping) _____ .00</p> <p>c Payment(s) on credit (including markers) _____ .00</p> <p>d Currency wager(s) (including money plays) _____ .00</p> <p>e Currency received from wire transfer(s) out _____ .00</p> <p>f Purchase(s) of casino check(s) _____ .00</p> <p>g Currency exchange(s) _____ .00</p> <p>h Other (specify): _____ .00</p> <p>i Enter total of CASH IN transaction(s) \$ _____ .00</p>	<p>31 CASH OUT: (in U.S. dollar equivalent)</p> <p>a Redemption(s) of casino chips, tokens, tickets, and other gaming instruments \$ _____ .00</p> <p>b Withdrawal(s) of deposit (front money of safekeeping) _____ .00</p> <p>c Advance(s) on credit (including markers) _____ .00</p> <p>d Payment(s) on wager(s) _____ .00</p> <p>e Currency paid from wire transfer(s) in _____ .00</p> <p>f Negotiable instrument(s) cashed (including checks) _____ .00</p> <p>g Currency exchange(s) _____ .00</p> <p>h Travel and complimentary expenses and gaming incentives _____ .00</p> <p>i Payment for tournament, contest or other promotions _____ .00</p> <p>j Other (specify): _____ .00</p> <p>k Enter total of CASH OUT transaction(s) \$ _____ .00</p>
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32 Date of transaction (see instructions) MM/DD/YYYY 33 Foreign currency used: _____ (Country)

Part III Casino Reporting Transactions

34 Casino's trade name 35 Casino's legal name 36 Employer identification number (EIN)

37 Address where transaction occurred (See instructions)

38 City 39 State 40 ZIP code

41 Title of approving official 42 Signature of approving official 43 Date of signature (MM/DD/YYYY)

44 Type or print preparer's name 45 Type or print name of person to contact 46 Contact telephone number

For Paperwork Reduction Act Notice, see page 4.

Cat. No. 37041B

FinCEN Form **103** (Rev. 3-03)

Fig. 15-3A. FinCEN Form 103, Page 1

Multiple Persons or Multiple Agents

(Complete applicable parts below if box 2 or box 16 on page 1 is checked.)

Part I Person(s) Involved in Transaction(s)

Section A—Person(s) on Whose Behalf Transaction(s) Is Conducted (Customer)

3 Individual's last name or Organization's name			4 First name			5 M.I.		
6 Permanent address (number, street, and apt. or suite no.)						7 SSN or EIN 		
8 City		9 State	10 ZIP code		11 Country (if not U.S.)		12 Date of birth MM / DD / YYYY	
13 Method used to verify identity: a <input type="checkbox"/> Examined identification credential/document b <input type="checkbox"/> Known Customer - information on file c <input type="checkbox"/> Organization								
14 Describe identification credential: a <input type="checkbox"/> Driver's license/State ID b <input type="checkbox"/> Passport c <input type="checkbox"/> Alien registration d <input type="checkbox"/> Other e Issued by: _____ f Number: _____								
15 Customer's Account Number								

Section B—Individual(s) Conducting Transaction(s) - If other than above (Agent)

17 Individual's last name			18 First name			19 M.I.		
20 Address (number, street, and apt. or suite no.)						21 SSN 		
22 City		23 State	24 ZIP code		25 Country (if not U.S.)		26 Date of birth MM / DD / YYYY	
27 Method used to verify identity: a <input type="checkbox"/> Examined identification credential/document b <input type="checkbox"/> Known Customer - information on file								
28 Describe identification credential: a <input type="checkbox"/> Driver's license/State ID b <input type="checkbox"/> Passport c <input type="checkbox"/> Alien registration d <input type="checkbox"/> Other e Issued by: _____ f Number: _____								

General Instructions

Form 103. Use this revision of Form 103 for filing on reportable transactions.

Suspicious Transactions. If a transaction is greater than \$10,000 in currency as well as suspicious, casinos must file a Form 103 and must report suspicious transactions and activities on FinCEN Form 102, Suspicious Activity Report by Casinos (SARC). Also, casinos are required to use the SARC form to report suspicious activities involving or aggregating at least \$5,000 in funds. Do not use Form 103 to (a) report suspicious transactions involving \$10,000 or less in currency or (b) indicate that a transaction of more than \$10,000 is suspicious.

In situations involving suspicious transactions requiring immediate attention, such as when a reportable transaction is ongoing, the casino or card club shall immediately notify, by telephone, appropriate law enforcement and regulatory authorities in addition to filing a timely suspicious activity report.

Who must file. Any organization duly licensed or authorized to do business as a casino, gambling casino, or card club in the United States and having gross annual gaming revenues in excess of \$1 million must file Form 103. This includes the principal headquarters and every domestic branch or place of business of the casino or card club. The requirement includes state-licensed casinos (both land-based and riverboat), tribal casinos, and state-licensed and tribal card clubs. Since card clubs are subject to the same reporting rules as casinos, the term "casino" as used in these instructions refers to both a casino and a card club.

What to file. A casino must file Form 103 for each transaction involving either currency received (Cash In) or currency disbursed (Cash Out) of more than \$10,000 in a gaming day. A gaming day is the normal business day of the casino by which it keeps its books and records for business, accounting, and tax purposes. Multiple transactions must be treated as a single transaction if the casino has knowledge that: (a) they are made by or on behalf of the same person, and (b) they result in either Cash In or Cash Out by the casino totaling more than \$10,000 during any one gaming day. Reportable transactions may occur at a casino cage, gaming table, and/or slot machine/video lottery terminal. The casino should report both Cash In and Cash Out transactions by or on behalf of the same customer on a single Form 103. Do not use Form 103 to report receipts of currency in excess of \$10,000 by non-gaming businesses of a casino (e.g., a hotel); instead, use Form 8300, Report of Cash Payments Over \$10,000 Received in a Trade or Business.

Exceptions. A casino does not have to report transactions with:

- domestic banks; or
- currency dealers or exchangers, or check cashers, as defined in 31 C.F.R. § 103.11(uu), and which are conducted pursuant to a contractual or other agreement covering the financial services in 31 C.F.R. § 103.22(b)(2)(i)(H), 103.22(b)(2)(i)(G), and 103.22(b)(2)(ii)(H).

Also, a casino does not have to report the following types of transactions:

- Cash ins when it is the same physical currency previously wagered in a money play on the same table game without leaving the table;
- Bills inserted into electronic gaming devices in multiple transactions (unless a casino has knowledge pursuant to 31 C.F.R. 103.22(c)(3));
- Cash outs when in a money play when it is the same physical currency wagered (Note: However, when a

customer increases a subsequent cash bet (i.e., money play), at the same table game without departing, the increase in the amount of the currency bet would represent a new bet of currency and a transaction in currency), or,

- Jackpots from slot machines or video lottery terminals.

Identification requirements. All individuals (except employees conducting transactions on behalf of armored car services) conducting a reportable transaction(s) for themselves or for another person must be identified by means of an official or otherwise reliable record.

Acceptable forms of identification include a driver's license, military or military dependent identification card, passport, alien registration card, state issued identification card, cedular card (foreign), or a combination of other unexpired documents that contain an individual's name and address and preferably a photograph and are normally acceptable by financial institutions as a means of identification when cashing checks for persons other than established customers.

For casino customers granted accounts for credit, deposit, or check cashing, or on whom a CTRC containing verified identity has been filed, acceptable identification information obtained previously and maintained in the casino's internal records may be used as long as the following conditions are met. The customer's identity is re-verified periodically, any out-of-date identifying information is updated in the internal records, and the date of each re-verification is noted on the internal record. For example, if documents verifying an individual's identity were examined and recorded on a signature card when a deposit or credit account was opened, the casino may rely on that information as long as it is re-verified periodically.

When and where to file: This form can be e-filed through the Bank Secrecy Act E-filing System. Go to <http://bsaeifiling.fincen.treas.gov/index.jsp> to

Fig. 15-3B. FinCEN Form 103, Page 2



<div style="text-align: center;">  <p>GOODTIME GREENLEES <small>RESORT AND CASINO</small></p> </div> <div style="text-align: center; margin-top: 20px;"> <h2>TITLE 31</h2> <hr/> <p>WHAT IS "TITLE 31"</p> <hr/> <p>Title 31 is a federal law also known as the Bank Secrecy Act which requires Casinos to report single or aggregated cash-in and cash-out transactions in excess of \$10,000 during a 24-hour gaming day. A Currency Transaction Report (CTR) must be completed and filed with the Internal Revenue Service.</p> <hr/> <p>WHAT IS REQUIRED?</p> <hr/> <p>The customer is required to provide valid photo identification, permanent address, Social Security number and date of birth on all cash transactions exceeding \$10,000.</p> <hr/> <p>DO ALL CASINOS IN THE U.S. HAVE TO COMPLY WITH "TITLE 31"</p> <hr/> <p>Yes. All Casinos must comply with this law.</p> </div>	<div style="text-align: center; margin-bottom: 20px;"> <p>WHAT TYPES OF TRANSACTIONS ARE REPORTED</p> <hr/> </div> <div style="text-align: center;"> <p>CASH-IN</p> <ul style="list-style-type: none"> Tournament or other player buy-in Cash buy-in at the table games Cash wagers Any other cash-in transaction <p>CASH-OUT</p> <ul style="list-style-type: none"> Check cashing Cashing out of gaming chips Any other cash-out transactions <hr/> </div> <div style="text-align: center; margin-top: 20px;"> <p>We regret any inconvenience this law may cause you. The gaming industry is highly regulated. We will comply with these regulations and continue to adhere to our own house policies.</p> <p style="margin-top: 10px;"><i>Thank you for your cooperation.</i></p> <div style="text-align: center; margin-top: 20px;">  <p>GOODTIME GREENLEES <small>RESORT AND CASINO</small></p> <p>1234 MONEY WAY CASHTOWNE, NV 89101</p> </div> </div>
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Fig. 15-4. CTR Customer Information Card

The best solution is for the casino to post a number of notices in the vicinity of cashiers' cages, briefly describing the casino's obligation to report large cash transactions under Title 31. Casinos have also made small information cards available throughout the casino, which describe in general terms the casino's obligation to report. See figure 15-4, which illustrates a sample information card. It is interesting to note that some casinos even go so far as to print these information cards in other languages for the convenience of customers.

Finally, it must be noted that the casino has an obligation to report any cash transaction exceeding \$10,000 about which it has knowledge. This means that some forms of information that are part of general casino operations may give clues to large cash transactions. If these documents show cash activity, then the casino must report that activity. For example, informal customer rating forms used by pit supervisory personnel may show a large cash buy-in. These forms are usually not retained as part of the formal accounting system, but they may be critical to reporting some currency transactions. Also, slot player clubs may collect data on cash put into slot machines. If this amount

exceeds the reporting thresholds, then those records should be retained and made part of the formal currency-transaction reporting system.

CTR COMPLIANCE PROGRAMS

The CTR compliance program begins with the specification of casino procedures for handling currency transaction reporting. This would include daily compliance to procedures on the gaming floor, periodic training programs, and daily audit or follow-up to assure accurate transaction reporting. The compliance program should also include procedures to generate and resolve any exceptions that are reported; to report exceptions to management; and to assure that the casino internal audit and independent CPAs test the CTR controls as part of their regular examinations.

BSA Compliance Officer

Ultimately, the responsibility for all CTR compliance lies with the designated BSA compliance officer. This person must be specified, and that appointment documented in some manner. If the person leaves the job, then his or her job responsibilities must flow to another person to assure an uninterrupted chain of responsibility. The job responsibilities of the BSA compliance officer should include the design and approval of systems used to collect data for reporting; review of the daily audit of transactions, including documentation of the follow-up on exceptions and problems; coordination of the CTR training; and functioning as the administrative contact between the casino and the IRS.

Training Programs

Training programs are required by the Title 31 regulations. These programs include both initial training for new employees, as well as continuing refresher training for all employees. These programs can be achieved either by internal training or external training. For most casinos, the internal training is more cost effective and is easier to schedule for various shift workers. However, if the skills or knowledge is not present within the casino, outside trainers or consultants can provide good quality training. In general, the outside trainers are employed to provide training for trainers—in order to make sure that training is up-to-date with changing rules and circumstances in the industry. Also, the validity of outside trainers tends to be better and this can have a salutary effect on the attitude of regulatory agencies when they evaluate the quality and type of training.

Another serious question is who to schedule for training. The simple answer is all levels of floor employees. While this may seem like overtraining, the ability of all levels of employees—from change people to head cashiers and supervisory personnel—to identify CTR transactions (and also suspicious

activity) can make the casino's compliance program much more effective. The actual training content should be up-to-date and current. In addition, the CTR training should include suspicious activity training at the same time. Training topics may include policy discussions and identifying problems that were encountered in the past and how these problems were resolved. Of course the basic procedures of recognizing transactions, completing documents such as the multiple transaction logs, requirements of customer identification, and how to complete CTR forms should be covered. Also among the topics to be covered are procedures of how to deal with exceptions or problem situations when they develop.

Finally, it is almost mandatory for training classes and attendance at the training to be documented fully. This will include signed attendance sheets, class time logs, as well as class training outlines and materials.

Gaming Floor Compliance Procedures: The key to gaming floor compliance procedures having to do with both CTRs and suspicious activity reporting is the ability of all floor personnel to recognize and identify reportable transactions. Part of this is included in overall casino security and supervision procedures. Large cash buy-in at the table should be identified by dealers and acknowledged by supervisors. Cashiers and cashier supervisors should also be trained to identify reportable transactions involving large cash amounts. Surveillance personnel should also be trained to recognize large cash transactions.

In addition to identifying transactions, pit clerks or other personnel should also be trained to properly complete a multiple transaction log, and be trained in the fine art of gathering patron identification without raising concern or discouraging play by the customer. In a few areas, such as credit cashiering, there may also be specific requirements for recording transactions such as all credit instruments issued for over \$2,500. The cage cashiers who normally handle check cashing and other negotiable instruments must be mindful of the requirements to report those transactions at the slightly higher dollar limit equal to \$3,000 or more.

When the shift or day is completed, the cashier, pit clerk, or pit supervisor should sign off on the transaction logs and the logs should be transmitted to the accounting department or the BSA compliance officer for review. In some cases, if there is a low volume of CTR activity, the casino can use only one multiple transaction log for each day, rather than one log for each shift. Turn-in procedures should be used to assure that all MTLs from each significant area of the gaming floor are indeed turned in and not misplaced. A simple checklist will aid in maintaining the integrity of the form flow from casino floor to the accounting department.

Another important issue is that if there is no CTR activity during a shift or

a day, that should be stated as such on the log before it is signed off and submitted. Also, these “no activity” logs should be maintained in order to prove the consistency of the compliance process.

DAILY ACCOUNTING AUDIT PROCEDURES FOR CTRS

At the conclusion of each business day, the revenue accounting department or the BSA compliance officer should review the CTR activity. This review is critical to assure that: (1) all MTLs, CTRs, and suspicious activity reports for casinos (SARCs) are properly completed; and (2) that no documents reveal activity that is not properly recorded and reported.

The detail daily procedures should include the following:

1. Account for the document turn-in of all MTLs from all monitoring areas
2. Review MTLs for completeness
 - Verify “no activity” sign-off where appropriate
 - Assure that transactions are properly recorded
 - Assure that customer data is complete with a description, if necessary, on SARCs
 - Assure proper signatures and identification by badge number
3. Summarize logs and trace transactions exceeding \$10,000 to a completed CTR form
4. Analyze MTLs for nonaggregated activity that should be combined
5. Analyze similar name or like customers to identify possible combinations for reporting
6. Review cage records for large checks or credit activity for compliance
7. Complete additional CTRs as necessary resulting from steps 4, 5, or 6
8. Review all CTRs for completeness and accuracy before filing
9. Review all SARCs, notify agencies if necessary by phone
10. Complete audit checklists, exception reports, and document responses to exceptions or follow-up
11. Complete a CTR tracking schedule to assure submission to the IRS
12. Mail CTR or electronically transmit to IRS (if mailed, send by certified mail and attach the mail receipt to the CTR file copy retained in the casino)

Compliance Review: It is important from a compliance-enforcement standpoint to review non-Title 31 documents to determine if transactions might have occurred that should result in completion of either an MTL entry, a CTR, or an SARC. The main compliance problem is a failure to file a CTR, which usually results from missing transactions that should have been recorded in a CTR.

The following documents should be examined to determine if there may be omitted CTR transactions:

1. Table game or pit buy-in records

2. Other player tracking records
3. Large cash wagers reported by supervising personnel
4. Single-visit information from players club or other sources
5. W-2Gs or 1099s filed for large jackpots or other winnings indicating how the jackpot was paid—by cash or check
6. Payouts, drawings, or tournament winners
7. Large race or sports book winners
8. Cashier cage records such as safekeeping deposit records
9. Records of check-cashing records or credit card advances
10. Marker issuances or repayments
11. Any wire transfer request—inbound or outbound

The overall objective of currency transaction reporting is to achieve and demonstrate compliance with the rules to satisfy the regulatory authorities and the IRS. That objective includes balancing this regulatory commitment while not overreporting. A high level of customer service must be kept, while assuring smooth casino transaction flows. However, advising customers how to circumvent the law or how to structure transactions is illegal and subject to suspicious activity reporting.

SUSPICIOUS ACTIVITY REPORTING

In 2004, FinCEN enacted new rules to require casinos and card clubs to begin reporting any suspicious activity that may occur on their premises. The basic coverage of the reporting rules is similar to currency transaction reporting, and applies to any casino with a gross annual gaming revenue in excess of \$1 million per year.

The suspicious activity reporting applies to any transaction that equals or exceeds \$5,000 in funds or other assets. This lower dollar level allows for the reporting of transactions that are under the \$10,000-plus limit for CTR forms, but which may involve attempts to structure transactions to avoid reporting. Casinos can voluntarily provide a suspicious activity report if the amount is less than \$5,000.

In an attempt to assure a high degree of compliance with the new suspicious activity reports for casinos, FinCEN has defined four types of transactions that casinos should be particularly mindful of and report:

1. Any transaction that involves funds derived from illegal activities or is conducted to hide or disguise funds or assets derived from illegal activities, or as a part of a plan to violate or evade any federal or state law or regulation, or to avoid any transaction reporting requirement
2. Any transaction that is designed to evade any requirements of currency-transaction reporting regulations, including structuring transactions
3. Any transaction that has no business or apparent lawful purpose or is

not the sort of transaction in which a patron would normally be expected to engage

4. Any transaction used to facilitate criminal activity

Some of the possible suspicious transactions that are within the above classification include customers who engage in large cash activity with minimal wagering or little or no risk of loss, direct efforts to launder money, and questionable use of negotiable instruments and wire transfers. Other areas of concern include undue influence or misuse of position, the use of multiple or false identities, using agents to conduct cash activity, and attempts to evade cash-reporting regulations by involvement in transactions just below reporting thresholds. Some of these example situations are illustrated on the FinCEN web site under examples of suspicious transactions as well.⁶

The Suspicious Activity Report Processing: The suspicious activity reporting is viewed as a very serious matter by the IRS and FinCEN. Particularly in light of the heightened security surrounding all public activity in the United States since September 11, 2001, all agencies of the local and federal government closely monitor these SARCs and act very quickly if a report is filed.

The Suspicious Activity Report is FinCEN form 102, a copy of which is included in figures 15-5A, 15-5B, and 15-5C. The report consists of six major sections:

1. Subject information section—asks for as much information as possible about the person or persons conducting the suspicious transaction. If the person is a known customer or is in the player database, the information can be completed fairly easily. The SARC report can be filed even if the subject of the information is not available. If little is known about the subject, some description should be contained in the narrative of the report.

2. Suspicious activity information—is a section that asks the nature of the suspicious activity by checking a box and specifying the dollar amount involved.

3. Law enforcement contact information—spells out what agencies have been contacted. This section is used to coordinate the SARC documents with other investigatory activity that may have been referred to by casino management, security, or regulatory agency personnel.

4. Reporting casino information—contains the descriptive information about the casino filing the report.

5. Contact assistance—is the contact person in the casino, usually the BSA compliance officer. (An interesting extension of the responsibility of the BSA compliance officer has occurred, with that same person now assuming responsibility for both currency transaction reporting and suspicious activity reporting.)

6. Narrative—calls for a narrative description of the subject and the behavior that resulted in the filing of the SARC. The narrative description should be as complete as possible and contain as much information as possible in order to allow subsequent investigation and follow-up of the suspicious transaction.

Suspicious Activity Reporting Procedures: There are several key procedural matters that should be implemented in connection with suspicious activity reporting. First and foremost, the federal law and regulations prohibit anyone from informing customers that an SARC form has been filed on them. At the same time, the law contains hold-harmless language which protects individuals from civil liability arising from filing an SARC. The only requirement is that the SARC must have been filed in reasonable good faith in order to secure these hold-harmless benefits in the legislation.

The first step in an effective SARC procedure is the specification of casino policies and procedures as to what actions should be taken if a suspicious activity or transaction occurs. Since these are most likely to be extraordinary, unusual, or infrequent occurrences, notification of key casino employees is an essential first step. This usually involves notification of senior management personnel, senior surveillance personnel, and supervisors of the person first noticing the transaction. Care should be taken, both in communicating with operating-level employees and in training sessions, to avoid creating a false positive atmosphere in the casino, where excessive reporting of suspicious-looking people or behavior becomes rampant.

The reporting procedures should spell out what review process should take place, including review of documents and surveillance video. The review process should be documented in writing and, if justified after a review of documents and surveillance data, an SARC report should be completed.

The next element in SARC compliance is the training of all personnel to recognize potential suspicious activity and to train them in the reporting procedures to be followed. This training includes *not* to inform the customer or subject of the casino's suspicions. The SARC training can be handled logically as an extension of currency-transaction reporting training. Since the majority of the SARCs filed in 2003, indicated on table 15-1, have to do with attempts to structure transactions to avoid a CTR, it seems reasonable to focus on this aspect of suspicious activity reporting. There appears to be an affirmative duty on the part of the casino to report suspicious activity if the casino has reason to suspect the activity is taking place.⁷

The suspicious activity reporting procedures should be tested and examined periodically (at least annually). This examination should be conducted by the internal audit group of the casino and the external certifying accountant. The nature and scope of this examination is difficult since there are few

Suspicious Activity Report by Casinos and Card Clubs



OMB No. 1506 - 0006

Previous editions will not be accepted after December 31, 2003

Please type or print. Always complete entire report. Items marked with an asterisk * are considered critical (see instructions).

1 Check the box if this report corrects a prior report (see instructions on page 6)

Part I Subject Information

2 Check box (a) if more than one subject box (b) subject information unavailable

*3 Individual's last name or entity's full name _____ *4 First name _____ *5 Middle initial _____

*6 also known as (AKA- individual), doing business as (DBA- entity) _____ 7 Occupation / type of business _____

*8 Address _____ *9 City _____

*10 State _____ *11 ZIP code _____ *12 Country (if not U.S.) _____ 13 Vehicle license # / state (optional)
a. number _____ b. state _____

*14 SSN / ITIN (individual) or EIN (entity) _____ *15 Account number _____ No account affected Account open? Yes No 16 Date of birth
MM / DD / YYYY

*17 Government issued identification (if available)
a Driver's license/state ID b Passport c Alien registration
d Other _____
e Number: _____ f Issuing state or country _____

18 Phone number - work () - _____ 19 Phone number - home () - _____ 20 E-mail address (if available) _____

21 Affiliation or relationship to casino/card club
a Customer b Agent c Junket / tour operator d Employee e Check cashing operator
f Supplier g Concessionaire h Other (Explain in Part VI)

22 Does casino/card club still have a business association and/or an employee/employer relationship with suspect?
a Yes b No If no, why? c Barred d Resigned e Terminated f Other (Specify in Part VI) _____ 23 Date action taken(22)
MM / DD / YYYY

Part II Suspicious Activity Information

*24 Date or date range of suspicious activity
From MM / DD / YYYY To MM / DD / YYYY *25 Total dollar amount involved in suspicious activity
\$ _____ .00

*26 Type of suspicious activity:
a Bribery/gratuity g Misuse of position m Unusual use of wire transfers
b Check fraud (includes counterfeit) h Money laundering n Unusual use of counter checks
c Credit/debit card fraud (incl. counterfeit) i No apparent business or lawful purpose or markers
d Embezzlement/theft j Structuring o False or conflicting ID(s)
e Large currency exchange(s) k Unusual use of negotiable instruments (checks) p Terrorist financing
f Minimal gaming with large transactions l Use of multiple credit or deposit accounts q Other (Describe in Part VI)

Part III Law Enforcement or Regulatory Contact Information

27 If law enforcement or a regulatory agency has been contacted (excluding submission of a SAR), check the appropriate box.
a DEA e U.S. Customs Service i State law enforcement
b U.S. Attorney (** 28) f U.S. Secret Service j Tribal gaming commission
c IRS g Local law enforcement k Tribal law enforcement
d FBI h State gaming commission l Other (List in item 28)

28 Other authority contacted (for box 27 g through l) ** List U.S. Attorney office here. _____ 29 Name of person contacted (for all of box 27) _____

30 Telephone number of individual contacted in box 29 () - _____ 31 Date Contacted MM / DD / YYYY

Fig. 15-5A. FinCEN Form 102, Page 1

Part IV Reporting Casino or Card Club Information 2

*32 Trade name of casino or card club		*33 Legal name of casino or card club		*34 EIN	
35 Address					
*36 City			*37 State	*38 ZIP code	
39 Type of gaming institution					
<input type="checkbox"/> a State licensed casino <input type="checkbox"/> b Tribal licensed casino <input type="checkbox"/> c Card club <input type="checkbox"/> d Other (specify) _____					

Part V Contact for Assistance

*40 Last name of individual to be contacted regarding this report		*41 First name		*42 Middle initial	
*43 Title/Position		*44 Work phone number () - - - - -		*45 Date report prepared MM / DD / YYYY	

Part VI Suspicious Activity Information - Narrative*

Explanation/description of suspicious activity(ies). This section of the report is **critical**. The care with which it is completed may determine whether or not the described activity and its possible criminal nature are clearly understood by investigators. Provide a clear, complete and chronological description (not exceeding this page and the next page) of the activity, including what is unusual, irregular, or suspicious about the transaction(s), using the checklist below as a guide as you prepare your account.

- a. Describe the conduct that raised suspicion.
- b. Explain whether the transaction(s) was completed or only attempted.
- c. Describe supporting documentation and retain such documentation for your file for five years.
- d. Explain who benefited, financially or otherwise, from the transaction(s), how much and how (if known).
- e. Describe and retain any admission or explanation of the transaction(s) provided by the subject(s), witness(s), or other person(s). Indicate to whom and when it was given. Include witness or other person ID.
- f. Describe and retain any evidence of cover-up or evidence of an attempt to deceive federal or state examiners, or others.
- g. Indicate where the possible violation of law(s) took place (e.g., branch, cage, specific gaming pit, specific gaming area).
- h. Indicate whether the suspicious activity is an isolated incident or relates to another transaction.
- i. Indicate whether there is any related litigation. If so, specify the name of the litigation and the court where the action is pending.
- j. Recommend any further investigation that might assist law enforcement authorities.
- k. Indicate whether any information has been excluded from this report; if so, state reasons.
- l. Indicate whether any U.S. or foreign currency and/or U.S. or foreign negotiable instrument(s) were involved. If foreign, provide the amount, name of currency, and country of origin.
- m. Indicate whether funds or assets were recovered and, if so, enter the dollar value of the recovery in whole dollars only.
- n. Indicate any additional account number(s), and any domestic or foreign bank(s) account numbers which may be involved.
- o. Indicate for a foreign national any available information on subject's passport(s), visa(s), and/or identification card(s). Include date, country, city of issue, issuing authority, and nationality.
- p. Describe any suspicious activities that involve transfer of funds to or from a foreign country, or any exchanges of a foreign currency. Identify the currency, country, sources and destinations of funds.
- q. Describe subject(s) position if employed by the casino or card club (e.g., dealer, pit supervisor, cage cashier, host, etc.).
- r. Indicate the type of casino or card club filing this report, if this is not clear from Part IV.
- s. Describe the subject only if you do not have the identifying information in Part I or if multiple individuals use the same identification. Use descriptors such as male, female, age, etc.
- t. Indicate any wire transfer in or out identifier numbers, including the transfer company's name.
- u. If correcting a prior report, complete the form in its entirety and note the changes here in Part VI.

Information already provided in earlier parts of this form need not necessarily be repeated if the meaning is clear.
Supporting documentation should not be filed with this report. Maintain the information for your files.

Tips on SAR Form preparation and filing are available in the SAR Activity Review at www.fincen.gov/pub_reports.html

Enter explanation/description in the space below. Continue on the next page if necessary.

Fig. 15-5B. FinCEN Form 102, Page 2

Paperwork Reduction Act Notice: The purpose of this form is to provide an effective means for financial institutions to notify appropriate law enforcement agencies of suspicious transactions that occur by, through, or at the financial institutions. This report is required by law, pursuant to authority contained in 31 U.S.C. 5318(g). Information collected on this report is confidential (31 U.S.C. 5318(g)). Federal securities regulatory agencies and the U.S. Departments of Justice and Treasury, and other authorized authorities may use and share this information. Public reporting and record keeping burden for this form is estimated to average 45 minutes per response, and includes time to gather and maintain information for the required report, review the instructions, and complete the information collection. Send comments regarding this burden estimate, including suggestions for reducing the burden, to the Office of Management and Budget, Paperwork Reduction Project, Washington, DC 20503 and to the Financial Crimes Enforcement Network, Attn.: Paperwork Reduction Act, P.O. Box 39, Vienna VA 22183-0039. The agency may not conduct or sponsor, and an organization (or a person) is not required to respond to, a collection of information unless it displays a currently valid OMB control number.

Fig. 15-5c. FinCEN Form 102, Page 3

TABLE 15-1 Compilation SARC and CTR Filings

Report	Requirements	Filed in Calendar Year 2003
Currency Transaction Report (CTR)	Filed by financial institutions that engage in a currency transaction in excess of \$10,000.	12,506,035
Currency Transaction Report by Casino (CTRC) (includes both Form 8362 & Form 8852)	Filed by a casino to report currency transactions in excess of \$10,000.	451,457
Report of Foreign Bank and Financial Accounts (FBAR)	Filed by individuals to report a financial interest in or signatory authority over one or more accounts in foreign countries, if the aggregate value of these accounts exceeds \$10,000 at any time during the calendar year.	202,030
IRS Form 8300, Report of Cash Payments Over \$10,000 Received in a Trade or Business	Filed by persons engaged in a trade or business who, in the course of that trade or business, receives more than \$10,000 in cash in one transaction or two or more related transactions within a twelve-month period.	129,816
Suspicious Activity Report (SAR)	Filed on transactions or attempted transactions involving at least \$5,000 that the financial institution knows, suspects, or has reason to suspect the money was derived from illegal activities. Also filed when transactions are part of a plan to violate federal laws and financial reporting requirements (structuring).	285,814
Suspicious Activity Report by Casino (SARC)	Filed on transactions or attempted transactions if they are conducted or attempted by, at, or through a casino, and involve or aggregate at least \$5,000 in funds or other assets, and the casino/card club knows, suspects, or has reason to suspect that the transactions or pattern of transactions involve funds derived from illegal activities. Also filed when transactions are part of a plan to violate federal laws and transaction reporting requirements (structuring).	5,016

SOURCE: FinCEN.

other types of documents or sources of information to ensure that all suspicious activity that did occur was, in fact, reported. In general, the role of surveillance in these examinations may be very important, since most suspicious activity is behavioral in nature. Instances of attempted fraud, improper use of credit cards, or other document-related offenses would normally be subjected to regular law enforcement follow-up. In these situations, the casino may be obligated to also file an SAR in addition to notifying the local law enforcement or regulatory authorities (refer to section 3 of the SAR report). In gen-

eral, no SARC reporting is required on burglary, robbery, or thefts reported to law enforcement.

Finally, the casino should attempt to cooperate with the various governmental agencies that may be brought in to investigate an SARC report. If other casinos are made aware of suspicious activity, then sharing the information may also be useful to achieve better control over the casino operational activities. If suspicious activity persists or appears to be a pattern, the casino should attempt to prevent that practice in the future—for both legal-reporting purposes as well as good business practice.

The FinCEN form 102 is required to be sent to the IRS office, marked as an SARC report, within thirty days of the transaction. If additional time is needed to properly complete certain parts of the report such as identification, a thirty-day extension can be obtained.

The Patriot Act also requires casinos to register and share data with law enforcement agencies regarding anti-money-laundering programs.⁸ If a federal law enforcement agency seeks the information, it first provides a written certification to FinCEN of the need for the data based on credible evidence of terrorism or money laundering. FinCEN then requests the casino to do a records search. The search results are provided by the casino back to FinCEN. The casino has a safe-harbor provision from legal liability to the casino patron based on providing this information to FinCEN, similar to the provisions under the SARC reporting.

APPENDIX 1

List of States with Casinos, 2005

State	Land-Based	Riverboat	Tribal Class III	Tribal Class II	Racinos
States with Gaming	6	6	17	11	7
Numbers of Locations	787	84	187	97	25
Alabama				1	
Alaska				2	
Arizona			22		
Arkansas					
California			51		
Colorado	42			2	
Connecticut			2		
Delaware					3
Florida				6	
Georgia					
Hawaii					
Idaho			5		
Illinois		9			
Indiana		10			
Iowa		10	3		3
Kansas			4		
Kentucky					
Louisiana	1	14	3		1
Maine					
Maryland					
Massachusetts					
Michigan	3		15		
Minnesota					
Mississippi		30	1		
Missouri		11			
Montana			6		
Nebraska				2	
Nevada	596		3		
New Hampshire					
New Jersey	12				
New Mexico			30		4
New York			3		8
North Carolina			1		
North Dakota			5		
Ohio					
Oklahoma				58	
Oregon				8	
Pennsylvania					
Rhode Island					2
South Carolina				1	
South Dakota	133		8		

(continued)

State	Land-Based	Riverboat	Tribal Class III	Tribal Class II	Racinos
Tennessee				1	
Texas					
Utah					
Vermont					
Virginia					
Washington			25		
West Virginia					4
Wisconsin				14	
Wyoming				2	

NOTES: Twenty-two states have some form of gaming—land-based, riverboat, tribal, or racinos.
Only 2 states have absolutely no gaming—Utah and Hawaii.

Gross Annual Wager of the United States (\$ in Millions)

	2002	2003	2004	2005	2006
Nevada/New Jersey slot machines	\$9,535.0	\$9,804.4	\$10,654.9	\$11,441.5	\$12,109.7
Nevada/New Jersey table games	4,096.6	4,309.2	4,714.0	5,000.4	5,408.6
Deep-water cruise ships	294.4	301.2	308.7	316.8	324.7
Cruises to nowhere	385.1	414.0	440.9	470.5	495.5
Riverboats	10,437.9	10,441.3	10,950.7	10,867.9	11,739.0
Other land-based casinos	1,911.2	1,898.9	1,993.2	2,067.7	2,175.3
Other commercial gambling	162.6	137.1	126.6	105.1	84.6
Noncasino devices	1,320.9	1,363.1	1,407.7	1,505.4	1,775.2
Total Casino	\$28,143.7	\$28,669.1	\$30,594.8	\$31,775.3	\$34,112.6
% increase Y/Y	3.1	1.9	6.7	3.9	7.4
Class II Indian	\$1,478.9	\$2,019.1	\$2,428.9	\$2,647.1	\$2,883.7
Class III Indian	12,718.4	14,807.0	16,978.6	19,937.1	22,192.1
Total Indian Reservations	\$14,197.3	\$16,826.1	\$19,407.5	\$22,578.8	\$25,075.8
% increase Y/Y	11.5	18.5	15.3	16.3	11.1
Internet Gambling	\$4,007.0	\$2,965.0	\$4,164.4	\$5,922.4	\$5,779.2
% increase Y/Y	33.4	-26.0	40.5	42.2	-2.4
Sports books	\$110.4	\$122.6	\$112.5	\$125.2	\$191.5
Horse books	5.8	5.0	3.8	4.4	-0.5
Total Legal Bookmaking	\$116.2	\$127.6	\$116.3	\$129.6	\$191.0
% increase Y/Y	-7.7	9.8	-8.9	11.4	47.4
Card Rooms	\$972.5	\$978.8	\$1,051.5	\$1,025.2	\$1,103.5
% increase Y/Y	-2.0	0.6	7.4	-2.5	7.6
Charitable Bingo	\$1,124.5	\$843.1	\$852.3	\$825.9	\$783.8
% increase Y/Y	0.2	-25.0	1.1	-3.1	-5.1
Charitable Games	\$1,510.3	\$1,487.8	\$1,483.7	\$1,511.9	\$1,452.9
% increase Y/Y	2.9	-1.5	0.3	1.9	-3.9
Horse total	\$3,519.6	\$3,396.1	\$3,334.6	\$3,328.5	\$3,235.3
Greyhound total	430.3	387.6	345.4	338.5	322.6
Jai alai total	36.9	25.4	15.6	21.8	21.6
Total Pari-mutuels	\$3,986.8	\$3,809.2	\$3,695.6	\$3,688.8	\$3,579.5
% increase Y/Y	2.5	-4.5	-3.0	-0.2	-3.0
Video lotteries	\$2,223.3	\$2,484.0	\$3,027.2	\$3,387.5	\$3,592.8
Traditional lotteries	16,415.3	17,798.8	18,377.9	19,510.3	21,038.6
Total lotteries	\$18,638.6	\$20,282.8	\$21,405.2	\$22,897.8	\$24,631.4
% increase Y/Y	5.9	8.8	5.5	7.0	7.6
GRAND TOTAL	\$68,690.0	\$73,024.5	\$78,607.0	\$78,510.9	\$85,151.3
% increase Y/Y	5.3	6.3	7.6	7.4	7.7

SOURCE: International Gaming & Wagering Business.

APPENDIX 3

State-by-State Gaming Profiles, Listed in Chronological Order, by Legalization Date

NEVADA

Number of casinos	243
Legalization date	1931
First casino opening date	n/a
Gross casino gaming revenue	\$9.4 billion
Gaming tax revenue	\$718.7 million
Gaming format	Land-based
Casino employees	191,759
Casino employee wages	\$5.5 billion

NEW JERSEY

Number of casinos	12
Legalization date	1976
First casino opening date	1978
Gross casino gaming revenue	\$4.4 billion
Gaming tax revenue	\$403.7 million
Gaming format	Land-based
Casino employees	44,820
Casino employee wages	\$1.1 billion

LOUISIANA

Number of casinos	16
Legalization date	July 1989
First casino opening date	October 1993
Gross casino gaming revenue	\$2.0 billion
Gaming tax revenue	\$412.2 million
Gaming format	Riverboat, racino, 1 land-based
Casino employees	18,329
Casino employee wages	\$368.3 million

ILLINOIS

Number of casinos	9
Legalization date	February 1990
First casino opening date	September 1991
Gross casino gaming revenue	\$1.8 million
Gaming tax revenue	\$666.1 million
Gaming format	Riverboat
Casino employees	10,923
Casino employee wages	\$364.9 million

MISSISSIPPI

Number of casinos	30
Legalization date	June 1990
First casino opening date	August 1992
Gross casino gaming revenue	\$2.7 billion
Gaming tax revenue	\$331.7 million
Gaming format	Riverboat (dockside)
Casino employees	31,343
Casino employee wages	\$868.5 million

COLORADO

Number of casinos	43
Legalization date	November 1990
First casino opening date	October 1991
Gross casino gaming revenue	\$719.7 million
Gaming tax revenue	\$98.2 million
Gaming format	Land-based (limited stakes)
Casino employees	7,675
Casino employee wages	\$194.8 million

MISSOURI

Number of casinos	12
Legalization date	August 1993
First casino opening date	May 1994
Gross casino gaming revenue	\$1.3 billion
Gaming tax revenue	\$357.6 million
Gaming format	Riverboat (dockside)

Casino employees	11,500
Casino employee wages	\$300.0 million

INDIANA

Number of casinos	10
Legalization date	November 1993
First casino opening date	December 1995
Gross casino gaming revenue	\$2.1 million
Gaming tax revenue	\$554.7 million
Gaming format	Riverboat
Casino employees	16,555
Casino employee wages	\$478.6 million

A P P E N D I X 4

Summary of State Laws

State	Type of Casino	Statute Reference	Accounting Regulations	Contact Agency
Arizona	T	Laws 5-601		Arizona Dept of Gaming, Indian Casino Gaming Regulation
California	T, O	CRS 19800		California Gambling Control Commission, DOJ Division of Gaming Control
Colorado	L	RSC 12.47.1	Regulation 47	Colorado Division of Gaming /Gaming Commission
Delaware	H			Delaware Lottery
Illinois	R	1230LCS 10-13	Regulation 3000	Illinois Gaming Board
Indiana	R	IND 4-33-6		Indiana Gaming Commission
Iowa	H, R	IRS 99 F-4 B	Regulation 24	Iowa Racing and Gaming Commission/Iowa Div. of Criminal Invest.—Gaming
Kansas	T			Kansas Racing and Gaming Commission
Louisiana	L	LRS 4:550	Regulation 2711	Louisiana Gaming Control Board /Louisiana State Policy—Gaming Enforcement Section
Michigan	L	PA 69		Michigan Gaming Commission
Minnesota	T			Minnesota Dept of Public Safety—Alcohol & Gambling Enforcement
Mississippi	R	MRS 75-76-177	Regulation 15	Mississippi Gaming Commission
Missouri	R	MRS 313	Regulation 45	Missouri Gaming Commission
Nevada	L	NRS 463	Regulation 6	Nevada Gaming Commission/Nevada Gaming Control
New Jersey	L	NJSA 5:12	Regulation 19	Casino Control Commission /Division of Gaming Enforcement
New Mexico	T			New Mexico Gaming Control Board (NMGCB)
New York	T, O			New York State Racing and Wagering Board

(continued)

State	Type of Casino	Statute Reference	Accounting Regulations	Contact Agency
North Dakota	L			North Dakota Office of Attorney General—Gaming
Rhode Island	H			Rhode Island Lottery
South Dakota	L	SDR 42-7b-22	Title 20 Article 18	South Dakota Gaming Commission
Washington	L, O			Washington State Gambling Commission (WSGC)
West Virginia	H			West Virginia Lottery

Type: L = Land-based, R = Riverboat, H = Racino/Horse racing, T = Tribal, O = Other

Nevada State Gaming Control Board

INSTRUCTIONS TO APPLICANTS FOR A NONRESTRICTED GAMING LICENSE

AN APPLICANT FOR A STATE GAMING LICENSE IS SEEKING THE GRANTING OF A PRIVILEGE AND THE BURDEN OF PROVING HIS QUALIFICATIONS TO RECEIVE SUCH A LICENSE IS AT ALL TIMES ON THE APPLICANT. AN APPLICANT MUST ACCEPT ANY RISK OF ADVERSE PUBLIC NOTICE, EMBARRASSMENT, CRITICISM, FINANCIAL LOSS, OR OTHER ACTION, WHICH MAY RESULT FROM ACTION WITH RESPECT TO AN APPLICATION, AND EXPRESSLY WAIVES ANY CLAIM FOR DAMAGES AS A RESULT THEREOF.

NONRESTRICTED LICENSE

A license which permits the operation of any gaming other than 15 or less slot machines.

The following forms and items must be submitted to the Gaming Control Board in conjunction with your application for Non-restricted Gaming License:

1. Application for Nevada Gaming License: To be filed in duplicate on behalf of the business entity seeking to be licensed. For example, proprietorship, partnership, trust, corporation, etc.
 - (a) Form 1 is to be submitted by individual applicants.
 - (b) Form 2 is to be submitted by corporations, partnerships, and limited liability companies.
2. Form 7, Multi Jurisdictional Personal History Disclosure Form: To be filed in duplicate by each corporation officer, director, member, or equity holder. The applicant agrees to provide any additional information the Board may require, e.g., birth certificate, military discharge papers, passports, litigation in which the applicant has been named as a plaintiff or defendant, income tax returns.
3. Form 7A, Nevada Supplemental Personal History Disclosure Form: To be filed in duplicate by any person submitting Form 7.
4. Fingerprint Cards: Three completed fingerprint cards for each individual applicant must be submitted. Fingerprinting may be completed at any law enforcement facility. Each applicant must sign the fingerprint cards.
5. Form 10, Affidavit of Full Disclosure: To be filed in duplicate by each individual required to be licensed or found suitable.
6. Form 17, Release and Indemnity of All Claims: To be filed in duplicate by each individual required to be licensed or found suitable.

7. Form 18, Request to Release Information: To be filed in duplicate by each individual required to be licensed or found suitable. If the applicant is married, the applicant's spouse must also sign this form.
8. Two copies of each of the following (as applicable):
 - (a) Partnership Agreement (Gaming language required for limited partnerships);
 - (b) Trust Agreement (Gaming language required);
 - (c) Joint Venture Agreement;
 - (d) Articles of Incorporation;
 - (e) Articles of Organization (Gaming language required);
 - (f) All Lease Agreements;
 - (g) Purchase/Sale Agreement;
 - (h) Management Agreement;
 - (i) Employment Contract;
 - (j) Stock, bonus or profit sharing plans;
 - (k) Gaming equipment/device purchase agreements.

Nevada State Gaming Control Board

INSTRUCTIONS TO APPLICANTS FOR A NONRESTRICTED LICENSE AS AN OFFICER, DIRECTOR, KEY EMPLOYEE, OR LIKE POSITION

AN APPLICANT FOR A STATE GAMING LICENSE IS SEEKING THE GRANTING OF A PRIVILEGE, AND THE BURDEN OF PROVING HIS /HER QUALIFICATIONS TO RECEIVE SUCH A LICENSE IS AT ALL TIMES ON THE APPLICANT. AN APPLICANT MUST ACCEPT ANY RISK OF ADVERSE PUBLIC NOTICE, EMBARRASSMENT, CRITICISM, OR OTHER ACTION, OR FINANCIAL LOSS WHICH MAY RESULT FROM ACTION WITH RESPECT TO AN APPLICATION, AND EXPRESSLY WAIVES ANY CLAIM FOR DAMAGES AS A RESULT THEREOF.

FORMS AND REQUIREMENTS FOR FILING FOR A NONRESTRICTED LICENSE AS AN OFFICER, DIRECTOR, KEY EMPLOYEE, OR LIKE POSITION

1. Form 1: Application for Nevada Gaming License: To be filed in duplicate. After completion, the form must be approved for filing by the signature of a licensee of the establishment on line item F.
2. Form 7, Multi Jurisdictional Personal History Disclosure Form: To be filed in duplicate by each applicant. The applicant agrees to provide any additional information the Board may require, e.g., birth certificate, military discharge papers, passports, litigation in which the applicant has been named as a plaintiff or defendant, income tax returns.
3. Form 7A, Nevada Supplemental Personal History Disclosure Form. To be filed in duplicate by each applicant.
4. Fingerprint Cards: To be completed in triplicate. Fingerprinting can be completed at any law enforcement facility. Each applicant must sign the fingerprint cards.
5. Form 10, Affidavit of Full Disclosure: To be filed in duplicate.
6. Form 17, Release and Indemnity of All Claims: To be filed in duplicate.
7. Form 18, Request to Release Information: To be filed in duplicate.
8. Two copies of the following (as applicable):
 - (a) Management Agreement;
 - (b) Employment Contract.

9. A check or money order in the amount of \$500 to cover the application fee. Checks are to be made payable to the State Gaming Control Board.
10. Costs of investigation will be charged as provided by statute and regulation. The total cost of the investigation is to be borne by the applicant. This cost includes all transportation, food and lodging; plus an hourly charge for the time expended by the agent or agents assigned to the application. Before the investigation can begin the applicant must provide a deposit in an amount equal to the total estimated expenses, including the hourly charges. Hourly expenses will be charged for travel time and for the time expended while agents are engaged in the investigation process.

NOTICE

AN APPLICATION MAY NOT BE WITHDRAWN WITHOUT THE PERMISSION OF
THE STATE GAMING CONTROL BOARD

APPENDIX 7

Sample Local Government Gaming Taxes in Nevada

COUNTY LEVIES

Jurisdiction	Quarterly Fee in \$
<i>Carson City</i>	
Stud or Draw Poker, Panguingui	97.50
Roulette, "21," Chuck-a-Luck, Craps, Big Six, Hazard	180.00
Keno, Bingo, Race Horse Pool, Baccarat, Wheel of Fortune	172.50
Slot Machines (each separate mechanism)	40.00
<i>Clark</i>	
Bingo, Keno, "21," Craps, Big Six, Baccarat, Faro Bank, Race Book, Roulette	150.00
Sports Book	150.50
Draw or Stud Poker	75.00
Regular Slots	30.00
Double Slots	60.00
Triple Slots	90.00
Clark County quarterly fee is .055% of gross gaming revenue.	
<i>Las Vegas Convention Authority Gaming Fees</i>	
Slots, 12 or less	1.00 each
More than 12	2.50 each
1 game	10.00
2-5 games	25.00 each
6 or more games	40.00 each
<i>Washoe</i>	
Poker, Bridge, Whist, Solo, Panguingui	25.00
Slot Machines	50.00

Washoe County license fees are levied on all games and slots regardless of their locations. The fees are distributed 75% to the city wherein the games or slots are located, and 25% to the county. If the location is in unincorporated Washoe County, 100% is distributed to the county. Washoe County also levies a special "Chapter 491" tax based on a complicated formula.

CITY LEVIES

Jurisdiction	Quarterly Fee in \$
<i>Ely</i>	
Slot Machines	30.00 each
Craps, "21," Roulette, Panguingui, Keno, Poker, Bingo	40.00 each
<i>Fallon</i>	
All Card Games	7.50
Mechanical Percentage Games	15.00
Slot Machines	3.00
<i>Henderson</i>	
Big Six, Bingo	75.00
Bridge, Whist, Solo	15.00
Chemin de Fer, Race Horse Book	280.00
Craps, 1 table	57.00
Craps, 2 or more tables	140.00
Keno	70.00
Keno, per chair in addition	1.50
Roulette, "21," Hazard, Faro Bank	70.00
Panguingui	30.00
Slots	28.00
Slots, Penny	50.00
Stud Poker	35.00
<i>Las Vegas</i>	
Slot Machines	
1-5 Machines	25.00
More than 5 Machines	30.00
Penny Slots	50.00
Study or Draw Poker	50.00
Panguingui	30.00
Bridge, Whist, Solo	15.00
Chemin de Fer, Baccarat	250.00
Roulette, "21," Hazard, Faro Bank, Wheel of Fortune, Big Six	150.00
Craps, 1 table	150.00
Craps, 2 or more	250.00 each
Race Book	400.00
Race Horse Information	250.00
Bingo	75.00
Bingo, per chair additional	1.50
Keno	300.00
Sports Book	100.00
Games not specified above	50.00

Summary of State-by-State Gaming Taxes

ARIZONA

Tribal Casinos

No state taxes imposed

Device fee:

\$500 per machine per year to provide for regulatory costs

CALIFORNIA

Tribal Casinos

Tribal revenue distribution in compacts:

1–200 machines	0% of gross gaming revenue
201–500 machines	7% of gross gaming revenue if over 200 machines
501–1,000 machines	10% of gross gaming revenue if over 500 machines
1,000 + machines	13% of gross gaming revenue if over 1,000 machines

COLORADO

Casinos

Tax on adjusted gross revenue:

2% of annual adjusted gross revenue up to \$2,000,000 (including \$2,000,000)

4% of annual adjusted gross revenue from \$2,000,001 to \$4,000,000

15% of annual adjusted gross revenue from \$4,000,001 to \$5,000,000

18% of annual adjusted gross revenue from \$5,000,001 to \$10,000,000

20% of annual adjusted gross revenue over \$10,000,001

Device fee:

State annual device fee of \$75 per machine and game table

City of Black Hawk annual device fee of \$750 per machine and table game
City of Cripple Creek annual device fee of \$1,200 per machine and table game
Central City annual device fee of \$1,160 per machine and table game

CONNECTICUT

Tribal Casinos

Tax on gross revenue:

25% of gross revenue of slot machines or \$160 million (\$80 million per casino, whichever is greater as long as the tribal casinos have a monopoly on slot machines)

DELAWARE

Racinos (slot machines at racetracks)

35% of slot win to state general fund
11% of slot win to enhance racing purses

ILLINOIS

Riverboat Casinos

Taxes calculated on a graduated scale:

Annual revenues up to \$25 million taxed at 15%
Between \$25 million and \$37.5 million taxed at 27.5%
Between \$37.5 million and \$50 million taxed at 32.5%
Between \$50 million and \$75 million taxed at 37.5%
Between \$75 million and \$100 million taxed at 45%
Between \$100 million and \$250 million taxed at 50%
> \$250 million taxed at 50%
Admission tax: \$3 per person
Riverboats operate dockside

INDIANA

Riverboat Casinos

Taxes calculated on a graduating scale:

Annual revenues up to \$25 million taxed at 15%
Annual revenues between \$25 million and \$50 million taxed at 20%
Annual revenues between \$50 million and \$75 million taxed at 25%
Annual revenues between \$75 million and \$100 million taxed at 30%
Excess of \$100 million taxed at 35%
Admission tax: \$3 per person

Riverboats operate dockside

I O W A

Riverboat Casinos

Tax on adjusted gross revenue:

- 5% of annual adjusted gross revenues up to \$1 million
- 10% of annual adjusted gross revenues from \$1 million to \$3 million
- 20% of annual adjusted gross revenues exceeding \$3 million

Admission fee:

\$11,056 per week

Annual license fee:

Fee is based on the passenger carrying capacity, including the crew, for which the excursion gambling boat is registered. The annual fee is \$5 per person capacity.

Racinos (slot machines at racetracks)

Tax on adjusted gross revenue:

- 5% of annual adjusted gross revenues up to \$1 million
 - 10% of annual adjusted gross revenues from \$1 million to \$3 million
 - 26% of annual adjusted gross revenues exceeding \$3 million
- Beginning January 1, 1997, the rate of any amount of adjusted gross revenue over \$3 million is 22% and shall increase by 2% each succeeding calendar year until the rate is 36%.

Admission fee:

Racetracks pay 50¢ per patron

Riverboats and Racetracks

Additional tax on adjusted gross revenue:

- .3% of adjusted gross revenue to be deposited in Gamblers Assistance Fund

L O U I S I A N A

Riverboat Casinos

License fee:

Initial application fee: \$50,000. First year of operation: \$50,000 plus 3.5% of adjusted gross revenue. Each subsequent year: \$100,000 plus 3.5% of adjusted gross revenue.

Tax on adjusted gross revenue:

- 15% of adjusted gross revenue (annual franchise tax)

Admission fee:

\$2.50 or \$3.00 per passenger local option fee, or 6% of weekly adjusted gross revenue.
Assessment by local government jurisdiction varies.

Casinos

Tax on adjusted gross revenue:

\$100 million or 18.5% of adjusted gross revenue up to \$600 million, whichever is greater
20% of adjusted gross revenue from \$600 million to \$700 million
22% of adjusted gross revenue from \$700 million to \$800 million
24% of adjusted gross revenue from \$800 million to \$900 million
25% of adjusted gross revenue over \$900 million

Video Lottery

Tax on adjusted gross revenue:

Restaurants, bars, and hotels / motels pay 26% of gross revenue
Truck stops pay 32.5% of gross revenue
Racetracks and off-track wagering facility (OTBs) pay 22.5% of gross revenue

Device fee:

Restaurants, bars, and hotels / motels pay \$250 per machine per year
Truck stops and OTBs pay \$1,000 per machine per year
Pari-mutuel wagering facilities pay \$1,250 per machine per year

New Orleans

Annual tax for the land-based casino is:

State tax of \$50 million during first fiscal year and \$60 million each fiscal year thereafter
or 21.5% of gaming revenues, whichever is greater

MICHIGAN

Tribal Casinos

Tax on slot machine revenue:

10% tax on slot machine revenue (8% to the state and 2% to local municipality) while they have a monopoly on casino gambling, and nothing thereafter. A couple of tribes have recently signed contracts agreeing to continue paying the tax after Detroit's casinos are operational.

Detroit Casinos

Tax on gross revenue:

18% of daily gross revenue (9.9% to the city of Detroit, 8.1% to state of Michigan)

License fee:

Annual license fee of \$25,000

Municipal service fee:

1.25% of gross revenue or \$4 million, whichever is greater, paid annually on the date the casinos open for operation

Annual assessment:

Annual assessment fee for state regulatory costs of \$25 million the first year. Fee is adjusted each year by multiplying the annual assessment for the preceding year by the Detroit consumer price index for the preceding year. Fee is shared equally by all three casinos

MISSISSIPPI

Casinos

Tax on gross revenue:

STATE GROSS REVENUE FEE:

- 4% of monthly gross revenue up to \$50,000
- 6% of monthly gross revenue from \$50,000 to \$134,000
- 8% of monthly gross revenue exceeding \$134,000

LOCAL GOVERNMENT GROSS REVENUE FEE:

Local governments can impose up to a 4% tax on monthly gross revenue. Currently, the local jurisdictions imposing this tax are imposing a rate of 3.2% of monthly gross revenue.

Device fees:

ANNUAL LICENSE TAX ON GAMING DEVICES:

State license fee based on number of games

1 game	\$ 50
2 games	\$ 100
3 games	\$ 200
4 games	\$ 375
5 games	\$ 875
6 or 7 games	\$ 1,500
8, 9, or 10 games	\$ 3,000
11 thru 16 games	\$ 500 per game 1 to 16
17 thru 26 games	\$ 8,000 plus \$4,800 each game 17 to 26
27 thru 35 games	\$ 56,000 plus \$2,800 each game 27 to 35
Over 35 games	\$81,200 plus \$100 each game over 35

Local government device fee:

Local jurisdictions can also impose fees on slot machines and/or table games. These fees can vary by jurisdiction.

Annual license fee:

Annual license fee of \$5,000 paid every year
Gaming application fee of \$5,000 paid every two years

MISSOURI

Riverboat Casinos

Tax on adjusted gross revenue:

20% of daily adjusted gross revenue

Annual license fee:

Fee is based on the passenger carrying capacity, including the crew, for which the excursion gambling boat is registered. The annual fee is \$5 per person capacity.

Admission fee:

Admission fee of \$2 per passenger
Local option fee of 50¢ per passenger

MONTANA

NonCasino/Nontrack Video Gaming and VLTs

Tax of 15% of net lottery machine revenues (after payouts)

Annual state device / license fees:

\$200 per device
\$1,000 annual license fees imposed on manufacturer and distributor

NEVADA

Casinos

Monthly percentage fee based on gross gaming revenue:

3.5 % of first \$ 50,000 plus
4.5 % on next \$ 84,000 plus
6.75% of revenue exceeding \$ 134,000
Annual slot machine tax \$250 per machine
Quarterly fee on nonrestricted slot machines—varying scale based on number of slot machines

Quarterly and annual games license fees—varying scale based on number of games
Race wire and pari-mutuel wagering fees

NEW JERSEY

Casinos

Tax on gross taxable gaming revenue:

8% of monthly gross taxable gaming revenue

An additional 1.25% local reinvestment tax on monthly gross taxable gaming revenue paid directly to or given credit by the Casino Reinvestment Development Authority

Taxable gaming revenues for Atlantic City casinos consist of gaming win (gross revenue) less the bad debt allowance only

Annual license fee:

\$200,000 minimum for initial one-year license

\$100,000 minimum for every two-year license

Device fee:

Annual fee of \$500 per slot machine

NEW MEXICO

Tribal Casinos

Regulatory fees:

Quarterly regulatory fee of \$6,250 per gaming facility

Device fee:

\$300 per gaming machine per quarter, \$750 per gaming table or device per quarter

Sharing agreement payments:

Under the 1997 compacts, Indian gaming is not taxed. However, tribes must pay 16% of net slot win, after regulatory fees, for revenue-sharing agreement, noted above.

ONTARIO, CANADA

Casinos

One casino is located in Windsor, near Detroit, Michigan, owned by the province and currently managed by private concerns, which receive a management fee. There is also a 20% tax on gaming revenues that goes to the minister of finance.

SOUTH DAKOTA

Casinos

Tax on adjusted gross revenue:

8% tax on monthly adjusted gross revenue

Device fee:

\$2,000 per game or slot machine annually

WISCONSIN

Tribal Casinos

11 tribes split \$350,000 annually based on gaming handle

Additional \$21 million (approximate) is to be paid to the state

Racing

Taxed on percentage of handle, which is about 2% or 2.67%

SOURCE: Nevada Gaming Control Board.

Distribution or Earmarking of State Gaming Taxes

COLORADO

- 28% to the Colorado Historical Society for historical preservation grants
- 12% to Gilpin and Teller County governments, in proportion to the gaming revenues generated in the respective counties
- 10% to the city governments of Black Hawk, Central City, and Cripple Creek, in proportion to the gaming revenues generated in each
- 0.2% to the Colorado Travel and Tourism Promotion Fund
- 49.8% to the state general fund, of which the following are designated: 2% to the municipal impact fund for the cities of Woodland Park and Victor; at least 11% to the local government limited gaming impact fund; and an amount to be determined annually to the Colorado Department of Transportation

CONNECTICUT

General revenue fund and local governments

DELAWARE

- Local governments and the state education assistance fund
- Each local government that serves as a host community for a casino licensee receives a share of gaming taxes in an amount equal to 5% of the adjusted gross revenue and one-half of the admission tax attributable to the licensee within its jurisdiction

ILLINOIS

Admissions tax (per person):

- \$1 to the city where the riverboat is docked
- \$1 to the county where the riverboat is docked
- 10¢ to the county tourism promotion fund
- 15¢ to the state fair commission
- 10¢ to the division of mental health
- 65¢ to the state horse-racing commission
- Riverboats operating on Patoka Lake have separate revenue distribution provisions

Wagering tax:

- 25% to the riverboats' home cities and counties, up to \$33 million (the total local distribution level for 2002)
- 75% to the property tax replacement fund and the Build Indiana Fund lottery and gaming surplus account

INDIANA

- One-half of one percent (0.5%) of adjusted gross receipts to the city from which the gambling excursion originated
- Another one-half of one percent (0.5%) to the county in which the gambling excursion originated
- 0.3% to the Gamblers' Assistance Fund
- The remainder goes to the state general fund

IOWA

Riverboats:

- 9% of state revenues go to an education fund for teacher salaries/pay raises
- .3% of state revenues go to a compulsive gambling program
- Remaining state revenues go to the general fund for gambling enforcement

Land-based casino:

- All state revenues go to the education fund for teacher salaries/pay raises
- Local government revenue allocations are determined by Louisiana Revised Statutes, Title 27, section 93

LOUISIANA

- Forty-five percent to the state school aid fund and 55% to the city where casino is located for public safety and economic development

MICHIGAN

- \$3 million or 25%, whichever is greater, of the state monthly revenue share goes to retire bonds until 2012
- Any amount in excess of \$3 million but less than 25% goes to the state highway fund until 2012
- The remainder goes to the state general fund; all of the state revenues go to the general fund after 2012

Admissions fee per person:

- \$1 to the state gaming commission; \$0.01 of this goes to the compulsive gamblers treatment fund
- \$1 to the home dock city or county

Wagering tax:

- 10% of the adjusted gross receipts revenues goes to the local governments
- The state share of adjusted gross receipts goes to an education fund

MISSISSIPPI

Local governments and state general fund

MISSOURI

Casino revenue funds provide financial assistance to the elderly and disabled

MONTANA

- 34% to hotels
- 20% to the university
- 20% to education
- 9% to economic development
- 17% to tourism

NEVADA

Percentage fees: state general fund

Annual slot taxes:

- First \$5 million to state higher capital construction fund
- Balance to state distributive fund
- \$50 each machine to multipurpose pavilion bond fund

Annual state licenses:

10% of state annual fee and annual unrestricted slot license fee is set aside for gaming administration costs with any unused portion being distributed equally among the 17 counties. The gaming administrative budget is subject to the State Budget Act, and historically has not exceeded 4% of collections.

Quarterly flat fees and quarterly restricted slot licenses to state general fund

Casino entertainment tax, wire service fees, pari-mutuel pool, manufacturer and distributor licenses: state general fund

NEW JERSEY

State license fee and annual slot tax: casino control fund and state treasury

Gross revenue tax and reinvestment tax: casino revenue fund and state treasury

*Slot Machines in North America, by Geographic Location
and Type of Location*

State/Province	Commercial Casino	Racino	Slot Route	Tribal Class III	Cruise Ships	Tribal Class II	Total
Arizona				8,967			8,967
California				51,248		500	51,748
Colorado	15,193						15,193
Connecticut				12,800			12,800
Delaware		5,430					5,430
Florida					20,650	3,740	24,390
Georgia					130		130
Idaho						3,189	3,189
Illinois	9,668						9,668
Indiana	17,655						17,655
Iowa	8,801	3,506					12,307
Kansas				2,482		150	2,632
Louisiana	17,943	2,400	13,849	3,200			37,392
Michigan	7,696			12,826			20,522
Minnesota				19,422			19,422
Mississippi	39,580			3,100			42,680
Missouri	17,078						17,078
Montana			18,976				18,976
Nevada	185,149		19,995				205,144
New Jersey	43,966						43,966
New Mexico		1,624		11,315			12,939
New York				2,600		2,068	4,668
North Dakota				3,069			3,069
North Carolina				3,424			3,424
Oklahoma						10,733	10,733
Oregon			9,259	5,502			14,761
Rhode Island		3,292					3,292
South Dakota	2,593		8,211				10,804
Texas						340	340
Washington				9,740			9,740
West Virginia		10,258	6,240				16,498
Wisconsin				14,143			14,143
Wyoming						152	152
US Subtotal	365,322	26,510	76,530	163,838	20,780	20,872	673,852
Alberta	5,723	624	5,985				12,332
Atlantic Lottery			9,357				9,357
British Columbia	3,598						3,598
Manitoba	2,425		5,261				7,686
New Brunswick	0						0

(continued)

State/Province	Commercial Casino	Racino	Slot Route	Tribal Class III	Cruise Ships	Tribal Class II	Total
Newfoundland	0						0
Nova Scotia	1,099						1,099
Ontario	11,001	8,650					19,651
Prince Edward Island		10					10
Quebec	5,795	365	14,713				20,873
Saskatchewan	2,172		3,561				5,733
Yukon Territory	62						62
Canada Subtotal	31,875	9,649	38,877	0	0	0	80,401
North American Total	397,197	36,159	115,407	163,838	20,780	20,872	754,253

Notes

1 : CASINO HISTORY AND OPERATING ENVIRONMENT

1. For an excellent discussion of the historical development of gambling, see Alan Wykes, *The Complete Illustrated Guide to Gambling* (London: Aldus Books Limited, 1964), especially chapter 2, "Gambling through the Ages." See also Henry Chafetz, *Play the Devil, A History of Gambling in the United States, 1592 to 1955* (New York: Clarkson N. Potter, Inc., 1960), 3.
2. Arline Fisher, "Power and Magic," *Nevada Magazine* 41, no. 2 (March/April 1981): 34.
3. Wykes, *The Complete Illustrated Guide to Gambling*, 152.
4. As discussed by William R. Eadington, "The Evolution of Corporate Gambling in Nevada," *Nevada Review of Business and Economics* (Spring 1982); and Wykes, *The Complete Illustrated Guide to Gambling*, 27.
5. Wykes, *The Complete Illustrated Guide to Gambling*, 41.
6. As described in John C. Deane, "Financing the Casino Gaming Industry," thesis for Stonier Graduate School of Banking, American Bankers Association, Rutgers University, June 1978, 8–10; and Wykes, *The Complete Illustrated Guide to Gambling*, 44.
7. *Honolulu Advertiser*, January 15, 1997, 1.
8. *Gambling in America: Final Report of Commission on the Review of the National Policy Toward Gambling* (Washington, D.C.: GPO, 1976), 144–155.
9. National Gaming Impact Study Commission, Public Law 104–169.
10. *Indian Gaming Regulatory Act*, Public Law 100–497, codified as 25 U.S. Code ss 2701–2705 CFR.
11. Wykes, *The Complete Illustrated Guide to Gambling*, appendix 2, "Gambling Around the World," 330.
12. "1984, A Year of Peaks and Valleys in Gaming," *International Gaming and Wagering Business*, 6/5 (May 1985): 1.
13. Deane, "Financing the Casino Gaming Industry," 8.
14. *Ibid.*, 9; and Gary L. Cunningham, "Chance, Culture and Compulsion, The Gambling Games of the Kansas Cattle Towns," *Nevada Historical Society Quarterly* 26, no. 4 (Winter 1983): 255–271.
15. Deane, "Financing the Casino Gaming Industry," 9; and Wykes, *The Complete Illustrated Guide to Gambling*, 299.
16. Caroline J. Hadley, "America's Doxy Grows Up," *Nevada Magazine* 41, no. 2 (March/April 1981): 6.
17. Susan Horton, "The Party Begins," *Nevada Magazine* 41, no. 2 (March/April 1981): 90;

and Ron Tillotson, "Just a Winnemucca Cowboy," *Nevada Magazine* 41, no. 2 (March/April 1981): 87.

18. Thomas C. Wilson, "Nevada or Bust," *Nevada Magazine* 41, no. 2 (March/April 1981): 109; and Sheila Caudle, "Turn of the Cards," *Nevada Magazine* 41, no. 2 (March/April 1981): 13; and *Sierra Magazine* (September 1960): 19.

19. Leon Mandel, "Arrival in Gomorrah," *Nevada Magazine* 41, no. 2 (March/April 1981): 36.

20. "City in Orbit," *Nevada Magazine* 41, no. 2 (March/April 1981): 22.

21. State of Nevada, Employment Security Department, Annual Report, 1983; and discussions with Jay Cornmeyer, manager of national gaming accounts, First Interstate Bank of Nevada.

22. State of New Jersey, *Casino Control Act*, Public Law 1977, c. 110.

23. "Atlantic City II—A Trend Analysis," *Global Gaming Business* 3, no. 6 (August 1982): 4.

24. *California vs. Cabazon Bank of Mission Indians*, 480 U.S. 202 (1987).

25. National Indian Gaming Commission, Annual Report, 2005.

26. "Racinos," *Casino Player* (May 2003): 61.

27. State of New Jersey, *Casino Control Act*, Article 6, specifies that in order for a casino to be considered for a license in Atlantic City, it must offer a minimum of 500 hotel rooms, 30,000 square feet of casino space, and 25,000 square feet of convention space.

28. 2006 Gross Gambling Revenues, *International Gaming and Wagering Business* (August 2007): 25.

29. Governor Robert List, "The State of Gaming," *Nevada Magazine* 41, no. 2 (March/April 1981): 8.

30. In "1984, A Year of Peaks and Valleys in Gaming," *International Gaming and Wagering Business* 6, no. 5 (May 1985): 1, the article indicated that the gross win for all Nevada casinos had a 14.5% increase over fiscal 1983 operating results.

31. Thomas F. Cargill, "Is the Nevada Economy Recession Proof?" *Nevada Review of Business and Economics* 3 (Summer 1979): 9.

32. "Atlantic City II," *Global Gaming Business* 3, no. 6 (August 1982): 4-7.

33. Information from published annual reports of Resorts International and Harrah's, 1977.

34. National Indian Gaming Commission Web site, www.nigc.gov.

35. Nevada CPA Society Annual Gaming Conference, *Industry Update*, May 2003.

36. Nevada Gaming Control Board, *Gaming Abstract*, 2002.

37. *Ibid.*

38. Nevada CPA Society Annual Gaming Conference, *Industry Update*, May 2003.

39. "Casino Gambling Isn't a Game of Chance," *Fortune Magazine* (March 12, 1979): 132.

40. The Web site of the American Gaming Association indicates pictorially the major casino locations in the United States, www.americangaming.org.

41. Nevada Gaming Control Board, *Gaming Abstract*, 2002.

42. "Jersey Shifts Emphasis on Casino Building," *Nevada State Journal* (May 10, 1979): 18.

43. Michael Pollock's Gaming Industry Observer.

44. Harrah's Entertainment, Inc., "Profile of the American Casino Gambler: Harrah's Survey 2006," www.harrah.com.

2 : CASINO LICENSING AND REGULATION

1. Jerome H. Skolnick, *House of Cards* (Boston: Little, Brown & Co., 1978).
2. *Gambling in America*, 195.
3. *Ibid.*, 199.
4. NRS, Chapter 463.
5. NRS, Chapter 463.390.
6. Guy Shipler, "How the White Hats Won the West," *Nevada Magazine* 41, no. 2 (March/April 1981): 114; and Guy Shipler, "The Gaming Czar," *Nevada Magazine* 41, no. 2 (March/April 1981): 115.
7. William R. Eadington, Judy A. Cornelius, and James S. Hattori, "A Legislative History of Gaming in Nevada," *Nevada Review of Business and Economics* (Spring 1978): 13–17.
8. Nevada Gaming Commission and State Gaming Control Board, *Gaming, Nevada Style*, Carson City, Nev., April 1984, 12.
9. *Ibid.*, 12.
10. *Ibid.*, 13.
11. *Ibid.*, 14.
12. NRS, 463.690, and Gaming Control Board Regulation 3.060.
13. See chapter 4, Nelson Rose, "Gambling and the Law," *Gambling Times, Inc.*, Hollywood, Calif., 1986.
14. See chapter 1, Monroe E. Price, *Law and the American Indian, Readings, Notes and Cases* (New York: Howard Sams & Co., 1973).
15. Edward Olsen, as quoted in the *Nevada State Journal*, August 28, 1981, and the *Wall Street Journal*, January 8, 1980: 28, discussing Mr. Sinatra's reapplication for a gaming license in New Jersey and his application in Nevada, February 12, 1981.
16. Edward Olsen, "The Black Book Episode: An Exercise in Muscle," in *Sagebrush and Neon*, Eleanor Bushnell, ed. (Reno: University of Nevada Press, 1973), 21; see also NRS 463.151 et seq.
17. 86 Nevada 374 (1970).
18. 93 Nevada 36 (1977) cert. denied 434 U.S. 803.
19. *Civil No. LV 75-31BRT* (Dist Ct. for District of Nevada, 1977): 96 Nev. Adv. Op. 251 (1980).
20. *State of Nevada v. Glusman*, Nevada S. Ct. #12946; and *Glusman v. State of Nevada*, S. Ct. #13217.
21. *Nevada State Journal* (June 26, 1979) and *Wall Street Journal* (May 31, 1979): 3, which outline the temporary licensing status given to Caesars Boardwalk Regency Hotel. *Wall Street Journal* (April 10, 1980): 5, describing the temporary, five-month license extension for Bally's Park Place, Inc.
22. The ABSCAM problems were chronicled in both the national and local press in Nevada and New Jersey. For example, "Nevada View of ABSCAM," *Global Gaming Business* 1, no. 3 (March 1980): 11.
23. *Wall Street Journal* (October 31, 1980): 31.
24. For a comparison of the gaming regulation procedures in New Jersey and Nevada, refer to a special report prepared by the Nevada Gaming Control Board, "Report on New Jersey Gaming Controls," Carson City, Nev., 1977.

25. Nevada Gaming Commission, *Gaming, Nevada Style*, 17.
26. These duties and responsibilities are outlined in NRS 463.030–NRS 463.144.
27. NRS 463.160 and Gaming Control Board Regulation #3.
28. NRS 463.482 et seq.
29. NRS 463.165 and 463.530 and Regulations 3.020 and 15.3503 require the licensing of lenders if determined to be significant by the Gaming Control Board.
30. NRS 463.175 exempts national banks and trust companies from licensing requirements where they are lenders to casinos. Nevada's Gaming Control Board refused two financing packages—a savings and loan and a Texas bank—as not being acceptable unless they were licensed. Both declined licensing, and their financing was not allowed.
31. NRS 463A requires the licensing of employee labor organizations, while NRS 463B provides for the state to take over and administer a casino after revocation of the casino license.

3 : REVENUE TAXATION OF CASINO OPERATIONS

1. For a discussion of the taxation of casinos and its impact on the economy of the state of Nevada, see William R. Eadington, "Economic Trends in Nevada's Casino Gaming Industry," *National Tax Association Proceedings*, 1978.
2. National Gaming Impact Study Commission, 1999.
3. Gaming Control Board, State of Nevada, *Nevada Gaming Abstract*, 1985, 1–45.
4. Price, *Law and the American Indian*, "Tribal Sovereignty."
5. *Nevada State Journal* (October 10, 1979): 37.
6. Governor's Office, *Nevada Statistical Abstract, 2002* (Carson City, Nev.: State Printing Office, 2002), 98.
7. The gaming tax collections in New Jersey are specifically delegated to identify funds for redevelopment and control purposes and do not flow into the state general fund. Estimates prepared by the New Jersey Casino Control Commission indicate gaming tax revenues constitute only 4–5% of the state's general fund revenue.
8. See Gaming Control Board Regulation 6.080.
9. Senate Bill 320, 1981 legislative session, amends NRS 463.0114 to broaden the meaning of "gross gaming revenue" to include poker rake-off.
10. Senate Bill 320 specifies seven criteria for disallowing the write-off of markers: (1) if the marker is improperly executed; (2) if the licensee does not have the patron's address; (3) if the licensee has not made a reasonable effort to collect the marker; (4) if the licensee failed to check the patron's credit prior to granting credit; (5) if the licensee cannot produce the marker, with some identified exceptions; (6) if the signature is forged and the licensee has not made a report to the police; (7) if the licensee asks the control board not to confirm with the patron and there is no other way to confirm the debt.
11. For a definition of *entertainment status*, see Gaming Control Board Regulation 13.020.
12. NRS 463.650 et seq., and Gaming Control Board Regulation 14.
13. *New Jersey Public Law 1984*, chapter 218.
14. See, for example, the Nevada Society of CPAs, "Report of the Accounting Principles Committee, Nevada Quarterly State Gaming License Fee," draft report, October 21, 1980.

4 : CASINO REVENUE FLOWS

1. See Committee of Sponsoring Organizations of the Treadway Commission (COSO), *Internal Control—Integrated Framework* (1992) (“COSO Report”). In 1994, COSO published an addendum to the *Reporting to External Parties* volume of the COSO Report. The addendum discusses the issue of, and provides a vehicle for, expanding the scope of a public management report on internal control to address additional controls pertaining to safeguarding of assets. In 1996, COSO issued a supplement to its original framework to address the application of internal control over financial derivative. Auditing Standards Board, AICPA, Statement on Auditing Standards No. 78, *Consideration of Internal Control in a Financial Statement Audit: An Amendment to Statement on Auditing Standards No. 55* (1995).

2. A good working definition of *win* is the same as the statutory definition of *gross gaming revenue*, as contained in NRS 463.0114 and Gaming Control Board Regulation 6.080.

3. See AICPA Audits of Casinos (New York: American Institute of Certified Public Accountants, 2002).

4. For an excellent discussion of casino mathematics, odds structure, and house advantage, see Robert C. Hannum and Anthony N. Cabot, *Practical Casino Math*, 2nd ed., Institute for the Study of Gambling and Commercial Gaming, University of Nevada, Reno, 2005.

5. Bill Friedman, *Casino Management* (Secaucus, N.J.: Lyle Stuart, 1974), 16.

5 : SLOT MACHINES AND GAMING DEVICES

1. The use of privately minted tokens is allowed under NRS 463.080 and Gaming Control Board Regulation 12.

2. GAMMA—Gaming Machine Manufacturers Association—later changed its name to The Gaming Standards Association (GSA), www.gamingstandards.com.

3. Friedman, *Casino Management*, 233–34.

4. For a discussion of various slot machine marketing strategies, see Gary Selesner, “Slot Machines Undergoing a Metamorphosis, Part I” and “Slot Strategies in the Casino, Part II,” *Global Gaming Business* 1, no. 3 (March/April 1980).

5. Mary Jurica, “Buy the Slot Machines the Public Wants to Play,” *Global Gaming Business* 2, no. 3 (March 1981): 22.

6. See, for example, William R. Eadington, “The Economics of Gambling Behavior,” Bureau of Business and Economic Research, University of Nevada, Reno, 1973, for a detailed discussion of the various social and economic motives for casino games. Also, Robert Herman, “Gambling as Work, A Sociological Study of the Race Track,” in *Gambling*, Herman, ed. (New York: Harper and Row, 1967), explains that small, frequent rewards tend to be preferred by some gaming patrons.

7. Nevada Gaming Control Board Regulation 14.

8. Friedman, *Designing Casinos to Dominate the Competition*, Institute for the Study of Gambling and Commercial Gaming, College of Business Administration, University of Nevada, Reno, 2000.

6 : SLOT MACHINE ACCOUNTING

1. Basic minimum accounting and control procedures over the slot drop processes are contained in NRS 463.156 to 463.1594, and Gambling Control Board Regulation 6.230.

2. "Nevada Gaming Officials Say Millions Vanished from Argent's Slots," *Wall Street Journal* (September 10, 1979): 1.

3. For a complete description of this type of slot machine arrangement, see John R. Mills, "Innovations in the Gaming Industry: The Case of 'Megabucks,'" *Nevada Review of Business and Economics* 10, no. 3 (Fall 1986).

4. Examples of slot machine management and reporting systems include the Slot Machine Management and Maintenance System (SMMS) by Kafoury, Armstrong & Co., Reno, Nevada; Slot Data System (SDS) by Bally Manufacturing, Chicago, Illinois; and Dacom 1000 Slot Analysis System by Aristocrat, Inc., Reno, Nevada.

7 : GAMES ACCOUNTING

1. The procedure for new game licensing in Nevada is outlined in Gaming Control Board Regulation 14.070.

2. Scarne, *Scarne's Complete Guide to Gambling*.

8 : KENO ACCOUNTING

1. For an excellent discussion of the game of keno, see Scarne, *Scarne's Complete Guide to Gambling*, chapter 17, 432.

2. Mark Sampson, "Costing a Keno Game" (unpublished research paper, University of Nevada, Reno).

9 : BINGO, POKER, RACE AND SPORTS BOOK

1. *Seminole Tribe v. Butterworth* (1979), regarding Florida bingo laws and *California v. Cabazon Band of Mission Indians* (1987), considered the same issues as *Butterworth* but in the state of California.

2. According to John Scarne (*Scarne's Complete Guide to Gambling*, 182), bingo was a \$5-billion-a-year national "pastime," expressed in 1980 dollars!

3. Mandatory regulatory rules for the control of card room accounting and operations are found in Gaming Control Board Regulation #23.

4. Gaming Control Board Regulation #2 covers the operations of race books, sports pools, and other wire-service-oriented businesses. Regulation #26 covers the operation of pari-mutuel wagers, while Regulation #27 covers games such as jai alai.

5. Kirk Gardner, "Procedures of a Race and Sports Book" (unpublished research paper, University of Nevada, Reno).

10 : CENTRAL CASHIERING

1. A general presentation of casino accounting, including a summary of the counting procedures, is found in Virginia Bakay and Steven Michel, "Jackpot," *Management Accounting* (May 1984): 27.
2. "Nevada Gaming Officials Say Millions Vanished from Argent's Slots," *Wall Street Journal* (September 10, 1979): 1.

11 : CASINO CREDIT ACCOUNTING

1. Mandatory requirements for the accounting and handling of casino markers are contained in Gaming Control Board Regulation 6.220 and NRS 463.156. Mandatory New Jersey rules are found in New Jersey Regulations 19:45.25-28.
2. Quotes in "Credit Play and Casinos: Profitability, Legitimacy and Social Responsibility" by William R. Eadington, *Journal of Gaming Behavior*, 1987.
3. An excellent discussion of credit evaluation is presented in Friedman, *Casino Management*, chapters 4-7.
4. New Jersey Regulation 19:45.27 spells out the hold periods for various instruments, depending upon their form and amount. The maximum hold period is ninety banking days for counter checks of \$2,500 or more.
5. For a description of the role of casino hosts in credit granting, see "Gambler's Pals—Casino Hosts Pamper High Rolling Bettors to Keep Them Rolling," *Wall Street Journal* (September 3, 1980): 1; or Deke Castleman, *Whale Hunt in the Desert: The Secret Las Vegas of Superhost Steve Cyr* (Huntington Press, 2004).
6. For a discussion of special problems related to junkets, see Paul Blustein, "For a Special Breed of Recruiter: Cultivating Casino's High Rollers," *Wall Street Journal* (December 8, 1980): 31; also Debra J. Hancock, "The Accounting and Controlling of Junket Transactions" (unpublished research paper, University of Nevada, Reno). See also Jim Kilby, "Casinos and Good Players: The Ideal Rating System," in *Casino Management for the 90's*, eds. Hashimoto, Kline & Fenich (Dubuque, Iowa: Kendall Hunt Publishing, 1996), 278.

12 : CASINO AUDITING, MINIMUM INTERNAL CONTROL STANDARDS, AND FINANCIAL REPORTING

1. AICPA, *Auditing and Accounting Guide—Audits of Casinos* (New York: American Institute of Certified Public Accountants, 1984), with conforming changes as of May 1, 1997. See also AICPA Audit Risk Alerts—Casino Industry Developments—1995/96.
2. The bulk of the mandatory audit and financial reporting requirements under regulatory law are found in NRS 463.156 and Gaming Control Board Regulation #6. New Jersey requirements are found in New Jersey Regulations 19:45.6-7.
3. Gary Royer, "The Audit Function of the Gaming Control Board," presentation to the State Bar of Nevada, First Annual Gaming Seminar, February 28, 1980, 17.
4. NRS 463.159 and New Jersey Regulation 19:45.6.
5. The Foreign and Corrupt Practices Act amends the Securities Exchange Act of 1933,

and its requirements are enforced by the SEC, together with other accounting, auditing, and financial reporting requirements.

6. *Auditing and Accounting Guide—Audits of Casinos*, 19.
7. *AICPA Professional Standards, Volume A—Auditing Standards*, Section AU 509.45–47, regarding opinion qualifications due to scope limitations.
8. Gaming Control Board Regulation 6.030 and New Jersey Regulation 19:45.6.
9. Gaming Control Board Regulation 6.050 and New Jersey Regulation 19:45.7.
10. Gaming Control Board Regulation 6.040–4.
11. New Jersey Regulation 19:45.7(e).
12. Gaming Control Board Regulation 6.040(2)(e).
13. Gaming Control Board Regulation 6.040–4.
14. Gaming Control Board Regulation 6.040–4 and New Jersey Regulation 19:45.7(h).
15. Gaming Control Board Regulation 6.090.
16. AICPA—Statement of Auditing Standards #55.
17. *Internal Control for Casinos: Report of a Study* (Reno: Nevada Society of Certified Public Accountants, Gaming Industry Committee, 1972).
18. Gaming Control Board Regulation 6.090.
19. The accounting firm of Arthur Young & Co. has developed an evaluation questionnaire for New Jersey Internal Control compliance evaluations: *Casino Internal Control Questionnaire, Regulation 19:45, Volume III* (Philadelphia: Arthur Young & Co., 1979).
20. *AICPA Professional Standards, Statement of Auditing Standards #23, Analytic Review Procedures* (New York: AICPA, 1976).
21. Gaming Control Board Regulation 6.150.
22. Ned Day, “Nevada Gambling Debts, to Collect or Not to Collect,” *Global Gaming Business* 1, no. 3 (March 1980): 4; also Larry D. Strate, “The Double-Edged Sword of the Statute of Anne in Nevada—Where Do the Casinos Stand?” (unpublished research paper, University of Nevada, Las Vegas).
23. Financial Accounting Standards Board Statement #13.
24. Arthur Young & Co., “Compilation of Casino Financial Accounting Disclosures” (unpublished paper, Philadelphia, 1980).

13 : GAMING INCOME TAXATION

1. The material in this chapter is based on E. Malcolm Greenlees, “Income Taxation of Casino Operations,” *Public Gaming* (October 1981): 39.
2. Larry D. Strate, “The Double-Edged Sword of the Statute of Anne in Nevada,” *Gaming Law Review* 3, no. 3 (1986): 1.
3. “Controversy over Gambling Markers in Court,” *Nevada State Journal* (March 21, 1980), discussing *Summa Corp (dba) Desert Inn v. Nevada Gaming Commission*, 8th District of Nevada, December 29, 1980.
4. “Accrual of Gambling Debts under Internal Revenue Code Section 451,” *Michigan Law Review* 80, no. 2 (December 1981): 334–49.
5. Nevada Gaming Control Board Regulation 6.220 and New Jersey Regulation 19:45 (28)(h).

6. Fuller, "Money in Progressive Slot Machines: Revenue or Liability," *Nevada Review of Business and Economics* (Spring 1979): 23.

14 : MANAGERIAL ACCOUNTING IN CASINOS

1. For examples of applications of cost and managerial accounting in noncasino areas of hotels, see Clifford T. Fay, Jr., Richard C. Rhoads, and Robert L. Rosenblatt, *Accounting for the Hospitality Service Industries*, 2nd ed. (Dubuque, Iowa: Wm. C. Brown Company, 1971).

2. James H. Bullock and Virginia H. Bakay, "How Las Vegas Casinos Budget," *Management Accounting* (July 1980): 35.

3. The discussion of alternative financial reporting procedures and formats is drawn from the introductory presentation in Horngren, *Cost Accounting—A Managerial Emphasis*, 10th ed. (Englewood Cliffs, N.J.: Prentice-Hall, 2005), chapter 14.

4. R. Kaplan and D. Norton, *The Balanced Scorecard* (Boston: Harvard Business School Press, 1996).

5. G. B. Stewart, III, "EVA: Fact and Fantasy," *Journal of Applied Corporate Finance* (Summer 1994); B. Birchard, "Mastering the New Metrics," *CFO* (October, 1994); M. Topkis, "A New Way to Find Bargains," *Fortune* (December 9, 1996).

6. Bullock and Bakay, "How Las Vegas Casinos Budget," 35.

15 : CURRENCY TRANSACTION REPORTING, SUSPICIOUS ACTIVITY REPORTING, AND TITLE 31

1. *United States Code* 31 USC; *Code of Federal Regulations* (31 CFR 103) and *Patriot Act* (31 CFR 110,120,130).

2. Nevada Gaming Control Board memorandum, November 28, 2006, repealing NGC Regulation 6A and termination of Nevada's exemption from BSA requirements.

3. Chapter 3, "Who's Minding the Casino Cage? Joe Slyman and Regulation 6A," in *License to Steal*, Jeff Burbank (Reno: University of Nevada Press, 2005).

4. Tracking transaction amounts can vary by gaming area. For example, Foxwoods Casino begins slot tracking at \$2,000 and tables games tracking at \$7,500.

5. FinCEN Web site: www.fincen.gov.

6. FinCEN Web site: www.fincen.gov.

7. *The Patriot Act*, section 314(b), requires casinos to participate in anti-money-laundering programs.

8. See Section 103.21 (a) (2).

Gaming Glossary

This gaming glossary was adapted from various professional sources, including the *AICPA Industry Audit Guide; Casino Operations Management* by Jim Kilby, Jim Fox, and Anthony F. Lucas; and *Introduction to Casino & Gaming Operations* by Lincoln H. Marshall and Denis P. Rudd. Special thanks go to Mr. Michael Harrison for his assistance in clarifying various items of casino terminology.

- 21 A wagering game using cards. The object of blackjack is to get a better hand than the dealer, without going over 21. The player must have a score higher than the dealer's score in order to win. *See also* Blackjack.
- Accountability* The total amount of currency, coins, chips, tokens, receivables, customer deposits, and other items representing value for which the casino bank is responsible at a given point in time.
- Action* The amount of gambling a player does at a casino or the denomination which the player bets.
- Advantage* The statistical advantage a casino has over a player on a particular table game, bet, or slot machine handle pull. It is usually expressed as a percentage. Also referred to as "house edge." *See also* Casino Advantage.
- Ante* The predetermined wager required of each player in some card games before cards are dealt.
- Automated Redemption Machine* A device that dispenses coins or slot tokens for casino coupons or currency in exchange for coupons or other payout documents submitted. Also referred to as a redemption kiosk.
- Award Schedule Card* *See* Payout Schedule.
- Baccarat* A house-banked card game where the player either wagers on a player or the bank, or on a tie between the player and the bank. Each player and the dealer receive two cards initially. A series of rules determine whether a third card is received. Cards are worth their face value (1–9) while 10 and face cards are valued as zero. If the hand's value is 10 or more, subtract 10 to arrive at the value. The object is to obtain as close to 9 as possible on the highest two cards dealt.
- Bad Beat Jackpot* A special poker jackpot awarded to a player whose hand would usually have won a pot, but was beaten by an exceptionally better hand. The

	minimum hand to qualify for the bad beat jackpot is usually specified by the card room.
<i>Bank</i>	An inventory of items of value consisting primarily of currency, coins, slips, and receipts, or other paperwork evidencing value. Banks are in many different areas of the casino including the cage, the tables, and the slot booths. The bank is used to make change, pay winning bets, or pay slot machine jackpots.
<i>Banker</i>	The entity bankrolling the game or casino (usually called the “house” or the “operator”).
<i>Bank Hand</i>	In baccarat, one of the two hands on which a player may bet. The player pays a 5% commission on winnings.
<i>Base Jackpot</i>	The minimum fixed amount of a progressive slot machine’s jackpot payout for a specific combination. Also called the “reset amount.”
<i>Basic Strategy</i>	In blackjack, a system that maximizes the player’s expected value by applying rules to support decisions such as standing, hitting, doubling down, and splitting hands and surrounding bets. This strategy does not take other players’ cards or prior dealt cards into consideration.
<i>Belly Glass</i>	The glass panel on the bottom of the slot machine. It generally indicates the denomination of the machine, the name of the casino, or other promotional signage.
<i>Betting Ticket</i>	A written record of a race or sports book wager. It is printed serially and is used to record the event for which the wager was placed. It also includes the amount, date, and the line or spread.
<i>Big Six</i>	<i>See</i> Wheel of Fortune.
<i>Bill Changer</i>	A device that dispenses coins or tokens from the hopper in exchange for currency.
<i>Bill Validator</i>	A device within a slot machine which accepts various denominations of currency for credit play on the machine. Also referred to as a “bill acceptor.”
<i>Bingo</i>	A game using the draw from seventy-five balls with numbers and letters to record the balls selected. A player uses a card with a preselected array of twenty-five numbers to record the balls called. The first player who covers a predesignated pattern is the winner.
<i>Blackjack</i>	A wagering game using cards. The object of blackjack is to get a better hand than the dealer, without going over 21. The player must have a score higher than the dealer’s score in order to win. <i>See also</i> 21.
<i>Blower</i>	In manual keno or bingo, a device used to mix the numbered balls and direct them individually into a receptacle for drawing. <i>See also</i> Rabbit Ears.
<i>Bookmaking</i>	The taking of bets on a specific event. <i>See also</i> Sports Book.
<i>Booth Cashier</i>	A casino employee who serves as the custodian of a slot booth bankroll, makes change for slot customers, and provides security over an area of the slot floor.
<i>Bottom Dealing</i>	Cheating by dealing from the bottom of the deck of cards.
<i>Boxman</i>	The first-level gaming supervisor in charge of the craps game (sits be-

- tween two dealers). On high-action, high-activity games, there may be a boxman for each half of the table.
- Button* A smaller chip used to mark various transactions in the casino, including: (1) identifying the assigned value to color chips in roulette; (2) temporarily identifying credit granted to a player until a counter check can be signed; (3) temporarily identifying chips being credited to the cage before the receipt is obtained; and (4) identifying certain bets in craps. *See also* Lammer Button.
- Buy-In* The amount of money a player uses to buy coins or chips when commencing play. It is usually put into the drop box by the dealer.
- Cage Credit* Advances in the form of cash or gaming chips made to customers at the casino cage, documented by the players signing an IOU or a marker similar to a counter check.
- Calibration Module* The section of a weigh scale used to set the scale to a specific amount or number of coins to be counted, usually tested prior to starting the coin count process.
- Call Bet* A table game wager made orally by players and settled no later than the time the bet is resolved.
- Caller* In bingo or keno, the person who calls the numbers as they are drawn.
- Candle* The lighted column mounted on top of the slot machine. The various lights may indicate: (1) the type of machine; (2) machine malfunctions; (3) machine door openings; (4) the player's request for change; or (5) a jackpot.
- Card Counter* In blackjack, a player who counts and assigns values to the cards played to determine whether the remaining cards give an advantage to the player or the casino. A back counter is a player who counts cards and only joins the game when the remaining cards have an advantage.
- Cash Count Sheet* The form used to record and itemize the contents of the bank as they are counted.
- Cash Equivalents* Certified checks, cashiers' checks, treasury checks, traveler's checks, money orders, and recognized credit cards.
- Cash Loads* The initial amount of currency, coins, tokens, or chips issued to a gaming table or slot machine from a bankroll.
- Cashier's Cage* A secure location within the casino which houses the cashiers, maintains custody of the cage's inventory, and provides banking services for players and other casino banks. Also referred to as the "casino cage."
- Cashier's Count Sheet, Checkout* An itemized list of the components that make up the cage accountability.
- Cashier's Count Sheet, Reconciliation* A detailed reconciliation of the beginning and ending cage accountability.
- Casino Advantage* *See* Advantage.
- Casino Bankroll* The working fund of cash for the casino.
- Casino Cage Cashier* The custodian of the casino bankroll. In some casinos it may refer to the person in charge of the central banking function or vault.

<i>Casino Host</i>	An executive in the casino who is responsible for interacting or hosting important players. He/she must have knowledge of the financial condition of important customers, including their gambling history and their payment reliability. His/her duties can include the granting of credit and the issuance of complimentary services.
<i>Casino Manager</i>	The executive responsible for casino operations.
<i>Casino Supervisor</i>	A person in the casino department in a supervisory capacity, including boxmen and floormen. Pit bosses, casino shift managers, the assistant casino manager, and the casino manager also have supervisory authority greater than those positions of first-level authority.
<i>Catwalk</i>	A clandestine area above the casino floor where surveillance can observe play through one-way mirrors. <i>See also</i> Eye in the Sky.
<i>Central Credit</i>	A company which maintains credit and other information on players for the mutual use of the casinos that subscribe to its services.
<i>Change Person</i>	A casino employee who exchanges a player's coupons, coins, currency, or tokens for coins or tokens.
<i>Check</i>	A draft drawn on a bank account directing a bank to pay money as instructed. Also a slang term for "chips."
<i>Check Credit Slip</i>	A document that shows the total amount of a check accepted by the casino in return for credit to be issued to the player. Usually part of a counter check.
<i>Check Jacket</i>	An envelope used to hold a returned check, a hold check, or a marker pending collection. Usually contains copies of correspondence and evidence of other collection efforts.
<i>Chip Liability</i>	The dollar amount of chips held by players at any point in time, subject to redemption by the casino. Also referred to as "chip float."
<i>Chips</i>	Substitutes for actual currency in various denominations issued by the casino. Chips are used in gaming transactions between the house and the player. Chips are round in shape and contain the name of the issuing casino and the specific value of the chip. Their predefined values are usually \$1.00, \$2.50, \$5.00, \$20.00, \$25.00, \$100.00, \$500.00, \$1,000.00, and \$5,000.00. Each denomination of chip is colored differently and has unique edge spots. The most commonly used chip denomination and colors are: white for \$1.00, red for \$5.00, yellow for \$20.00, green for \$25.00, black for \$100.00, purple for \$500.00, orange for \$1,000.00, and gray for \$5,000.00. <i>See also</i> Check; Plaques; Tokens.
<i>Closer</i>	The original of the table inventory slip form used to record each table inventory at the end of a shift.
<i>Coin Comparator</i>	A device used in a slot machine to determine the genuineness of coins or tokens introduced into the machine. It rejects coins and tokens that fail the comparison criteria.
<i>Coin-In</i>	The amount of coins put into a slot machine by players. Also called "credits played."
<i>Coin Vault</i>	A secure area within the cashier's cage that performs banking functions

- and maintains custody of currency, coins, slot tokens, and supporting documentation.
- Coin-Operated Gaming Device* Any of the variety of mechanical, electronic, or computer devices used by players to place wagers by inserting coins or tokens. Includes slot machines and electronic video games such as poker, blackjack, craps, and keno.
- Color Change* To change chips into larger or smaller denominations. Color changes can be: (1) done by the dealer for a player; and, (2) as a breach of procedure where a casino executive avoids a fill or credit to a table by performing a color change between two or more tables (sometimes called a "cross fill").
- Complimentary Services* Food, beverage, entertainment, hotel rooms, or transportation given by the casino, at reduced or no cost, in return for significant action from a player. Also referred to as "complimentary" or "comp."
- Continuous Form Dispenser* See also Slip Dispenser; Whiz Machine.
- Count* The total counted for a particular event, game, or shift. Or the process of counting coins, currency, chips, markers, or any other items of value.
- Counter Check* A blank check provided by the casino for the player in lieu of a personal check. The casino presents the counter check to the player's bank for payment of credit. A counter check is issued directly against the player's account. See also Marker.
- Counting Cards* See Card Counter; Basic Strategy.
- Counting Machine* A mechanical or electronic device used to count coins or currency. When the value of the coins is determined by weight, the scale is also considered to be a counting machine.
- Craps* A game based on rolling dice.
- Credit Chips* A separate set of value chips used only by players playing on credit.
- Credit Limit* The maximum dollar amount of credit available to a player.
- Credit Manager* The executive responsible for the execution of a casino's credit policies.
- Credit Play* Wagering by means of a credit instrument such as a counter check.
- Credit Play Memorandum* A form to record the date, time, shift, game, table, amount of credit given, and the signatures or initials of the individuals extending the credit. Also referred to as "serialized record," "rim card," or "table card."
- Credit Slip* A casino form recording the amount of chips removed from a gaming table and transferred to the cashier's cage. A credit slip can also be used to transfer markers from the gaming table or pit to the cage.
- Cross Fill* The transfer of cash or chips from one gaming table to another or an "even-money transfer." This is usually prohibited by regulatory agencies.
- Crossroadder* A cheat who travels cross-country (or from casino to casino) to cheat at card games.
- Croupier* See Dealer.
- Customer Deposit* An amount placed on deposit with the cashier's cage by the player for use in the future. Also referred to as a "safekeeping deposit."

- Daily Pit Summary Sheet* A log retained in the pit that reflects the amount of chips received by the table from the cage (fills) and from the table transferred to the cage (credits). *See also* Gaming Count Sheet; Stiff Sheet.
- Day Shift* Represents scheduling of employees and cashiering responsibilities for the daylight period (e.g., 8:00 AM–4:00 PM). *See also* Swing Shift; Graveyard Shift.
- Dealer* A casino employee who deals cards (or runs roulette, craps, Big Six, etc.), collects and pays off players' bets, and controls the speed of the game. Anyone involved in the direct conduct of the game—such as bankers, boxmen, stickmen, and croupiers—come under the general description of a “dealer.”
- Dealing Shoe* The secure container from which cards are dealt in card games such as blackjack and baccarat. The dealer places shuffled cards into the shoe and then deals the cards from the shoe. A shoe usually holds two to six decks of cards.
- Desk Person* An employee who authorizes payment on winning tickets and verifies payouts in keno.
- Discard Tray* A tray or box where cards used in a game are held awaiting shuffling. Discard trays are used predominantly in blackjack (21).
- Diverter* A device that channels coins played in a slot machine to the hopper or to the drop bucket when the hopper is full.
- Draw* In poker, to exchange discarded cards, after the initial betting round, for an equal number of new cards.
- Draw Ticket* A blank keno ticket whose numbers are punched out when balls are drawn for the game. This is used to verify winning tickets.
- Drop* In table games, the total money, plaques, and chips in the table drop box, and the amount of markers issued at the table. In slot machines, the total amount of coins and tokens in the drop bucket and cash in the cash storage box or bill validator.
- Drop Box Sleeve* The five-sided, metal receptacle into which the drop box is inserted to lock and attach it to the table.
- Drop Box Slot* An opening in the top of the table located over the drop box, permitting money and paperwork to be inserted in the drop box.
- Drop Bucket* The bucket placed in the slot machine cabinet which fills with coins after the slot machine's hopper is full.
- Drop Count Card* A document prepared by the count team to record the amount of cash, by denomination, in a drop box.
- EPROM* The computer chip in a slot machine. EPROM stands for “Electronic Programmable Read-Only Memory.”
- Even-Money Exchange* The act of exchanging two items of value, one for another. For instance, \$100 in currency for \$100 in chips is an even-money exchange. Increasingly, even-money exchanges between cashiers or banks are accompanied by paperwork evidencing the transaction.

<i>Eye in the Sky</i>	The overhead surveillance area and cameras which monitor gaming transactions on the casino floor. <i>See also</i> Catwalk.
<i>Face Cards</i>	The cards with a face (jack, queen, and king) that have a value of ten in most card games. Also called "paints."
<i>False Drop</i>	Cash or credit used to purchase chips at a gaming table by a player whose play is nonexistent, or no greater than a marginal amount of buy-in.
<i>Fill Slip</i>	A document showing a transfer of chips from the cashier's cage to the gaming table.
<i>Final Fill or Final Credit</i>	The last transfer of chips to (fill) or from (credit) the gaming table, during a specific accounting period (e.g., a shift). The cashier's cage uses it to restore the table inventory to the original imprest amount.
<i>Float</i>	The chip tray and /or amount of chips on a table game. <i>See also</i> Table Inventory.
<i>Float Cover</i>	The lockable lid covering the chip tray. <i>See also</i> Table Chip Tray.
<i>Floorperson</i>	A first-level casino executive who supervises the gaming tables in a specified area within the casino pit.
<i>Foreign Chips</i>	Chips from another casino that are redeemed for money or house chips.
<i>Front Money</i>	A customer deposit used in lieu of credit to guarantee payment of a marker issued. <i>See also</i> Customer Deposit.
<i>Gaff</i>	Any secret cheating device.
<i>Gaming Count Sheet</i>	The form used to record the count of currency, coins, chips, markers, and other items of value from the drop box for each of the table games. It is used to compute drop and win. <i>See also</i> Master Game Report.
<i>Graveyard Shift</i>	Represents scheduling of employees for the early morning period (e.g., midnight to 8:00 AM). Also referred to as a "grave shift." <i>See also</i> Day Shift; Swing Shift.
<i>Grind Customer</i>	A small-stakes player. A casino, where small stakes players generate the majority of revenue is referred to as a "grind joint."
<i>Gross Gaming Revenue</i>	The total of all amounts received from players and recorded as gaming win less the total of all amounts paid out to players and recorded as gaming losses.
<i>Handle</i>	The total amount of money bet by players. In slot machines, the amount played as measured by the coin-in meter. Also the total amount wagered on gaming tables.
<i>Hand Pay</i>	A slot machine paid-out made by a slot attendant or manager. It is usually of a larger amount and may require additional recordkeeping be completed, such as an IRS form. <i>See also</i> Short Pay; Jackpot Paid-Out.
<i>Hard Count</i>	The total amount of coins or tokens removed from the slot machine drop buckets. The amount of money counted during the hard count is

- also considered the drop. Hard count may also include count of currency from slot machine bill acceptors. "Hard count" also refers to the actual process of counting the coins and tokens.
- High Rollers* High-stakes players. Also referred to as "premium players."
- Hit Sheet* A pit record of player wins and losses deemed significant by table games management.
- Hold* For table games, the ratio of the win divided by the drop. For slot machines, the comparison of the win to the handle (coin-in). Sometimes the hold is referred to as the "P.C.," "hold percentage," or "win percentage."
- Hopper* The mechanism in a slot machine that contains the coins or tokens used to make automatic payouts when winning combinations occur.
- Hopper Fills* Coins or tokens placed in a slot machine when it is first placed on the casino floor. Also the act of placing coins or tokens in the slot machine hopper in order for the slot to pay jackpots.
- Hopper Fill Slip* A form used to record the value of coins or tokens put into the slot machine hopper. *See also* Short Pay.
- Hopper Storage Area* A secure compartment located adjacent to the drop bucket compartment of a slot machine that is used for temporarily storing coins or slot tokens to be deposited only into the corresponding slot machine's hopper.
- House* The casino.
- House Edge* *See* Advantage.
- Identification Credentials* A valid credit card, driver's license, passport, or other form of identification which contains the player's signature and possibly the player's Social Security number.
- Imprest Basis* The basis upon which the cashier's cage and slot booth funds have a fixed balance amount. Funds are replenished from time to time. The replenishment is done in exactly the amount of the net expenditures paid out of the fund—as evidenced by paid-out documents.
- Incompatible Function* A function that places conflicting demands on any person or department by putting them in a position to both perpetrate and conceal errors or irregularities in the normal course of their duties.
- In-Meter* The meter on a slot machine that records the number of coins played. It is also referred to as the "coin-in meter."
- Inside Ticket* A keno ticket retained by the house, showing the customer's selection of numbers and the amount wagered.
- Issue Slip* A copy of a credit instrument that is retained for numerical sequence control purposes.
- Jackpot* Any money, merchandise, or thing of value paid to a player as the result of a specific winning combination of characters indicated on a slot machine.

<i>Jackpot Meter</i>	The meter on a slot machine which records the amount of jackpots paid.
<i>Jackpot Paid-Out</i>	The portion of a jackpot paid manually. The amount is the difference between the amount paid by the machine and the amount due to the player. Also referred to as a "hand pay." Hand pays also occur when there is insufficient money to pay the jackpot inside the machine, or when the machine is not capable of automatically paying the jackpot.
<i>Jackpot Paid-Out Slip</i>	A form specifying the amount of money paid to a slot machine winner that was not automatically paid by the slot machine. Also called a "hand pay" jackpot.
<i>Junket</i>	A group of players who travel to a casino for the primary purpose of gambling at the casino. Often the cost of the food, lodging, and transportation of these players is paid by the casino.
<i>Junketeer</i>	A player participating in a junket.
<i>Junket Representative</i>	The person responsible for organizing a junket. Also referred to as a "junket master."
<i>Keno</i>	A game using eighty numbered balls from which twenty are selected. Players bet on one to a maximum—usually fifteen—of the numbers they believe will be selected.
<i>Keno Runner</i>	An employee who, as a convenience for customers in the casino and restaurant areas, collects keno tickets and remits winnings to customers.
<i>Key Control Log</i>	A log personnel must sign to obtain keys enabling access to drop boxes, safety deposit boxes, count rooms, the cashier's cage, and other restricted areas.
<i>Ladder Man</i>	A supervisor sitting on a high chair to observe gaming play, usually in baccarat.
<i>Lammer Button</i>	A type of small disk that is placed on a gaming table to indicate that the dollar amount of chips designated thereon has been given to the customer for wagering on credit prior to completion of the credit instrument. Also used to designate the amount of credit to be transported from the table game to the cage (table credit), and the amount of commission owed on a game such as baccarat. <i>See also</i> Button.
<i>Layoff</i>	A wager made by one race or sports book with another to balance an excessive amount of customer bets on one possible outcome of an event.
<i>Layout</i>	The felt surface of a gaming table displaying the game and spaces for placement of various bets (e.g., craps, blackjack, roulette, and baccarat).
<i>Limit</i>	The minimum and maximum amount allowed to be bet at a table, game, or casino.
<i>Line</i>	<i>See</i> Point Spread.
<i>Link</i>	Two or more slot machines linked to a single progressive meter.
<i>Load</i>	Coins or tokens put into a hopper.

<i>Location Number</i>	The number assigned to an area of the casino floor which identifies the site where a slot machine is positioned.
<i>Machine Payout</i>	Coins paid out automatically by the slot machine to a player as a result of a winning combination.
<i>Main Bank</i>	A fund of currency, coins, tokens, and chips in the cashier's cage. As the name implies, the main bank is the primary bank in the cashier's cage or vault.
<i>Manufacturer's Serial Number</i>	A unique number permanently assigned to a slot machine by the manufacturer for identification and control purposes.
<i>Marker</i>	A document, usually signed by the customer, evidencing an extension of credit to him or her by the casino. A casino receivable. <i>See also</i> Counter Check.
<i>Marker Card</i>	In blackjack, the plastic card used to indicate a point beyond which cards will not be used in the dealing shoe. The use of a marker card guarantees a certain number of cards will not be played, thereby helping the casino eliminate the effectiveness of card counting. Also known as the "sort card."
<i>Marker Log</i>	A detailed list of all marker transactions, usually kept in the cage.
<i>Master Game Report</i>	A form used to record, by shift and day, each table game's winnings and losses. This form reflects the opening and closing table inventories, the fills and credits, and the drop and win. <i>See also</i> Gaming Count Sheet.
<i>Meter</i>	Mechanical or electronic devices in a slot machine that record many things such as the number of coins in, coins dropped, coins paid out to players, and the number of times the slot machine handle was pulled. There is also a meter that shows the player how many coins should be paid when a winning combination is hit.
<i>Meter Reading Summary</i>	A report reflecting the meter readings on coin-operated gaming devices. The meters are recorded when the drop bucket is removed from the cabinet.
<i>Opener</i>	The form on which the table inventory at the beginning of a shift is recorded; usually the second copy, colored yellow.
<i>Outside Ticket</i>	A keno ticket given to a customer as a receipt, with the customer's selection of numbers and the amount wagered marked on it.
<i>PAR Sheet</i>	A slot machine document that details each machine's reel settings, hold percentage, and other operational details such as volatility and hit frequency. Also known as "probability and accounting report" or "pay analysis report."
<i>Pari-Mutuel</i>	A system of betting where monies are pooled, a percentage removed for administration (take-out), and the balance distributed back to the bettors according to the odds on the event.

<i>Past Posting</i>	An illegal bet placed after the outcome is known. Also referred to as “late bet.”
<i>Payment Slip</i>	The part of a marker form on which customer payments are recorded.
<i>Payoff</i>	The amount of money paid out on a winning wager.
<i>Paid-Out</i>	Any money, merchandise, or thing of value—including coins—paid to a player who wins a jackpot.
<i>Payout Schedule</i>	The schedule of payouts for various winning combinations on a slot machine.
<i>Payout Sheet</i>	A display illustrating the statistics of the slot machine supplied by the manufacturer. Also referred to as a “PAR sheet.”
<i>Pit</i>	An area in a casino enclosed by gaming tables. There is usually more than one pit in large casinos.
<i>Pit Boss</i>	The casino supervisor responsible for all games in a particular pit.
<i>Pit Clerk</i>	An employee at the pit stand in a table game pit who prepares documentation (and operates a computer terminal) for fills, credits, player credit instruments, and player ratings.
<i>Pit Master Card</i>	The form used to record credit activity at all tables in a pit area.
<i>Pit Stand</i>	The desk in the center of a casino pit where activity reports are generated and stored.
<i>Plaques</i>	Objects that substitute for money and are similar to chips in appearance, but are usually rectangular rather than round like traditional chips. Plaques are frequently used in foreign casinos and in some U.S. casinos for baccarat play. Plaques are sometimes used when there is a large amount of buy-in occurring at the cashier’s cage in different currencies.
<i>Player Cash Deposit</i>	<i>See</i> Customer Deposit.
<i>Player Check</i>	A check provided by the player to the casino, drawn on the player’s bank.
<i>Point Spread</i>	The number of points by which a team is favored to win a sporting event. Also referred to as the “line.”
<i>Poker</i>	A fifty-two card game. Players wager against each other based on the value of their hands. The casino takes a commission or “rake” from the pot of wagers, or charges, for the time players play.
<i>Premium Player</i>	A gambler that is rated and qualifies for complimentary service by the hotel-casino. <i>See also</i> High Rollers.
<i>Press</i>	Increasing the size of the next bet, usually by doubling.
<i>Probability</i>	The likelihood of one outcome over all other possible outcomes. The likelihood of a desired event compared to all events.
<i>Progressive Slot Machines</i>	A slot machine with a jackpot that increases with each wager. (For example, a progressive meter might increase 5¢ for every \$10 played.)
<i>Puncher</i>	The device used to punch holes in keno draw tickets. Also, the person punching the draw tickets.
<i>Punter</i>	A British term for a low-stakes player. <i>See also</i> Grind Customer.

<i>Push</i>	A tie in a casino game.
<i>Quading</i>	In surveillance, simultaneously displaying more than one image for viewing and recording from several cameras on a single monitor and VCR. Also called "split-screen surveillance."
<i>Rabbit Ears</i>	A v-shaped device that holds the twenty balls drawn during a manual keno game so that the numbers are visible to players and employees. <i>See also</i> Blower.
<i>Race and Sports Book</i>	An area in a casino specializing in the acceptance of wagers on the outcome of racing or sporting events.
<i>Rack</i>	The plastic tray holding chips. Usually five barrels or tubes, each holding twenty chips.
<i>Rake</i>	May be any of the following: (1) the dealer's stick; (2) a commission taken on a game; or (3) a fee taken by the house from the pot bet in a poker game. <i>See also</i> Take.
<i>Rating Slip</i>	A slip used in the casino pit to keep track of a player's action for purposes of determining the extent of the player's qualification for comps.
<i>Reel Cycle</i>	The theoretical playing of a slot machine with each possible combination occurring once before there are any repetitions. The total number of all combinations of all reels (e.g., $22 \times 22 \times 22 = 10,648$).
<i>Reel Settings</i>	The positions on a slot machine reel controlling the outcome of winning combinations.
<i>Request for Credit</i>	A document to authorize the preparation of a credit slip for the transfer of chips, coins, plaques, or markers from the gaming table to the cashier's cage.
<i>Request for Fill</i>	A document that authorizes the preparation of a fill slip for the transfer of chips, coins, and plaques from the cashier's cage to the gaming table.
<i>Reserve Chips</i>	May be any of the following: (1) additional chips held in storage; or, (2) a second complete set of chips with colors and markings that enable them to be distinguished from the primary set of chips. These chips replace the primary set when the casino suspects counterfeit chips are in circulation, or when the casino must remove a set of chips for other reasons.
<i>Returned Check</i>	Any dishonored player check returned to the casino by the player's bank.
<i>Rim Credit</i>	Temporary advance of chips to a player known to the casino until the player's marker is prepared. The amount is usually noted with a lammer button.
<i>Roulette</i>	A game in which players bet upon where a small ball will come to rest on a rotating wheel containing thirty-seven or thirty-eight numbers in different colors. Betting is allowed on patterns of outcomes such as columns, sections, odd, even, high, low, red, or black.

<i>Scam</i>	Cheating, stealing, and other dishonest gaming techniques.
<i>Security Department Member</i>	Any person employed by a casino to provide physical security in the casino. Sometimes different from surveillance, which is concerned with game security only.
<i>Shift</i>	The regular, daily work period of a group of casino employees administering the operation of table games, slot machines, and the cashier's cage. Shifts are usually broken down into day, swing, and graveyard.
<i>Shift Boss</i>	The person responsible for all casino operations during a given shift. The pit bosses from any given shift report to the shift boss.
<i>Shill</i>	A gaming player employed and bankrolled by the casino to start a game or keep a sufficient number of players in a game. Most often a shill is used in baccarat, when too few players are available.
<i>Shoe</i>	See Dealing Shoe.
<i>Short Pay</i>	A slot machine payout less than the amount required by the payout schedule. The player receives the additional amount from a slot attendant or from the slot machine after a hopper fill. See also Hopper Fill Slip.
<i>Shuffle</i>	The process of mixing the cards prior to dealing in an effort to achieve randomness in the deck(s). Also referred to as "riffle," "strip," "shuffle up," or "reshuffle."
<i>Signature</i>	A signature should include at least the signer's first initial and last name. It signifies the signer has prepared the material or participated in the transaction to the extent of being able to attest to the accuracy of the information, including counting the items, which is part of the transaction. Signature records are usually stored in a master file. It is helpful and sometimes required to have the signer print his or her title and, in some casinos, to indicate an employee ID number.
<i>Simulcasting</i>	The simultaneous electronic transmission of sporting events, usually from a remote location, providing the bettor with the opportunity to bet on more than one race, game, or event at a time.
<i>Single Deck</i>	A blackjack game played with one 52-card deck.
<i>Skimming</i>	Any party or person illegally taking part of the profit before it is recorded, thus making it nontaxable.
<i>Sleeper</i>	A bet left on the table by the player's forgetfulness, or a long-past winning wager not presented for payment in a race and sports book.
<i>Slip Dispenser</i>	A locked form dispenser used to issue forms in numerical sequence. One of the copies of the form is retained in a locked section of the dispenser after the transaction. See also Continuous Form Dispenser; Whiz Machine.
<i>Slot Booth Bank</i>	A bank in the slot machine area used to provide change to players, issue jackpots and hopper fills, and redeem coins for currency.
<i>Slot Carousel</i>	A circular or oval configuration of slot machines. In the center of the slot configuration is a raised area where a slot cashier can provide change to players. Also referred to as a "slot runway."

- Slot Cash Storage Box* A container located in each bill changer which accumulates the cash inserted into the bill changer.
- Slot Fills* The coins placed into a hopper of a slot machine.
- Slot Machine* A device that pays off based on the outcome of mechanical or electronic means initiated by a handle pull or push of a button. Slot machines are also called "one-armed bandits." Machines on which poker is played are also referred to as slot machines although they are video poker machines. In modern machines, an EPROM specifies the reel positions based on a random number generator.
- Slot Machine Count Sheet* A document for recording the amount of coins or tokens retained by the casino from a particular slot machine. The count sheet often includes meter readings, coin weight, hand-paid jackpots, hopper fills, and any other information necessary to determine the slot machine's drop and win.
- Slot Machine Drop* The sum of the total amount of coins and slot tokens removed from the drop bucket and the cash in the slot cash storage box.
- Slot Machine Load* The initial amount of money put into the slot hopper when a machine is put on the slot floor. *See also* Slot Fills.
- Slot Machine Win* Revenue generated by a slot machine. The win is determined by subtracting the hopper fills (other than the initial hopper fill and the initial fill of the hopper storage areas) and manual jackpot payouts from the slot machine drop.
- Slot Mechanic* A casino employee who maintains and repairs slot machines. Also referred to as a "slot technician." Occasionally used as a term for a slot cheat who electronically or mechanically alters the machine.
- Slot Win Sheet* The accounting record of slot machine winnings. The slot win sheet can include the amount of coins or tokens retained by the casino, meter readings, coin weight, hand-paid jackpots, hopper fills, and the net win and win percentage by denomination for the period.
- Slug* A metal disk having no cash value used to cheat a slot machine.
- Soft Count* May be any of the following: (1) the total amount of currency, chips, and plaques removed from the drop box; (2) the process of counting the drop box contents for table games; or (3) the amount of table drop.
- Sports Book* An area in a casino specializing in the acceptance of wagers on the outcome of certain athletic sporting events. Usually combined with a race book, which accepts wagers on horse and dog races.
- Spread* Betting more than one hand at a time on a table game. *See* Point Spread.
- Squirrel Cage* A device used in keno or bingo to mix the balls.
- Stickperson* In craps, the person working at the table who controls the dice with the stick, calls the numbers thrown, directs payments of proposition bets, and is responsible for the pace of the game.
- Stiff Sheet* A pit-originated report (usually on stiff paper or card stock) which is used to track fills and credits from the cage to the pit.
- Swing Shift* Represents scheduling of employees and cashiering responsibilities for

the late afternoon and evening periods (e.g., 4:00 PM to midnight). *See also* Day Shift; Graveyard Shift.

- Table Chip Tray/Table Chip Tray Covers* A device used to hold chips and coins at the gaming table. A chip tray facilitates inventory counts and typically has a locking cover to secure the tray to the gaming table. *See also* Float Cover.
- Table Game Drop* The total amount of currency, coins, and chips contained in the drop box, plus the total amount of credit issued at the table.
- Table Game Win* The net win from gaming activities at the gaming tables. The table game win or loss is determined by adding the amount of cash drop, the amount recorded on the inventory closer, the totals from amounts recorded on the credits and issuance copies of counter checks removed from a drop box, and subtracting the amount recorded on the inventory opener and the total of amounts recorded on fills removed from a drop box.
- Table Inventory* Coins, chips, and tokens assigned to a particular table as inventory. Also referred to as “table bank,” “table load,” or “float tray.” *See also* Float.
- Table Limit* *See* Limit.
- Take* A commission (usually a percentage of the pot) in chips, tokens, or currency taken by the house from a pot for each hand dealt in certain card games, such as poker. Also referred to as “rake.”
- Theoretical Slot Machine Hold Percentage* The theoretical hold percentage that a slot machine would have by completing one reel cycle, which consists of the net win amount retained by the casino if every combination in a slot machine were to occur once, divided by the amount of coins played. This amount is the reciprocal of the “theoretical slot machine payout percentage.”
- Theoretical Slot Machine Payout Percentage* The sum of the number of coins expected to be paid (both automatically and manually) as a result of jackpots, divided by the expected number of coins to be played in a slot machine for a complete reel cycle.
- Tight Slots* Slot machines with a low payout percentage.
- Time Buy-In* A fixed amount of money charged for the right to participate in certain games for a period of time.
- Take* A slang term for gratuities given to casino employees by players (a “token of appreciation”). Also referred to as a “tip.”
- Take Box* The dealer’s tip box, which is usually attached to each table.
- Take Cutters* The group of appointed dealers on each shift given the responsibility of counting and dividing the daily takes into individual shares. They are given extra money for this duty and are responsible for the money. Also referred to as a “take committee.”
- Tokens* Substitutes for coins at certain stated values that are most often used in slot machines. Tokens are usually used for \$1 denominations.
- Travel Disbursement Voucher* A form prepared by the casino to approve a disbursement to a player requesting reimbursement of travel expenses.

<i>Twenty-One</i>	<i>See</i> 21; Blackjack.
<i>Value Chip</i>	Chip with a value imprinted permanently on the chip. <i>See also</i> Chips.
<i>Vault</i>	A secure area typically in the cashier's cage where excess quantities of currency, coins, chips, and tokens are stored.
<i>Velocity of Play</i>	The speed of play; usually defined as the number of gambling decisions per hour.
<i>Verbalize</i>	To orally express a transaction.
<i>Video Poker Machine</i>	A gaming machine that plays some form of five-card poker.
<i>Vigorous</i>	A commission charged by the casino for certain bets including betting with the banker in baccarat. Also referred to as "vig" (a slang term).
<i>VLT</i>	A video lottery terminal, which is usually a video poker machine.
<i>Walking Money</i>	Money given by a casino to a player who has lost all of his / her funds in order for the player to return home.
<i>Weighed Count</i>	The value of coins or currency counted by a scale.
<i>Well</i>	The hollow container in a slot machine into which coins and tokens fall when a player wins. It is designed to make a lot of noise when coins hit. Also called a "payout tray."
<i>Wheel of Fortune</i>	A game using a large wheel with different combinations of certain numbers. The player wins when the indicator for the wheel stops at the number upon which the player placed a bet. The wheel has a high casino advantage. Also referred to as "wheel" or "Big Six."
<i>Whiz Machine</i>	<i>See</i> Slip Dispenser; Continuous Form Dispenser.
<i>Win</i>	<i>See</i> Table Game Win; Slot Machine Win.
<i>Wire Transfer</i>	A transfer of funds by means of the Federal Reserve Bank or private wire transfer system.
<i>Wrap</i>	The total amount or value of coins wrapped in hard count and prepared for transfer to the cashier's cage.
<i>Write</i>	Total dollar amount collected for all ticket sales from keno, bingo, or race and sport books.
<i>Writer</i>	A person who writes keno tickets, sports wagers, and race wagers.
<i>Writer Machine</i>	A locked device used to prepare keno or sports and race book tickets.

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GAMING WEBSITES

American Gaming Association www.americangaming.org
Harrah's Entertainment, Inc. www.harrahs.com
National Gambling Impact Study Commission www.ngisc.gov
National Indian Gaming Commission www.nigc.gov
Various State Gaming Commissions
Investment Advisor Investment Research Sources
Bear Sterns & Co.
Deutsche Bank Securities, Inc.
Goldman Sachs—Global Investment Research
Jeffers & Company

Index

Italic page numbers refer to figures; page numbers with the letter *t* refer to the tables.

- ABSCAM scandals, 42
- Accelerated Cost Recovery System (ACRS), 377, 378
- accounting: accrual method of, 72, 73, 92, 372, 374–77, 385, 395–96; card room accounting, 263–67; cash method of, 79; general ledger accounting, 98; and main bank, 280–81; and poker, 263–67; and race and sports books, 267–70; treatment of gross gaming revenue taxes, 92–94. *See also* bingo accounting; certified public accountants (CPAs); credit accounting; keno accounting; managerial accounting; revenue accounting; slot machine accounting; table game accounting
- Accounting Standards Executive Committee (AcSEC), 319
- accounts payable, 98
- accrual method of accounting: and imputed cost of investment, 395–96; and liabilities, 374–77, 385; and slot tax, 72; and taxation issues, 92, 372; and wagering excise tax, 73
- ACRS (Accelerated Cost Recovery System), 377, 378
- AcSEC (Accounting Standards Executive Committee), 319
- Aetna Life and Casualty, 34
- American Institute of Certified Public Accountants (AICPA), 319, 339, 364–65
- amusement with prize (AWP), 6
- annual device (slot) fee, 88
- annual state license fees, 81–82, 88; for Nevada, 81^t
- Argent slot fraud, 170–71
- Arizona, 8, 10, 447
- assets: asset controls, 191–92; auditing fixed assets, 355–57; depreciation of, 377–78, 377^t
- Atlantic City (N.J.): and bad debt amounts, 299; casino industry concentration in, 18; and casino reinvestment tax, 89; casino revenues from, 13; and commercial casinos, 126; denomination of slot machines, 149; dependence on local market, 21; financing of, 34; and game mix, 26; legalization of casino gaming in, 9; licensing rules in, 18, 42, 462n27; and marker credit, 298–99; public corporate ownership in, 16; slot win as percentage of total win, 130, 131; and table game to slot machine mix, 202; taxation in, 69
- auditing: and accrued gaming tax liability, 354; and accrued portion of taxes, 92; AICPA guide for, 319, 339; and analytic reviews, 339–41; annual audited financial statements, 63, 64, 323; and cash, 343–49; and currency transaction reporting, 414–15, 422, 424–25; of deferred income taxes, 361; environment of, 319–20; of expense accounts, 362–63; financial audit, 324–25; and financial reporting requirements, 324–26, 339–43; of fixed assets, 355–57; and initial slot hopper load, 164–65; internal audit, 320–22; of internal control systems, 323, 325, 326, 327, 328–30, 331, 333–38; and keno accounting, 251–52; of liabilities and owner's equity, 357–60; and main bank, 297; and mandatory accounting disclosures, 365–66; of marker credit, 341–42, 349–52, 363; of other prepaid and deferred items, 354–55; and overall financial structure, 342–43; of participation games, 357, 360–61; planning for, 339–40; of players clubs, loyalty programs, and incentive programs, 362; of prepaid taxes and fees, 352–55; and regulatory environment, 44, 62–63, 316, 320, 322, 323, 324, 325–27, 328; of revenue accounts, 362; and revenue recognition, 363–66; and risk analysis, 341–42; sample of slot hoppers, 160; and slot drop, 169; and slot transactions problems, 174–77; specific areas of, 343–63; substantive procedures, 339–43; and suspicious activity reporting, 427; and tribal casinos, 320, 366–68; types of audit, 323–28. *See also* internal control systems
- Australia, 6, 142

- automated redemption machines, 273
 automatic count equipment, 345
- baccarat, 202, 203–4, 210
 bad debts, 299, 372–73
 balanced scorecards, 395, 396–99
 balance sheet accounts, and auditing, 342–43
 Bally / Alliance Gaming systems, 106
 bank deposits, 295
 bankroll: and cash auditing, 344, 345–49, 346, 347; and internal control systems, 335; and main bank, 281, 285, 335; requirements for, 253, 281, 345–49, 346
 Bank Secrecy Act (BSA), 412
 barge casinos, 22, 378
 Big 6, 210
 bill acceptors / validators: and coin-in meters, 138; and count rooms, 274; and denomination, 146; and hold percentages, 160; and jackpot payoff amounts, 177; and revenue functions, 164; and short pays and hopper fills, 179, 181; and slot drop, 158; and slot handle, 157; and slot hopper loads, 166; as slot machine component, 133; and slot machine payout slips, 137
 bingo: cashiering, 103; as Class II game, 124, 125, 257, 257t, 258, 262, 263; commercial bingo, 256–57, 257t, 258; and deductions from gross gaming revenue, 78; electronic bingo, 257, 259; Harrah's first bingo club, 8; popularity of, 256, 258, 466n2; revenue flows, 120; and revenues, 256, 257t, 258; statistical analysis of, 401; and tribal casinos, 10, 256–57, 262–63
 bingo accounting: and access controls, 261; and bingo-type gaming machines, 262–63; card control, 258–59; draw controls, 260–61; and internal control systems, 257–62; and inventory control over merchandise, 262; payoff determination and controls, 261; and random draw, 261–62; revenue accounting, 262; revenue control, 259–60
 blended presentation, 368
 Boyd Group, 18
 break-even analysis, 387
 BSA (Bank Secrecy Act), 412; compliance officers, 422, 423, 426
 budgets: development guidelines, 406–7; living with, 408; by organizational unit, 405–6; and performance standards, 407–8; planning and forecasting, 405–9; systems, 388; variances in, 409
 business units: profitability of, 392. *See also* win per unit
- Cabazon decision, 10
 Caesars Boardwalk Regency Hotel and Casino, 42
 Caesars Palace, 34
 California: and card rooms, 39, 263–64; gaming taxes in, 447; regulatory environment of, 43, 59; taxation in, 71; tribal gaming in, 15, 24, 129, 256, 298
 calling the game, and keno, 238
 Canada: and commercial casinos, 126; governmental casinos in, 11, 68, 126; and racinos, 128; slot machines in, 131, 142, 458–59
 candles, of slot machines, 139–40
 capacity utilization, 403–4
 capital transactions: establishing original table inventory as, 211, 374; and slot hopper loads, 373–74
 card and dice control procedures, 233–35, 356
 card games, history of, 4, 6
 card room: accounting, 263–67; cashiers, 103
 Caribbean Stud Poker, 78, 201, 381
 cash: and auditing, 343–49; and bankroll, 344, 345–49, 346, 347; cash count procedures, 345, 359; cash cutoff and verification, 343–44; classification of, 344; and currency transaction reports, 414, 415, 421; and estimate of casino revenue, 370; gaming activity cash requirements, 347; and imprest balance accounts, 344–45; and suspicious activity reporting, 426
 cash flow planning, for tax and license payments, 90–91, 91t
 cash handling areas, and table game accounting, 207, 208–10
 cashier checkout sheets, 287, 288
 cashiering transactions: card room cashiers, 103; credit cashier, 276–77, 289; and poker, 103, 265, 266, 277; and principal revenue flows, 100; public cashiering, 275; and race and sports books, 103, 269, 270; revenue accounting, 100–104, 101; and slot machine accounting, 162–63, 183, 286; and slot machines, 101–2, 108, 137, 162–63; and table game accounting, 220, 221, 223; and table games, 102–3, 110, 111, 112, 114; and vault cashier, 273, 276, 291. *See also* central cashiering
 cashier's cage, 103
 cashier's window, 271
 cashless gaming, 191, 195, 197
 cash method of accounting, 79
 casino accessibility, and slot win per unit, 143
 Casino Control Act, 51
 Casino Control Commission: composition of,

- 42; gross revenue tax, 88–89; and licensing, 42, 52, 53–54; and Pearlman brothers, 42–43; regulatory responsibilities of, 44; and revenue determination, 371; and revenue reporting and tax collection, 63; structure of, 53–54, 53
- casino credit, 104
- casino design, and slot machines, 147–48, 154
- casino gaming: history of, 6–8; Nevada's legalization of, 8; percentage of gaming revenues from, 6; and racetracks, 10; social acceptance of, 35; top geographic markets, 12t. *See also* gaming markets
- casino industry: business failure in early 2000s, 364; competitive marketplace of, 23–24; evolution of, 9; financial aspects of, 11; game mix and revenue sources for, 24–26; and geographic location, 17–20; growth of, 369; impact of public corporate ownership, 16–17, 33; organizational structure, 29, 30, 31–32, 31, 32; population factors in, 20–21, 22; public perception of integrity, 320, 399; and Title 31, 412, 413; types of gaming facilities, 21–23; and win per unit, 27–28, 28t. *See also* gaming industry
- casino live entertainment tax, 83–84
- Casino Montreal, 11, 142
- casino operation: auditing of, 340; and budget systems, 388; extensive supervision of, 332; financial aspects of, 11–15; and managerial accounting, 389–90; and revenue accounting, 99; training for, 333. *See also* taxation of income from casino operation; *under specific operating units*
- Casino Reinvestment Development Authority (CRDA), 89
- casino reinvestment tax, 89
- casino revenues: definition of, 370–71; growth in, 11; and internal control systems, 332; source of, 29, 29t; and taxation of income, 370; and win per unit, 27–28, 28t. *See also* gaming revenues; gross gaming revenue; revenue accounting
- casino size: and auditing, 323, 324; and balance sheet accounts, 342–43; and cashiering functions, 103; as differentiating characteristic, 15–16; and game mix, 24–25; and internal control systems, 166, 330, 331, 337; and managerial accounting, 392–93; and marker credit, 349; and revenue recognition, 363; slot machine distribution percentage, 150, 150t, 342; and slot win per unit, 143, 146–47, 147t; and Title 31, 414
- Casino Windsor, 11
- central cashiering: and accountability, 285–87, 293; cashier accountability and responsibility, 277–79, 278; and cashier stations, 274–75, 277; and coin transfers, 293; count and balance procedures, 287–89; and count procedures, 283–84; and custody of chips and tokens, 281–83; and departmental profit and loss statements, 392; functions, 103–4, 275–77, 279; and internal control systems, 271, 335; and issuance of credit, 303–5; layout of, 272, 272, 273–75; organizational structure of, 272–73; reconciliation of fill slips, 293–94; recording of fills and credits, 289–90; and repayment of markers, 311; and revenue accounting, 103–4, 114, 278–79; and revenue completion, 295; special procedures, 287; systems and functions, 285–87
- Central Credit, Inc., 303
- central vault. *See* main bank (central vault)
- certified public accountants (CPAs): and auditing, 63, 320, 322–23; and financial audit, 324–25; and internal controls audit, 63, 325, 326–27, 328, 331, 334–35
- check cashing: and central cashiering, 104, 275, 290; and currency transaction reporting, 423; liberal policies on, 298, 299, 349; and main bank, 291; and table drop boxes, 114; and write-offs of bad checks, 373
- cheques, 110
- chip float, 214, 282, 358, 360, 375
- chip liability: and auditing, 357, 358, 359–60; and ownership transfer, 282–83; records for, 282; and redemption, 214, 282, 358; and table game accounting, 212–14; and taxation of income from casino operations, 375–77, 385
- chip run, 231
- chips: custody and control of, 281–83, 359; redemption of, 358; reserve chips, 285
- chip/token notice, 282
- circle theory of location, 148
- Class I games, 125
- Class II games, 125
- Class II machines, 124–25
- Class III games, 125
- Coast Resort group, 18
- coin count, 170–71
- coin count room, 164
- coin-in, 106, 107–8, 136–37, 157, 158
- coin-in meters, 138, 139
- coinless slot machines, 102, 146
- coin-operated gaming devices, 72, 81, 140
- coin-out meters, 138, 139
- coin receptacle, 133
- coin transfers, 293

- coin trays, 138
 coin vault, 292
- Colorado: and commercial casinos, 126;
 earmarking of state gaming taxes, 455;
 free-market environment in, 143, 150; gam-
 ing profile of, 437; gaming taxes in, 447;
 geographic location of casino industry in, 20;
 history of gaming in, 8; legalization of casino
 gaming in, 9, 38; licensing in, 43; regulatory
 environment of, 46; and table game to slot
 machine mix, 202; taxation in, 76; and win
 per unit, 27
- commissions for poker games, 78, 79, 371
- common-sized financial statement, 341
- complimentary expense method, 364
- complimentary services: auditing of, 362; and
 cost allocation, 390–91; and managerial ac-
 counting, 387; and regulatory environment,
 66; reporting and tax status of, 385; and
 revenue recognition, 363–65
- compulsive gaming behavior, 5, 40, 71, 75
- computer hacking, 141
- concession keno, 253–55
- conflicts of interest, and regulatory environ-
 ment, 65–66
- Connecticut: earmarking of state gaming taxes,
 455; gaming taxes in, 448; and oligopoly
 markets, 142–43; taxation in, 71; and tribal
 gaming, 13, 15, 23–24, 298; and win per unit,
 27
- consulting activity, 409–11
- contribution-margin approach, 387–88
- corporate minimum tax, 385
- corporations, licensing of, 57
- cost allocations, and managerial accounting,
 390–92, 393
- cost analysis, 387, 403
- cost behavior, 387
- cost-volume profit calculations, 387
- count rooms: accounting flow, 276; and cashier
 revenue accounting, 278–79; coin count
 room, 164; and count procedures, 227–29,
 231, 283–84, 297; and internal control sys-
 tems, 280; layout of, 170, 171, 227–28, 228,
 274, 274, 283, 297
- count sheets, 230, 284, 287
- county quarterly license fee, 85–86; in Nevada,
 86t, 89
- court decisions: and litigation, 40–42. *See also*
 U.S. Supreme Court
- craps game: and hold percentages, 116, 117;
 layout of, 207, 208; in Nevada, 203, 204, 205;
 in New Jersey, 206; and table game cashier-
- ing, 102; table inventory fluctuations, 110;
 and table tray, 208, 209; and win per unit,
 204
- CRDA (Casino Reinvestment Development
 Authority), 89
- credit accounting: collection procedures,
 312–13; and collection settlements, 314–15;
 credit control and abuses, 299–300; credit
 investigation and approval, 301, 302, 303;
 and currency transaction reporting, 423; and
 departmental profit and loss statements, 392;
 and internal control systems, 298; issuance
 of credit, 303–6; marker accounting system,
 309; marker control and collections, 311–12;
 off-site credit collections, 314–16; and
 personnel, 300; and player control system,
 387; procedures of, 301–13; and regulatory
 environment, 79, 80, 305, 312, 467n1. *See also*
 marker credit
- credit application, 301, 302
- credit instruments: controls over, 306; credit
 slips, 222; and definition of gross gaming
 revenue, 79, 80, 464n10; and regulatory
 environment, 300, 467n4; and table drop
 boxes, 114, 215
- credits: and cashiering transactions, 278; and
 central cashiering, 103, 289–90, 293–94; and
 credit cashier, 276–77, 289; and keno, 250,
 250; and table game accounting, 223–24, 224,
 374; and table games, 112–13, 114. *See also*
 marker credit
- credits played, 157
- CRMs (customer relationship management
 systems), 332
- cross fills, 224–25, 269
- cross-substitution effect, and game mix, 25
- cruise ships, 6, 128
- currency count, 170
- currency transaction reporting: aggregation
 requirements, 414, 415; and central cashier-
 ing, 287, 415, 423; compilation of filings,
 431t; and compliance programs, 413–15,
 422–24; customer information card, 421,
 421; daily accounting audit procedures for,
 424–25; FinCEN form 103, 417–18, 419–20,
 423; and gaming day, 414, 415, 417; gam-
 ing floor compliance procedures, 423–24;
 monetary instrument log, 415, 417; multiple
 transaction logs, 415, 416, 423, 424; and “no
 activity” logs, 423–24; tracking transactions,
 415, 417; training programs, 422–23, 427
- customer measures, 397, 398
- customer relations: and auditing, 320; and

- cashless gaming, 191; and central cashiering, 272, 273, 274–75, 280; and currency transaction reports, 418, 421, 421, 425; and game mix, 205–6; and issuance of credit, 304; and jackpot payoffs, 175, 177; and keno, 238–39, 241, 248; and marker credit collection, 350; and player control system, 387; and preauthorization of credit, 305; and short pays and hopper fills, 179, 180; and slot machine cashiering, 102; and table drop boxes, 215; and ticket paid-outs, 181, 183–85
- customer relationship management systems (CRMs), 332
- daily fee machines, 125
- day shift, 216
- Deadwood (S.Dak.), 9
- dealers, 98, 102, 223, 224
- dealing shoes, 132
- Delaware, 10, 448, 455
- demographics, and game mix, 26, 26t
- departmental contribution reporting, 393
- departmental income statements, 387–88
- department profit and loss statements, 392, 394
- depreciation methods, 378
- depreciation of casino assets, 377–78, 377t
- Desert Palace, Inc., vs. Commissioner* (1979), 372
- dice and card control procedures, 233–35, 356
- discrete presentation, 368
- display hoppers, 136
- Division of Gaming Enforcement, 44, 51–52, 52, 63
- drop: complications of drop box counts, 113–15; definition of, 106–7; fallacy of drop and hold percentages, 115–16, 117; measure of, 115; and slot win, 109. *See also* slot drop; table drop
- drop boxes. *See* table drop boxes
- drop buckets, 139, 158
- economic data, 400–401
- economic recessions, 11
- Economic Recovery Tax Act (ERTA), 377
- economic value added (EVA), 395, 396
- El Capitan, 9
- El Cortez, 8
- electronic bingo, 257, 259
- electronic fund transfer (EFT) cards, 361
- electronic slot machines, 133, 135, 135, 140–41, 162, 360
- Elko County (Nev.), 17
- El Rancho Las Vegas, 8
- employees: accounting personnel, 98; competency of, 65; and cost allocation, 390; and credit accounting, 300; floor supervisors, 221, 307; and keno accounting, 238–39, 241; keno runners, 239, 241, 247; keno writers, 239, 247, 248, 249, 250; and labor control, 388; and labor costs, 404–5, 409; and labor organizations, 44, 59, 464n31; licensing of, 42, 44, 57–58; operating personnel, 97; pit supervisors, 109, 217, 220, 221, 223, 234, 289, 307, 421; slot booth personnel, 156; slot change personnel, 155–56, 174, 176; slot personnel, 108, 154–56, 173, 175, 183–84; slot repair personnel, 155, 193; and staffing levels, 400; standards of performance, 388; and suspicious activity reporting, 427; table game staffing, 208; and ticket-in-ticket-out technology, 156; and tip compliance, 383–84; and Title 31 training, 414, 422–23, 427
- employment, impact of casinos on, 69
- English civil law, 372
- entry licensing, 43–44, 56
- EPROM chipset, 151
- equity financing, 34
- ERTA (Economic Recovery Tax Act), 377
- EVA (economic value added), 395, 396
- even-money exchanges, 224–25
- expenses, and auditing, 342
- experience method, for chip liability, 376–77
- faro, 201
- Federal Gambling Impact Study Committee, 40
- federal government: punitive taxes of, 72, 73; and regulatory environment, 36, 39–40; and taxation of gross gaming revenues, 72–74, 87. *See also* Internal Revenue Service (IRS); U.S. Supreme Court; U.S. Treasury Department
- federal slot tax, 72, 80–81, 88
- fill / credit log, 289, 291
- fills: and bingo, 262; and cashiering transactions, 276, 278; and central cashiering, 103, 289–90, 293–94; fill slip, 222; and keno, 250–51, 250; and poker, 266; and race and sports books, 269; and slot machines, 172; and table drop boxes, 215; and table game accounting, 219–22, 374; and table games, 112–13, 114, 276
- financial analysis ratios, 341
- Financial Crimes Enforcement Network (FinCEN), 412, 414, 417–18, 425–26. *See also* currency transaction reporting; suspicious activity reporting

- financial measures, 397, 398, 399
- financial reporting: and auditing, 324–26, 339–43; and internal control systems, 64, 320; and marker credit, 312, 316; models for, 395–99; performance reports, 394–95; and regulatory environment, 63–65, 320, 322, 323, 370; of Securities and Exchange Commission, 17, 54, 65; for tribal casinos, 366–68
- financial statements: and auditing, 63, 64, 323; and gross gaming revenue taxes, 92–94; interim and annual, 105; projected financial statements, 410
- financing sources: and corporate ownership, 17; licensing of, 58, 464nn29, 30; trends in, 32–34
- FinCEN (Financial Crimes Enforcement Network), 412, 414, 417–18, 425–26. *See also* currency transaction reporting; suspicious activity reporting
- The Flamingo, 8
- Flamingo Resort, Inc., v. Untied States* (1980), 372
- floating cage balance system, 286
- floating method of table inventory, 217–18
- floor supervisors, 221, 307
- Florida, 13, 23, 43
- food and beverage service, 21, 98, 364, 387, 390, 391, 400
- Foreign and Corrupt Practices Act, 323, 467–68n5
- foreign chips, 113–14, 215, 231, 280, 281
- foreign gaming, licensing for, 38, 47
- Form 1099, 178, 381
- Form W-2G, 177–78, 183, 248–49, 261, 381–82
- Form W-9, 179, 383
- Foxwoods Casino, 15, 23, 126
- free-market environment: competition in, 23, 69; and slot machines, 142, 143, 150
- free play, 200
- Freidman, Bill, 154
- frontier, history of gaming in, 6, 7–8
- front money, 307, 361
- Gambler's Assistance Fund, 75
- gambling: attitudes toward, 4, 35; compulsive gaming behavior, 5, 40, 71, 75; history of, 3–4, 372
- Gambling Act of 1931, 36
- game mix: and gaming markets, 24, 25–26, 131–32, 205–6; and revenue sources, 24–26, 26t; table game to slot machine mix, 130, 131–32, 132, 150, 202–3, 203t, 205–6
- games: licensing of, 59–60; participation games, 91–92, 357, 360–61; quarterly flat license fees for, 82–83, 83t. *See also* annual state license fees; table games
- gaming: gambling contrasted with, 4. *See also* casino gaming
- Gaming Control Board (GCB): audit objective of, 62; bankroll requirements, 253, 345; and casino operation, 41; and complimentary services, 363–64; and credit accounting, 79, 467n1; definition of gross gaming revenue, 79; and enforcement, 37, 44; and estimates of unreported income, 370; financial reporting requirements, 63–65; and internal controls audit, 326–27, 330, 334–35; and license fees, 80; and licensing, 61, 441–44; and Nevada Gaming Commission, 37–38; and new game approval, 206; Regulation 6A, 413, 415; and revenue determination, 371; and slot win per unit, 146; structure of, 46, 47, 48–49, 50, 51; and tokens for slot machines, 133
- gaming equipment: manufacturing, 9, 59, 85; suppliers, 58–59, 85
- gaming floor compliance procedures, for currency transaction reports, 423–24
- gaming industry: characteristics of, 15–16; growth of gross annual wager, 5, 435; history of, 6–8; history of legalization, 8, 9, 10, 436–38; international locations, 6; legalization of new types of games, 4; map of U.S. gaming jurisdictions, 5; recognition of legitimacy, 17; in United States, 4–11. *See also* casino industry
- Gaming Industry Tip Compliance Agreement (GITCA), 384
- Gaming Machine Manufacturers Association, 139
- gaming markets: competition in, 23–24, 69; and game mix, 24, 25–26, 131–32, 205–6; geographic location of, 17–20, 26; growth in, 15; maturity influences, 25, 150, 202–3, 206; and population, 143; ranked by gross gaming revenue, 12t, 13; and slot machines, 142–43, 150
- Gaming Policy Committee, 38, 46–47, 47, 65–66
- gaming revenues: and auditing, 342; and corporate ownership, 16, 16t; distribution by type of gaming, 6, 7t; and game mix, 24–26, 26; gross revenues by state, 12t, 13; growth rate of, 11, 13; in Nevada, 74, 74t; in New Jersey, 75, 464n7; ranked by markets, 12t, 13. *See also* casino revenues; gross gaming revenue; revenue accounting
- GCB. *See* Gaming Control Board (GCB)
- general ledger accounting, 98

- George v. Nevada Gaming Commission* (1970), 41
- Giancana, Sam, 41
- GITCA (Gaming Industry Tip Compliance Agreement), 384
- Golden Nugget, Inc., 33–34
- Gomes, Dennis, 345
- Governmental Accounting Standards Board (GASB), 320, 368
- government-operated casino gaming, 10–11, 68–69
- government revenues: and legalization of gaming, 8, 69; and regulatory environment, 36; and tolerance toward gambling, 4, 22
- graveyard shift, 216
- gray market slot machines, 10, 192
- Great Britain, 6
- gross gaming revenue: definition of, 78–80, 106, 370–71, 465n2; and financial reporting requirements, 322; and gaming markets, 12t, 13; in Nevada, 74, 74; and Title 31 requirements, 413; and token slot machines, 200. *See also* taxation of gross gaming revenue
- handle, 106, 109
- handle pulls, 157
- hand-paid jackpot, 159
- hard count, 99, 164, 171, 274
- hard-way bets, 116
- Harold's Club, 8, 282, 376
- Harrah, William, 8, 33
- Harrah's Entertainment, 26, 26t
- Harrah's Hotel and Casino: and casino industry development, 9; and chip disposal, 283; gross revenue of, 11, 13; and internal audit, 321; and public corporations, 33
- Hawaii, 4
- hidden ownership, and regulatory environment, 66–67
- Hoffa, Jimmy, 33
- hold percentages: and baccarat, 202; comparison of, 160–61; and credit accounting, 299; definition of, 107, 160–61; fallacy of drop and hold percentages, 115–16; and meter reliability, 162; minimum hold percentage, 153–54; and slot machines, 107, 151, 152, 153–54, 154t, 160–61, 162; theory and practice of, 116–18; validity of, 117–18
- hopper fills, 179, 180
- horizontal analysis, 340
- hotel-casinos: auditing of, 324, 340; and budgeting process, 405–6; and cost allocation, 390–92; and departmental income statements, 387–88; development of, 8–9; and reported win per game, 370; and suboptimization problems, 393–94
- hotel rooms, 98, 390, 391
- house advantage, 116, 124
- Hughes, Howard, 38
- Idaho, 8
- identification requirements: and currency transaction reporting, 418, 423; for Internal Revenue Services, 382–83; and issuance of credit, 304, 305; and jackpot payoffs, 178–79, 382; and keno payoffs, 248; and slot maintenance, 194; and table fills, 221; and table inventories, 218; and ticket paid-outs, 183, 184
- IGRA. *See* Indian Gaming Regulatory Act (IGRA)
- Illinois: and commercial casinos, 126; earmarking of state gaming taxes, 455–56; and game mix, 26, 132; gaming profile of, 437; gaming taxes in, 448; geographic location of casino industry in, 19; legalization of gaming in, 10; and market maturity, 142; and oligopoly markets, 142, 151; slot win per unit, 144t, 145, 146; taxation in, 69, 76, 76t, 354; and win per unit, 27
- imprest balances: and bingo, 259; and cash auditing, 344–45; and cashiering functions, 101, 162, 277, 286; and poker, 266; and slot booth, 173; and slot personnel, 156; and vault, 280, 286–87
- imputed cost of investment, 395–96
- incentive programs, 362
- income statement reporting, 98
- Indiana: and commercial casinos, 126; earmarking of state gaming taxes, 456; gaming profile of, 438; gaming taxes in, 448; geographic location of casino industry in, 19; legalization of gaming in, 10; and oligopoly markets, 142, 151; slot win per unit, 144t, 145, 146; taxation in, 69, 76
- Indian Gaming Regulatory Act (IGRA): and bingo, 256; and Class II games, 124–25; and growth in tribal casinos, 6, 10, 39; and location restrictions, 20; and tribal distributions, 90
- informational signage, of slot machines, 139, 148
- information technology, and internal control systems, 333
- inside ticket, 239, 240, 247
- integration, and money laundering, 413
- intercasino linked games, 78, 190–91, 358, 375

- interface modules, for online slot monitoring systems, 139
- interjurisdictional conflicts, 67
- intermediate-level revenue collection, 98
- internal business-process measures, 397–98
- internal control systems: accounting firms' design of, 17; and agreed-upon procedures, 334–35; auditing of, 323, 325, 326, 327, 328–30, 331, 333–38; and auditing of Gaming Control Board, 62; and bingo accounting, 257–62; card and dice control procedures, 233–34, 356; and casino accounting organization, 99; and casino systems consulting, 411; and central cashiering, 271, 335; challenges of, 331–33; and chips and tokens, 281–83; CPA evaluation of, 63, 325, 326–27, 328, 331, 334–35; and credit accounting, 298; and critical areas, 335; evaluation procedures, 335–38, 336; and financial reporting, 64, 320; and keno audit procedures, 251–52; and licensing requirements, 31, 61; and main bank, 280; and managerial accounting, 389–90; and marker credit, 311–12, 313, 373; minimum standards for, 166, 330–39, 400; and nonaccounting control systems and procedures, 331–33, 338; and online slot management systems, 197; and overall assessment, 338–39; and poker accounting, 265–67; and regulatory environment, 45, 54, 62, 322, 326–27, 329–30, 331, 335–38; scope of evaluations, 333–34; and separation of duties, 99; separation of principal components, 100; and short pays, 179, 180; and slot cheating, 199–200; and slot machine personnel, 155; and slot machines, 166–72; submitted system, 329–30, 334; and table count procedures, 227–28; and table fills, 220, 222; and ticket paid-outs, 181–85; and wide-area progressive, remote, and linked slot machines, 190–91
- Internal Revenue Service (IRS): and bingo payoffs, 261; and chip liability, 376; currency transaction reporting rules, 287, 417–18, 425; and depreciation, 378; and entertainment facilities, 379; estimates of unreported income, 370; forms required for, 381–83; gaming withholding and reporting threshold, 380t, 381; and identification requirements, 382–83; and illegal gaming operations, 39; income tax reporting procedures, 177–79, 183, 248–49; and jackpot payoffs, 177–79; and keno winnings, 248–49; and revenue determination, 371; and suspicious activity reporting, 426, 432; and temporary vault increases, 297; and tip compliance, 383–84; and Title 31, 414; and wagering excise tax, 73, 382; and wagering occupational stamp tax, 74
- Internet gaming, 6
- interstate gambling, prohibition of, 39
- Iowa: and commercial casinos, 126; denomination of slot machines, 149; earmarking of state gaming taxes, 456; and game mix, 26; gaming taxes in, 449; geographic location of casino industry in, 19–20; legalization of casino gaming in, 9–10, 38; and market maturity, 142; racinos in, 10; taxation in, 71, 75, 76
- jackpot-only machines, 151
- jackpot payoffs: approval of, 175–76, 175t; documentation of, 176–77; and electronic slot machines, 141; and hold percentages, 161; and income tax withholding rules, 177–79; and participation slots, 189; and progressive slot machines, 190, 357–58, 374–75; short pays, 159; and slot hopper load, 165; and slot machine accounting, 175–79; and slot maintenance, 155; and slot meters, 138; and slot personnel, 108, 155–56, 175; and slot win computation, 172; and wide-area progressive, remote, and linked slot machines, 190–91, 375
- Jacobson v. Hannifin*, 41–42
- John I (king of Castile), 4
- junkets, 300, 305, 312–13, 374
- keno: cashiering, 103, 249–50; cash reserve for, 348; and coin-operated gaming devices, 72; and deductions from gross gaming revenue, 78; equipment depreciation, 377, 377t; and hold percentages, 117; layout of, 238, 239; origins of, 236; popularity trends, 237, 238; revenue flows, 119; revenues, 236, 237t; salvage value of equipment, 378; statistical analysis of, 401; and wagering, 241, 243; and wagering excise tax, 73; win per unit, 236–37, 237t
- keno accounting: and audit procedures, 251–52; and changes in game, 237; and complexity of way tickets, 253, 254; and concession keno, 253–55; and costs of operation, 252–53; and draw procedures, 243–44, 245, 246, 247; and employees, 238–39, 241, 253; and keno banks, 249–51; microfilm control procedures, 244–45, 244t, 245; and odds structure, 241, 243, 243t, 253; and payoffs,

- 241, 242, 247-49; and random draw, 252;
and revenue patterns, 236; and video keno
machines, 237, 255
- keno runners, 239, 241, 247
- keno writers, 239, 247, 248, 249, 250
- labor control, 388
- labor costs, 404-5, 409
- labor organizations, licensing of, 44, 59, 464n31
- lammer buttons, 209, 224, 225, 266, 308
- land-based casinos: characteristics of, 21-22;
and tax rate, 69
- The Last Frontier, 8
- Las Vegas (Nev.): denomination of slot ma-
chines, 149; as dominant in gaming market,
15; history of gaming in, 8; local government
taxes in, 86; travelers attracted to, 21
- Las Vegas, downtown, 17, 205
- Las Vegas Strip: and bad debt amounts, 299; as
casino industry geographic area, 17; casino
revenues from, 13, 15; financial development
of, 33; and game mix, 26, 202, 205, 206; and
keno, 236; and marker credit, 298; slot win
as percentage of total win, 130, 131, 342; and
table games, 203-4
- Laughlin (Nev.), 17
- law enforcement, 426, 431-32
- laying, and money laundering, 413
- learning and growth measures, 398
- Let It Ride Poker, 78, 201
- license fees, and state-level taxation, 75, 80-84
- licensing requirements: in Atlantic City, 18,
42, 462n27; and auditing, 320; and bankroll
amount, 281, 345-49; corporate licens-
ing laws, 38; criteria for licensing, 56-58;
enforcement of, 36; entry licensing, 43-44,
56; of federal government, 39; and fees, 68;
for financing sources, 58, 464nn29,30; func-
tion of, 35-36; and internal control systems,
31; license application procedures, 60-61,
60t; litigation on, 41-42; in Nevada, 16, 21,
36, 37-38, 41, 43, 47-48, 57-58, 60t, 61, 67,
441-42, 443-44; in New Jersey, 42, 43-44, 52,
53-54, 57, 58, 60t, 61-62, 67; and reopening
expenses, 379; and race and sports books,
267; related licenses, 60; and taxation, 37,
353; and tribal casinos, 40, 57, 58; types of
licenses, 61-62; vendor licensing, 58-60
- the line, 267
- litigation, and court decisions, 40-42
- local government: and government-operated
casino gaming, 69; and licensing, 36; rev-
enues for, 36, 68; taxation on gross gaming
revenue, 85-87, 445-46; and tribal casinos,
71
- lotteries: percentage of gaming revenues from,
6; slot machine competition with, 190; state
lottery agencies, 6, 10-11, 69, 73, 128-29, 370;
and wagering excise tax, 73; and wagering
occupational stamp tax, 74
- Louisiana: and commercial casinos, 126; ear-
marking of state gaming taxes, 456; gaming
profile of, 436-37; gaming taxes in, 449-50;
geographic location of casino industry in,
18; history of gaming in, 7; legalization of
casino gaming in, 38; manage-competition
environment in, 23; and market maturity,
142; Mississippi compared to, 23; racinos in,
10; and slot routes, 128; and win per unit, 27
- loyalty programs, 362
- machine entry access log (MEAL), 193
- MACRS (Modified Accelerated Cost Recovery
System), 377, 378
- main bank (central vault): and accountabil-
ity, 277; and accounting, 280-81; and bank
deposits, 295; and cashiering transactions,
104, 163, 231, 294, 295; and casino bankroll,
281, 285, 335; and count procedures, 231, 233,
284; and floating balance system, 286-87;
function of, 280, 281; and internal control
systems, 335; and reconciliation of fill slips,
294; restricted access to, 271-72, 280; and
revenue collection transactions, 104, 164; and
security, 280, 290, 295, 297; and slot machine
accounting, 172; systems and functions of,
290-93; and table drop box storage, 283, 284-
85, 291; temporary increases, 297; and vault
clearing, 284; and vault transfers, 292-93
- managed-competition environment, 23, 69
- management: and auditing, 319, 327-28, 331;
and internal audit, 320-22
- Management's Discussion and Analysis
(MD&A), 352
- managerial accounting: and alternative
financial reporting, 394-99; and attention-
directed accounting processes, 386, 387-88;
and budget planning and forecasting, 405-9;
and consulting activity, 409-11; and cost al-
locations, 390-92, 393; and decision-making
accounting processes, 386-87, 389; and
planning and control accounting processes,
386, 388; and responsibility accounting,
392-94; specific applications of, 390-94; and
statistical analysis, 399-405; supportive and
complementary nature of, 389-90

- marker credit: accounting system flowchart, 309; and allowances for doubtful accounts, 351; auditing of, 341–42, 349–52, 363; collection of, 43, 312–13, 340, 350, 351, 371, 372; and confirmations, 350–51; credit extension at tables, 306–11; credit rules, 305; custody of markers, 300; and definition of gross gaming revenue, 79–80, 372, 373; discounts on, 351–52, 371; dollar amounts of, 298–99; foreign exchange losses on, 352; ideal systems for, 306; and internal control systems, 311–12, 313, 335, 349, 373; issuance of credit, 303–6; and junkets, 300, 305, 312–13; legal status of markers, 350; loss ratios on, 371; off-site collections, 314–16; preauthorization of, 305, 307; repayment procedures, 310–11; and revenue determination, 371–72; sample of marker, 304; and table drop boxes, 114; uncollected markers, 79–80, 464n10; valuation of markers, 349
- Marshall, Frank, 41
- MEAL (machine entry access log), 193
- Megabucks, 190, 375
- MGM-Mirage, 321
- MGM-Reno, 24
- Michigan: and commercial casinos, 126; earmarking of state gaming taxes, 456–57; gaming taxes in, 450–51; geographic location of casino industry in, 20; managed-competition environment in, 23; taxation in, 71, 76; tribal casinos in, 10, 128; and win per unit, 27
- Mikon Gaming, 106
- minimum internal control standards (MICS), 166, 330–39, 400
- Minnesota: history of gaming in, 8; tribal casinos in, 10, 24, 129, 298
- Mirage Corporation, 9, 34
- miscellaneous fees, and state-level taxation, 75, 85
- Mississippi: and commercial casinos, 126; earmarking of state gaming taxes, 457; and fixed assets, 356; free-market environment in, 23, 143, 150; and game mix, 205; gaming profile of, 437; gaming taxes in, 451–52; gaming tax revenue in, 75; geographic location of casino industry in, 19; legalization of gaming in, 10, 38, 43, 142; Louisiana compared to, 23; regulatory environment of, 46; and Title 31 enforcement, 414; and win per unit, 27
- Missouri: and commercial casinos, 126; earmarking of state gaming taxes, 457; and game mix, 26; gaming profile of, 438; gaming taxes in, 452; geographic location of casino industry in, 19; legalization of gaming in, 10, 38; and oligopoly market, 151; taxation in, 69
- mixed hopper systems, 137
- Modified Accelerated Cost Recovery System (MACRS), 377, 378
- Mohegan Sun Casino, 15, 23, 126
- monetary instrument logs, 415, 417
- money laundering: and suspicious activity reporting, 426, 432; and Title 31, 412–13
- monopoly markets: and competition, 23; and slot machines, 142, 143; and tax rates, 69
- Montana: earmarking of state gaming taxes, 457; gaming taxes in, 452; history of gaming in, 8; and slot routes, 128
- mortgage bonds, 34
- MTLs (multiple transaction logs), 415, 416, 423, 424
- multidenominational slot machines, 157
- multihand video poker, 178
- multiline slot machines, 178
- multiple-payoff machines, 151
- multiple transaction logs (MTLs), 415, 416, 423, 424
- National Gaming Impact Study Commission, 5
- National Gaming Impact Study Committee, 69
- National Indian Gaming Commission (NIGC): and bankroll guidelines, 345, 346, 347; and bingo, 262–63; and financial reporting requirements, 367; and internal control audits, 327, 335, 336, 337; and minimum internal control standards, 166, 331; regulatory authority of, 40, 46; and revenue reporting, 13; and ticket printing systems, 181; and tribal distributions, 90
- national lotteries, popularity of, 6
- Native American Finance Officers Association, 367
- Nevada: annual state license fee, 81–82, 81t; casino financing in, 32–33; casino live entertainment tax, 83–84; and casino organization structure, 29, 30; and commercial casinos, 126; county quarterly license fee, 85–86, 86t; definition of gross gaming revenue in, 78, 372; denomination of slot machines, 149t; distribution of tax proceeds, 89; diversity of gaming industry in, 15; earmarking of state gaming taxes, 457; experiment with gaming, 8–9; free-market environment in, 23, 143; gaming market in, 205; gaming profile of, 436; gaming taxes in, 452–53; geographic location of casino industry in, 17–18, 45; history of gaming in, 8; and hold percent-

- age for slot machines, 153; keno revenues, 236, 237t; legalization of gaming in, 8; and legal status of markers, 350; and license fees, 80–85; licensing requirements in, 16, 21, 36, 37–38, 41, 43, 47–48, 57–58, 60t, 61, 67, 441–42, 443–44; local gaming taxes in, 85–87; miscellaneous fees, 85; New Jersey's casino industry compared to, 9, 13, 23, 44–46, 66; and participation slots, 188; percentage fees in, 75, 75t; quarterly flat license fees for games, 82–83, 83t; quarterly restricted slot license fee, 83; quarterly state slot license fee, 82; regulatory system of, 36–39, 41, 42, 44, 45, 46–51, 47, 56, 62, 65–67, 322, 323, 326–27, 329, 330, 334–35, 336, 337, 345; role of CPAs in auditing, 322, 323; shifts in, 216; and slot hopper loads, 137; and slot meters, 138; and slot routes, 128; and slot tax, 72, 80–81; slot win per unit, 144t, 145, 146, 146t, 147t; submarkets in, 24; table games in, 201–2, 203; and table game to slot machine mix, 202; taxation in, 69, 71, 75–76, 371; and tip allocation, 384; and Title 31 enforcement, 414; and win per unit, 27. *See also* Gaming Control Board (GCB); Gaming Policy Committee; Las Vegas (Nev.); Las Vegas Strip; Reno (Nev.); Reno-Sparks (Nev.); South Lake Tahoe (Nev.)
- Nevada CPA Society, 93–94, 333
- Nevada Gaming Abstract, 340
- Nevada Gaming Commission: and casino operation, 41; functions of, 47–48; and Gaming Control Board, 37–38; structure of, 46, 47
- Nevada Supreme Court, 41
- Nevada Tax Commission, 37
- New Jersey: and casino organization structure, 29, 30, 31; casino revenues in, 11, 13, 15; competition with Nevada, 11; credit collection in, 312; credit extension in, 300; distribution of tax proceeds, 89; earmarking of state gaming taxes, 457; and game mix, 24, 205–6; gaming profile of, 436; gaming taxes in, 453; geographic location of casino industry in, 18, 45; and hold percentage for slot machines, 153; legalization of casino gaming in, 9, 11, 45–46; and legal status of markers, 350; licensing requirements in, 42, 43–44, 52, 53–54, 57, 58, 60t, 61–62, 67; Nevada's casino industry compared to, 9, 13, 23, 44–46, 66; oligopoly market in, 23, 142–43, 151; public corporate ownership in, 16–17; regulatory environment of, 42–43, 44, 45, 51–54, 62–63, 66, 67, 322, 326, 327, 329, 336, 337, 467n1; role of CPAs in auditing, 322; and slot tax, 72; and slot win per unit, 147; table games in, 201; taxation in, 75, 87–89, 464n7; and Title 31 enforcement, 414; and win per unit, 27. *See also* Atlantic City (N.J.); Casino Control Commission; Division of Gaming Enforcement
- New Mexico, 8, 66, 71, 453
- New Orleans (La.), 18, 20, 69
- New York, 10, 23, 43
- NIGC. *See* National Indian Gaming Commission (NIGC)
- nonpayroll withholdings, 382
- nonresidents: and income tax withholding rules, 178; nonresident reporting, 382
- odds structure: and bingo accounting, 260; and house advantage, 116; and Internal Revenue Service rules, 381; and keno accounting, 241, 243, 243t, 253; and new game approval, 206; and race and sports book accounting, 267
- oligopoly markets: and competition, 23; and slot machines, 142–43, 151; and tax rates, 69
- online slot management systems, 195, 196, 197–99
- online slot monitoring system: and purchase and installation, 191–92; and slot maintenance, 193–95; and ticket paid-outs, 181, 182, 184–85
- Ontario (Canada), gaming taxes in, 453
- Oregon, 10, 15, 69, 128
- organizational structure: in casino industry, 29, 30, 31–32, 31, 32; and casino manager, 31–32, 31; controller responsibility, 32, 32
- organized crime, and casino industry, 32, 42
- outside ticket, 239, 240
- overhead variances, 409
- ownership transfer: and chip liability, 282–83, 376; and county quarterly license fee, 86; and prepaid taxes and fees, 353; and slot tax, 72; and write-off of marker credit, 351
- Pace and Mills Manufacturing, 140
- paid-outs: and cash-on-premises, 346; and central cashiering, 286, 289; definition of, 108; and hopper fills, 179, 180; and jackpot payoffs, 177–79; and main bank, 291; and marker credit, 303, 305; and short pays, 179–80; and slot operational transactions, 173–77; slot paid-out procedures, 174–75, 286; and slot win calculations, 172, 173, 174; and temporary vault increases, 297; ticket paid-outs, 181–86
- pai-gow, 201

- pari-mutuel betting: and IRS withholding rules, 381; miscellaneous fees, 85; and odds structure, 267; popularity of, 6; and racinos, 19; and regulatory environment, 43; and wagering excise tax, 73; and wagering occupational stamp tax, 74
- par method of table inventory, 217, 218
- participation games, 91–92, 357, 360–61
- participation slots: auditing liability of, 357, 360–61; and business arrangement, 125; and cash auditing, 344; pricing model, 186–87, 186; and slot machine accounting, 186–89, 186; and taxation, 91–92
- partnerships: licensing of, 57; and taxation, 385
- past posting, 243, 244
- Patriot Act, 432
- payoff determination mechanisms: of poker, 153; of slot machines, 135–36, 140
- payoff features, of slot machines, 132
- payoff frequency, of slot machines, 151
- payoff schedules: of slot machines, 151, 153, 154; slot pay analysis, 151, 152
- payroll accounting, 98
- PCAOB (Public Companies Accounting Oversight Board), 320, 333
- Pearlman brothers, 42–43
- Pennsylvania, 13, 23
- percentage fees: prepayment of, 92, 93; and state-level taxation, 75–76
- percentage method, for chip liability, 376–77
- performance reports, 394–95
- pinball machines, 85
- pit bookkeepers, 307, 309–10
- pit clerks, and revenue accounting, 97
- pit stand, and card and dice control procedures, 234
- pit supervisors: card and dice control procedures, 234; and credit extension at table, 307; and currency transaction reports, 421; and stiff sheets, 289; and table credits, 223; and table fills, 220, 221; and table inventories methods, 217; and total handle on table game, 109
- placement, and money laundering, 413
- play areas, and table game accounting, 207
- player control system, 387
- players clubs, 362
- play mechanisms, 133, 135
- poker: and accounting, 263–67; cashiering, 103, 265, 266, 277; and coin-operated gaming devices, 72; and definition of gross gaming revenue, 78, 79; and internal control systems, 265–67; payoff analysis, 153; poker room layout, 263, 264; popularity of, 256, 264; revenue accounting, 264–65; revenue flows, 120; and revenues, 256, 257; and table drop boxes, 265, 265, 266; and video lottery terminals, 11; video poker, 124, 133, 134
- Pollock, Michael, 18
- population factors: in casino industry, 20–21, 22; and large slot locations, 126, 128; and slot win per unit, 143
- post-September 11, 2001, period, 11, 412
- prepaid gaming taxes and licenses, 92
- President's Commission on the Review of the National Policy Toward Gambling, 35–36
- profitability: cost-volume profit calculations, 387; department profit and loss statements, 392, 394; and tax rates, 69
- progressive jackpots, 78, 188
- progressive slot machines, 125–26, 187–88, 357–58, 374–75, 385
- promotional allowance method, 364
- promotional items: auditing of, 359; and central cashiering, 104; clearing of, 288; as expenses, 342; and income tax withholding rules, 178; and revenue recognition, 363–65; and slot machine accounting, 174–75, 200
- public cashiering, 275
- Public Companies Accounting Oversight Board (PCAOB), 320, 333
- public corporate ownership: and auditing, 323, 324; and balance sheet accounts, 342; and credit policies, 352; and gaming revenues, 16, 16t; impact on casino industry, 16–17, 33; and marker credit, 351; in Nevada, 47
- Public Employees Retirement System, 34
- pull tab games, 74, 124, 125
- quality measures, 395
- quarterly flat license fees for games, 82–83, 83
- quarterly restricted slot license fee, 83
- quarterly state slot license fee, 82
- race and sports books: and accounting, 267–70; and annual state license fee, 81; cashiering, 103, 269, 270; cash reserve for, 348; long-term wagering on, 361; and payoff, 268–69; revenue accounting, 269–70; revenue flows, 121; and revenues, 256, 257; and wagering, 267–68, 361; and wagering occupational stamp tax, 74; and wire-fee tax, 85
- racinos: characteristics of, 22–23; development of, 10; and gaming markets, 13, 19; and slot machines, 19, 22, 126, 128–29, 131
- rake-off: definition of, 78, 79; as income, 371; and poker cashiering, 103; and poker revenue accounting, 264–65, 267

- random draw, 252
- receipt timing, and computation of gross gaming revenue, 78
- receivables. *See* marker credit
- recirculating coin and currency, 167
- reel spinners, 122–24
- regulatory enforcement: problems of, 66; and regulatory environment, 36, 37, 44, 49, 52, 62; and taxation, 37
- regulatory environment: in Atlantic City, 18, 462n27; and auditing, 44, 62–63, 316, 320, 322, 323, 324, 325–27, 328; and bankroll amount, 281, 345–49; and bingo, 262; Black Book regulations, 41; and cashier stations, 275; and casino financing, 33; and casino organization structure, 31; and chips and tokens, 281; and credit accounting, 79, 80, 305, 312, 467n1; and financial reporting requirements, 63–65, 320, 322, 323, 370; function of, 35–36; history of, 9, 10, 36–40; and internal control systems, 45, 54, 62, 322, 326–27, 329–30, 331, 335–38; and jackpot payoffs, 177; and land-based casinos, 21–22; and managed-competition model, 23; of Nevada, 36–39, 41, 42, 44, 45, 46–51, 47, 56, 65–67, 322, 326–27, 330; of New Jersey, 42–43, 44, 45, 51–54, 52, 53, 62–63, 66, 67, 322, 326, 327, 330, 467n1; philosophy of, 44–46; and political issues, 20; problems of, 65–67; and progressive slot machines, 190; and riverboat casinos, 19; and slot drop scheduling, 167, 168; and slot machine performance, 194; and table drop boxes, 215; and table game accounting, 206; and table games, 201–2, 203; and ticket printing systems, 181; of tribal casinos, 10, 22, 39–40, 46, 55–56, 55, 326, 327, 366–68; types of regulations, 43–44. *See also* currency transaction reporting; Title 31
- Reno (Nev.), 8, 21, 86
- Reno-Sparks (Nev.): as casino industry geographic area, 17; and game mix, 24, 26, 205, 206; and keno, 236–37; and slot win per unit, 146; and table games, 204
- residual income (RI), 395–96
- Resorts International, 11
- return on investment (ROI), 395
- revenue accounting: cashiering transactions, 100–104, 101; casino win, 105–6, 465n2; and central cashiering, 103–4, 114, 278–79; drop, 106–7; hold, 107; hold percentage, 107; illustration of, 118–21; and internal control systems, 335; organization of, 97–98, 98, 99; principal revenue flows, 100; race and sports books revenue, 121; revenue collection transactions, 100, 104, 105; revenue completion, 100, 104–5, 105, 295, 296; revenue drop and count flow, 105; separation of principal components, 100; slot machine revenue, 107–9, 118, 332; and slot machines, 167; table games revenue, 109–18, 119, 120, 332; terms and definitions, 105–6
- revenue clearing flow chart, 232
- revenue collection procedures, 98
- revenue collection transactions, 100, 104, 105
- revenue completion, 100, 104–5, 105, 295, 296
- revenue drop and count flow, 105
- revenue recognition, and auditing, 363–66
- revenue reporting process, 97, 98, 99
- Rhode Island, 10, 69
- RI (residual income), 395–96
- riverboat casinos: characteristics of, 22; cruising requirement for, 19, 22; depreciation of, 378; financing of, 34; and gaming markets, 19; and legalization of gaming, 10; and managed-competition model, 23; and taxation, 19, 69
- riverboats, history of gaming on, 7
- Riviera Hotel and Casino, 34
- ROI (return on investment), 395
- Rosenthal v. State of Nevada*, 41–42
- roulette, 203, 207, 208–9, 210
- Russell, Charles, 37
- Safejack system, 106
- salvage values, 378
- Sarbanes Oxley Act, 323
- SAS 23, 339
- Scarme, John, 206–7, 466n2
- Securities and Exchange Commission (SEC): and auditing, 320, 323, 328, 351; financial reporting requirements of, 17, 54, 65
- security control: and bank deposits, 295; card and dice control procedures, 233–35; and cashier stations, 274–75; and count rooms, 283; and internal control systems, 333, 338; and main bank, 280, 290, 295, 297; and on-line slot management systems, 197, 199; and poker, 266–67; and short pays and hopper fills, 179; and slot drop, 167, 168; and slot machine accounting, 164; and slot machines, 148, 156; and slot maintenance, 192–94; and table count, 227–28; and table credits, 223, 224; and table drop boxes, 215, 226; and table fills, 221; and ticket paid-outs, 184; and wide-area progressive, remote, and linked slot machines, 190. *See also* surveillance
- service industry, 9, 44, 59
- shift change procedures, 216–17, 216t

- short pays, 108, 159
- sic-bo, 201
- Sinatra, Frank, 41, 463n15
- site selection, gravitational theory of, 143
- slot booth personnel, 156
- slot booths: and coin transfers, 293; and paid-outs, 108; and slot operational transactions, 173-74; as subsidiary cashiers, 102, 103, 272, 275, 277, 279, 286
- slot carousels, 148
- slot change personnel, 155-56, 174, 176
- slot cheating, 199-200
- slot club identification process, 177
- slot count room layout, 170, 171
- slot denomination: mix of, 148-51, 149t, 150t, 153-54; and progressive slot liability, 358; and slot handle, 157; and slot hopper loads, 373; and win per unit, 145-46, 146t
- slot drop: definition of, 106, 158; and drop buckets, 139; internal control procedures, 166, 167-69; procedures, 168-69; scheduling, 167, 168; slot drop team, 168; and slot machine revenue, 108, 138; and slot win calculation, 173, 374
- slot handle, 107, 157
- slot hopper load creep, 165, 166
- slot hopper loads, 137, 137t, 164-66, 346, 373-74
- slot hoppers, 136-38, 139, 158
- slot machine accounting: accounting flow, 162, 163; and asset controls, 191-92; cashiering functions, 162-63, 183, 286; and cashless gaming, 191; definitions, 157-61; and department profit and loss statements, 392; and income tax withholding rules, 177-79; internal control procedures, 166-72, 401; and meter reliability, 162; online (*see* online slot management systems); and participation slots, 186-89, 186t; and progressive slot machines, 189-90; and revenue functions, 163-64, 163, 166-67; and slot cheating, 199-200; and slot hopper accounting, 164-66; and slot management reports, 197-99; slot operational transactions, 173-77; slot win computation, 164, 172-73; and ticket paid-outs, 181-86; and wide-area progressive, remote, and linked slot machines, 190-91, 375
- slot machine fill, 159
- slot machine mix, 147-54
- slot machine payout slips, 136, 137, 138
- slot machines: block style of slot location, 148; cashiering, 101-2, 108, 162-63; cash reserve for, 348; coin-in, 107-8; components of, 133, 135-40; and customer characteristics, 150, 151; and deductions from gross gaming revenue, 78; definition of, 122; denomination of, 145-46, 146, 148-51, 149t, 150t, 153-54, 358, 373; and equipment leasing, 33; and floor location, 147-48, 154, 401; gray market slot machines, 10; in Great Britain and Australia, 6; and hold percentages, 107, 151, 152, 153-54, 154t, 160-61; life cycle of, 142, 191-92, 356, 377-78, 377t; location of, 126-29, 127t, 141, 142t, 145, 147-48, 154, 186, 190-91, 401, 458-59; major developments in, 123t; and market structure, 142-43; mix of, 147-54; number and locations of, 129, 129t, 131; paid-outs, 108; performance of, 160-61, 161, 194, 198, 199-200, 401; and personnel, 108, 154-56, 173, 175, 183-84; pricing model, 186-87, 186t; and racetracks, 10, 22; restricted versus nonrestricted licenses for, 82, 83; revenue as percentage of total revenue, 132; revenue calculation flowchart, 159, 160; revenue flows, 107-9, 118, 332, 342; salvage value of, 378; statistical analysis of, 399; table drop distinguished from, 104; table game to slot machine mix, 24-26, 26t, 130, 131-32, 132, 150, 202-3, 203t, 205-6; traditional slot machine, 133, 134; types of, 122-26; on U.S. military bases, 6; and win per unit, 27, 28t, 141-47. *See also* slot drop; slot machine accounting; slot win
- slot machine stands, 139
- slot machine tickets, 136, 137, 138
- slot maintenance, 155, 192-95, 198, 379
- slot management, 155, 168, 169
- slot meters: and electronic slot machines, 140; and online slot management systems, 195, 198; and progressive slot machines, 189-90; reliability of, 139, 140, 162; and slot drop procedures, 169; and slot machine accounting, 173; as slot machine component, 138-39
- slot payout trays, 138
- slot personnel, 108, 154-56, 173, 175, 183-84
- slot repair personnel, 155, 193
- slot reporting systems, 177, 185-86, 194-95, 198
- slot routes, 128
- slot tax, 72, 80-81, 88, 89
- slot win: definition of, 158-60; factors influencing, 154; final computation of, 172-73; and participation slots, 187, 189; and payoff features, 132; per unit, 143, 144t, 145, 146-47, 146t, 147t; and slot hopper loads, 374; and slot machine accounting, 164, 172-73; and slot machine revenue, 109
- slot wrap and count, 167, 170-72, 171
- smart card technology, 191, 361

- Smith, Harold, Sr., 8
- Smith, Pappy, 8
- Smith family, 33
- Soaring Eagle Native American casino, 128
- soft count, 99, 227–29, 231, 274, 311
- South Dakota: and commercial casinos, 126; gaming taxes in, 454; geographic location of casino industry in, 20; legalization of casino gaming in, 38; licensing in, 43; regulatory environment of, 46; and slot routes, 128
- South Lake Tahoe (Nev.), 17, 204, 205, 206
- souvenir sales, 376
- special fees, and state-level taxation, 75
- Stardust Hotel, 293
- state governments: and collection of gaming debts, 372; earmarking of state gaming taxes, 90, 455–57; gross gaming revenue by state, 12t; and internal control systems, 331; legal gaming in, 4, 4t, 433–34, 436–38; lotteries of, 6, 10–11, 69, 73, 128–29, 370; regulatory control of, 36, 40, 41; revenues for, 36; and slot tax, 72; summary of gaming taxes, 447–54; summary of state laws, 439–40; and taxation of gross gaming revenues, 74–76, 77t, 87–89, 371, 372, 373; tax rates, 70t, 71; and tribal casinos, 10, 39. *See also under specific states*
- Statement of Auditing Standards, 333
- State of Nevada v. Rosenthal* (1977), 41
- Stations Casinos, 18
- statistical analysis: and capacity utilization, 403–4; and cost or expense analysis, 403; and economic data, 400–401; and labor costs, 404–5; limitations of, 402–3; and managerial accounting, 399–405; and slot machines, 401
- stiff sheets, 220–21, 223, 289, 290, 305
- The Sting* (film), 244
- Stockman's Hotel, 9
- suboptimization problems, 393–94
- surveillance: and bingo draw controls, 261; card and dice control procedures, 234; and currency transaction reporting, 423; and internal control systems, 332, 338; and jackpot payoffs, 176–77; and main bank, 297; and poker, 266–67; and regulatory environment, 44, 56; and suspicious activity reporting, 427; and table count procedures, 227–28. *See also security control*
- suspicious activity reporting: compilation of filings, 427, 431t; daily accounting audit procedures for, 424–25; FinCEN form 102, 426–27, 428–30, 432; gaming floor compliance procedures, 423–24; procedures for, 427, 431–32; training programs for, 422–23, 427
- swing shift, 216
- table accountability, 211
- table count procedures, 215, 227–29, 230, 231
- table drop: measurement of, 109–10; procedures for, 215, 225–27; slot machines distinguished from, 104
- table drop boxes: complications of drop box counts, 113–15; and marker credit, 306–7; and poker, 265, 265, 266; redefining items counted in, 340; storage of, 283, 284–85, 291; and table game accounting, 207, 214–15, 214, 225–29; and table game cashiering, 102–3, 114; and table inventory recording, 110–11, 112, 218–19; and table revenue, 109–10
- table game accounting: card and dice control procedures, 233–35; and cash handling areas, 207, 208–10; and cashiering, 220, 221, 223; and chip liability, 212–14; and count procedures, 215, 227–29, 230, 231; and credit extension, 303, 304, 306–11; and departmental profit and loss statements, 392; description of games, 206–10; and drop procedures, 215, 225–27; and even-money exchanges, 224–25; financial importance of various games, 202–5; game as unit of, 216–17; and market differentiation by game mix, 205–6; procedures for table inventories, 210–12; procedures of, 215–35; and regulatory environment, 206; revenue clearing flow chart, 232; shift as unit of, 216–17; and shift change procedures, 216–19, 216t; and table credits, 223–24, 224, 374; and table drop boxes, 207, 214–15, 214, 225–29; and table fills, 219–22, 374; and table game adoption, 201; and table inventories methods, 217–18; and table inventory procedures, 218–19; vault count procedures, 231, 233
- table games: cashiering, 102–3, 110, 111, 112, 114; cash reserve for, 347; complications of table revenue calculations, 110–13; and customer characteristics, 150; description of, 206–10; and drop, 106–7; equipment depreciation, 377, 377t; fallacy of drop and hold percentages, 115–16; fill and credit activity, 112–13, 114, 276; layout of, 207–8, 207; new game adoption, 201–2, 206, 360, 401; revenue by game, 203–4, 204t; revenue definitions, 109–10; revenue flows, 109–18, 119, 120, 332, 342; staffing of, 208; statistical analysis of, 399; table game to slot machine mix, 24–26, 26t, 130, 131–32, 132, 150, 202–3, 203t, 205–6; table inventory amounts, 103, 210t, 373, 374; table inventory fluctuations, 110, 111–12, 113, 217, 374; table inventory recording, 110–13, 218–19; table trays,

- 208–10, 209, 210, 217–19, 265–66, 374; and theory and practice of hold percentages, 116–18; total handle on, 109; and win per unit, 27–28, 28t, 203, 204–5, 204t, 306. *See also* table game accounting
- table inventories: and accounting, 210–12; and fills, 219–22; fluctuations in, 110, 111–12, 113, 217, 374; form for, 218, 219; methods of, 217–18; procedures for, 218–19; value of, 103, 210t, 373, 374
- table inventory card, 110, 112
- table inventory recording, 110–13, 218–19
- table minimums, 132
- Table Track system, 106
- table trays, 208–10, 209, 210, 217–19, 265–66, 374
- taverns, casino gaming in, 6
- taxation: agencies collecting taxes, 54; and auditing, 62; as cost, 388; history of, 36; and illegal gaming operations, 39; and licensing requirements, 37, 353; and oligopoly markets, 23; penalties for improper credit extension, 80, 305, 312; prepaid taxes and fees, 92, 352–55; and riverboat casinos, 19, 69. *See also* Internal Revenue Service (IRS)
- taxation of gross gaming revenue: accounting issues of, 92; auditing of, 354, 363; cash flow planning for, 90–91, 91t; deductions from, 78; definition of, 71; definition of gross gaming revenue, 78–80; distribution of tax proceeds, 89–90; federal taxation, 72–74, 87; and financial statement presentation, 92–94; and governmental casinos, 68–69; government interest in, 68–69, 71–72; history of, 36–37; local taxation, 85–87, 445–46; and participation slots or games, 91–92; and prepayments, 92, 93; state taxation, 74–76, 77t, 87–89, 371, 372, 373; tax due date and reporting, 76; tax rates, 69, 70, 71; and type of casino activity, 71–72
- taxation of income from casino operations: and accrual of casino liabilities, 374–77, 385; and complimentary services, 385; defining revenue, 370–71; definition of, 71; and depreciation of casino assets, 377–78, 377t; entertainment facilities, 379; Internal Revenue Service reporting, 381–83; issues of, 369–74; maintenance and repair expenses, 378–79; and marker credit, 371–72; preopening and preproduction expenses, 379; and revenue deductions, 372–73; and tip compliance, 383–84; and unreported income, 370
- Tax Reform Act of 1984, 375
- Teamsters Central and Southwest Pension Fund, 33
- terrorist activity, and Title 31, 412
- Thomas, Perry, 33
- Three Card Poker, 201
- ticket-in-ticket-out (TITO) slot machines: and accounting, 170, 172; and central cashiering, 273; and hold percentages, 160; and online slot management systems, 195; payout ticket, 136, 137; and slot machine cashiering, 102, 156; and ticket paid-outs, 181
- ticket paid-outs, and slot machine accounting, 181–86
- time buy-in, 78, 79, 371
- Tip Rate Determination Agreement (TRDA), 384
- Title 25 CFR, and tribal casinos, 39
- Title 31: background on, 412–13; compliance programs, 413–15, 417, 418, 422–24; and currency transaction reports, 287, 414–15, 417–18, 419–20, 421–25; training programs, 414, 422–23, 427
- token float, 358
- tokens: custody and control of, 281–83; and liability, 357, 358, 375–76, 385; redemption of, 358, 376; reserve tokens, 285; for slot machines, 133, 214, 358, 375
- token slot machines, 200
- top lights, of slot machines, 139–40
- training programs: for casino operation, 333; licensing of, 59; Title 31 training, 414, 422–23, 427
- TRDA (Tip Rate Determination Agreement), 384
- trend analysis, 340
- TRGA (Tribal Gaming Regulatory Authority), 40
- tribal casinos: accessibility of, 143; and auditing, 320, 366–68; and bankroll requirements, 345, 346, 347; and bingo, 10, 256–57, 262–63; and Class II machines, 124–25; dependence on local market, 21; development of, 10, 21; earmarking of tax revenue, 90; and game mix, 25; games allowed in, 201; geographic location of, 20; as governmental casinos, 68–69; growth in, 6; and internal control audits, 335; and licensing requirements, 40, 57, 58, 59; and marker credit, 298; and market competition, 23–24; percentage of gaming revenues from, 6; and poker, 264; regulatory environment of, 10, 22, 39–40, 46, 55–56, 55, 326, 327, 366–68; revenues from, 13, 14t,

- 15, 129; and slot machines, 126, 128, 129, 129t, 131, 169, 342; taxation of, 71; and ticket paid-outs, 181; and tip allocation, 384; and Title 31, 413, 414; and wagering occupational stamp tax, 74
- Tribal Gaming Regulatory Authority (TRGA), 40
- tribal government entity, 367–68
- tribal sovereignty, 39, 71
- 21 game: and coin-operated gaming devices, 72; and hold percentages, 116, 117; and human interactions, 25; layout of, 207, 208; in Nevada, 203, 205; in New Jersey, 206; and table game cashiering, 102; table inventory fluctuations, 110; and table trays, 208, 209, 266; and win per unit, 27, 204
- uncollectibility of gambling debts, 372
- United States: governmental casinos in, 68–69; slot machines in, 129, 129, 131, 458
- U.S. Congress, 40
- U.S. Supreme Court, 41, 256, 375
- U.S. Treasury Department, 281, 358, 375, 412
- Utah, 4
- Valley Bank of Nevada, 33
- vault, 271, 274, 274, 276, 279, 280. *See also* main bank (central vault)
- vault cashier, 273, 276, 291, 295
- vault transfer form, 292, 292
- vendor licensing, 58–60
- vertical analysis, 341
- video keno machines, 237, 255
- video lottery terminals (VLTs), 10–11, 122, 124, 128
- video poker, 124, 133, 134; machines, 133, 134
- video slot machines, 124, 136
- wagering: and credit availability, 300; growth of gross annual wager in U.S., 435; and hold percentages, 116–18; and Internal Revenue Service withholding rules, 381–82; and keno, 241, 243, 249; measuring amount of, 106, 109; and race and sports books, 267–68, 361
- wagering excise tax, 72–73, 85, 93, 382
- wagering occupational stamp tax, 73–74
- Washington, 15
- Washoe County (Nev.), 86–87; gaming tax rates in, 87t
- way tickets, 253, 254
- West, history of gaming in, 7–8
- West Virginia, 10, 11
- whiz machines, 220, 294
- wide-area progressive, remote, and linked slot machines, 125, 190–91, 375
- win: as accounting determinant, 111; definition of, 105–6, 370–71, 465n2; and fill slip reconciliation, 294; and keno, 236; revenue win figures, 363, 370–71; slot win, 109, 132, 154, 158–60, 172–73, 187, 189; splitting, 178, 382; and table games, 111–12, 113, 115
- win per unit: and casino revenues, 27–28, 28t; and slot machines, 141–47; state ranking of, 27, 28t; and table games, 27–28, 28t, 203, 204–5, 204t, 306
- wire-fee tax, 85
- Wisconsin, 10, 298, 454
- World War II, 8
- zip machines, 220, 294

