

§543.8 What are the minimum internal control standards for pull tabs?

Comparison of July TGWG Submission to July 2010 Draft MICS

In 2010, the NIGC posted on its web-site draft Class II MICS. This document will compare the 2010 draft MICS to the TGWG MICS proposal.

Editing convention: The words in **blue** (underlined) and **red** (struck-through) are the additions and deletions made by the TGWG. This document does not include discussion of sections 543.8(a) – (d) (Internal Control Procedures, Computerized applications, Variances, Supervision) of the TGWG Version. The provisions are identical to others discussed in earlier comparison documents.

July 2010 Draft MICS	TGWG Version
<p>§543.8 What are the minimum internal control standards for pull tabs?</p> <p>(b) <i>Pull tab inventory.</i> (1) Pull tab inventory (including unused tickets) shall be controlled to assure the integrity of the pull tabs.</p> <p>(2) Purchased pull tabs shall be inventoried and secured by a person or persons independent of the pull tab sales.</p> <p>(3) The issue of pull tabs to the cashier or sales location shall be documented and signed for by the person responsible for inventory control and the cashier. The document log shall include the serial number of the pull tabs issued.</p> <p>(4) Appropriate documentation shall be given to the redemption booth for purposes of determining if the winner purchased the pull tab from the pull tabs issued by the gaming operation. Electronic verification satisfies this requirement.</p> <p><i>543.8 (b) (5) & (6) have been moved to proposed Revenue Audit 543.50 (b) (1) and (2).</i></p> <p>(5) At the end of each month, a person or persons independent of pull tab sales and inventory control shall verify the accuracy of the ending balance in the pull tab control by reconciling the pull tabs on hand.</p> <p>(6) A monthly comparison for reasonableness shall be made of the amount of pull tabs sold from the pull tab control log to the amount of revenue recognized.</p> <p>(c) <i>Access.</i> Access to pull tabs shall be restricted to authorized persons.</p> <p>(d) <i>Transfers.</i> Transfers of pull tabs from storage to the sale location shall be secured and independently controlled.</p> <p>(e) <i>Winning pull tabs.</i> (1) Winning pull tabs</p>	<p>§ 543.8 What are the minimum internal control standards for pull tabs?</p> <p>(de) <u>Pull Tab Inventory of pull tabs.</u> The pull tab inventory must be controlled in a manner designed to prevent unauthorized access, misappropriation, <u>forgery, theft,</u> or fraud. Such controls shall address tabs exchanged between two agents, increases and decreases to inventory, and inventory reconciliation.</p> <p>(ef) <u>Pull Tab Sales.</u></p> <p>(1) Pull tab sales must be controlled in a manner to adequately record, track, and reconcile all pull tab sales and voids.</p> <p>(2) When pull tab sales are recorded manually, total sales are verified by an agent independent of the pull tab sales being verified.</p> <p>(3) No person shall have unrestricted access to pull tab sales records.</p> <p>(eg) <u>Winning Pull Tabs.</u></p> <p>(1) Redeemed pull tabs must be controlled in a manner to adequately record, track, and reconcile all pull tab payouts.</p> <p>(2) The redeemed pull tabs shall be defaced so that they cannot be redeemed for payment again.</p> <p>(eh) <u>Cash of and Cash Equivalent Controls.</u> Cash of and cash equivalents must be controlled in a manner designed to prevent unauthorized access, misappropriation, <u>forgery, theft,</u> or fraud. Such controls shall be in accordance with cash and cash equivalent controls established in sub part 543.14.</p>

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shall be verified and paid as follows:

(i) Prize payouts of \$600 or more, or a lesser amount established by the gaming operation, shall be verified by at least two persons, documentation required. Tribal gaming regulatory authority approval of this amount is recommended.

(ii) Prize payouts over a predetermined amount shall require the signature and verification of two individuals, one of whom must be a member of supervisory or management staff independent of the pull tab department. This predetermined amount (Tribal gaming regulatory authority approval recommended) shall be authorized by management, documented, and maintained.

(iii) Total payout shall be computed and recorded by shift.

(iv) The winning pull tabs shall be voided so that they cannot be presented for payment again.

543.8 (e) (2) has been moved to proposed Revenue Audit 543.50 (b) (3).

~~(2) Personnel independent of pull tab operations shall verify the amount of winning pull tabs redeemed each day.~~

(f) *Accountability form.* (1) All funds used to operate the pull tab game shall be recorded on an accountability form.

(2) All funds used to operate the pull tab game shall be counted independently by at least two persons and reconciled to the recorded amounts at the end of each shift or session. Unverified transfers of cash and/or cash equivalents are prohibited.

(g) *Standards for statistical reports.* (1) Records shall be maintained, which include (for games sold in their entirety) a win-to-write hold percentage as compared to the expected hold percentage derived from the flare. Records shall also include win and write (sales) for each deal or type of game, for:

(i) Each shift;

(ii) Each day;

(iii) Month-to-date; and

(iv) Year-to-date or fiscal year-to-date as applicable.

(2) A manager independent of the pull tab

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operations shall review statistical information at least on a monthly basis and shall investigate any large or unusual statistical fluctuations. These investigations shall be documented, maintained for inspection, and provided to the Tribal gaming regulatory authority upon request.

543.8 (h) (1 (i)-(iv) have been moved to proposed Revenue Audit 543.50 (b) (4)

~~**(h) Electronic equipment. (1) If the gaming operation utilizes electronic equipment in connection with the play of pull tabs, then the following standards shall also apply.**~~

~~**(i) If the electronic equipment contains a financial instrument acceptor, then §543.21(e) and (f), §543.31(e) and (f), or §543.41(e) and (f) (as applicable) shall apply.**~~

~~**(ii) If the electronic equipment uses a bar code or microchip reader, the reader shall be tested periodically to determine that it is correctly reading the bar code or microchip.**~~

~~**(iii) If the electronic equipment returns a voucher to the player, then §543.7(f) (as applicable) shall apply.**~~

~~**(iv) If the electronic equipment utilizes patron account access cards for activation of play, then §543.7(g) (as applicable) shall apply.**~~

~~**(2) [Reserved]**~~

NIGC Comments to TGWG Proposed Regulation

Pull Tab Inventory & Pull Tab Sales

Effect of 2010 Draft Regulation: The draft regulations are intended to provide control procedures over the inventory, issuance, redemption, access, and transfers of pull tabs, which are typically considered secured items. Because of the nature of the pull tab function, sales, redemption, and inventory, exacting controls are required to ensure the integrity of all aspects of the pull-tab function.

Effect of TGWG Proposal: The proposed modification appears to be consistent with the intent of 543.8(b), but is overly broad and does not provide specific details for the control of pull tabs. The lack of detail with regard to the receipt, inventory, access to, and issuance of pull tabs offers no guidance and exposes the gaming operation to a significantly increased risk that the activities they are trying to prevent (fraud, misappropriation of funds, and unauthorized access), will occur and

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go undetected. There also does not appear to be guidance regarding the approval necessary to close or remove of a deal from play before the entire deal is sold.

Winning Pull Tabs

Effect of 2010 Draft Regulation: The draft regulations are intended to ensure winning pull tabs are properly paid and accounted for. The regulation requires pull tab payouts to be verified by a second person. Payouts over an amount established by the gaming operation (with TGRA approval), require the involvement of supervisory personnel who are independent of the pull tab department in order to ensure the integrity of the payout process.

Effect of TGWG Proposal: The proposed modification appears to be consistent with the intent of 543.8(e), but is overly broad and does not provide specific control functions for the payout of winning pull tabs. The lack of detail with regard to the payout of winning pull tabs offers little guidance and exposes the gaming operation to a significantly increased risk that the activities they are trying to prevent (fraud, misappropriation of funds, and unauthorized access), will occur and go undetected.

Accountability Form/Cash and Cash Equivalent Controls

Effect of 2010 Draft Regulation: The current regulations are intended to ensure that the funds used to operate pull tabs are properly accounted for and recorded. The regulation requires the funds to be independently counted and reconciled to recorded amounts for each shift/session.

Effect of TGWG Proposal: The proposed modification does not appear to be consistent with the intent of 543.8(f) because it is overly broad and does not provide specific control functions for accounting for the funds used to operate pull tabs. The lack of detail with regard to the recording and reconciliation of the pull tabs offers little guidance and exposes the gaming operation to a significantly increased risk that the activities they are trying to prevent (fraud, misappropriation of funds, and unauthorized access), will occur and go undetected.

Standards for Statistical Reports

Effect of 2010 Draft Regulation: The current regulations are intended to provide a method of analyzing the performance of the pull tab function to ensure that the expected returns are realized by the gaming operation and to mitigate the risk of fraud and/or misappropriation of funds occurring and going undetected.

Effect of TGWG Proposal: The proposed modification does not have any standards related to statistical analysis standard and therefore, exposes the gaming operation to a significantly increased risk that the activities they are trying to prevent (fraud, misappropriation of funds, and unauthorized access) will occur and go undetected.

TGWG Guidance

(d) Supervision.

(1) Controls should identify the supervisory agent in the department or area ultimately

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responsible for ensuring that the department or area is operating in accordance with established policies and procedures.

(2) The reporting structure may permit a supervisory agent to function as a pull tab agent without any other supervision. In such instances, however, a supervisory agent either independent of the transaction or independent of the relevant department or area must resolve disputes.

(3) Best practice suggests that the written system of internal controls should include:

(i) An organizational chart of the department or area;

(ii) Job descriptions; and

(iii) A narrative description of the reporting structure, which is designed to ensure adequate supervision and segregation of function.

NIGC Comment to TGWG Guidance

Appears to be consistent with industry practices

TGWG Guidance

(e) Risk Assessments. Risk assessments and periodic program reviews may be used to determine how often pull tab operations and inventory should be audited. When an assessment and review is necessary, an agent independent of the organizational component responsible for pull tab operations and inventory should perform it.

NIGC Comment to TGWG Guidance

Guidance is unnecessarily vague. It does not suggest or recommend that the risk assessments be performed by the internal auditors who are generally in the position to perform such assessments/reviews and who would generally be the individuals performing the audits. The meaning of the word “operations” is unclear. The language “independent of the organizational component responsible for conducting the audited operations should perform it” is complex and ambiguous.

TGWG Guidance

(f) Pull Tab Inventory. To ensure the integrity of pull tabs, a process must be established to control the physical inventory of pull tabs at all times. Physical inventory controls should cover the order, receipt, storage, issuance, return, cancellation, and removal of pull tab inventory by ensuring the inventory can be accounted for at all times and the pull tab storage area has sufficient inventory to maintain the games.

(1) Receipt from Vendor/Supplier. When received, pull tabs must be inventoried, documented, and secured by an authorized agent(s) independent of pull tab sales. Documentation should include the following:

(i) Date;

(ii) Time;

(iii) Agent receiving the pull tabs;

(iv) Game name;

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- (v) Serial number(s); and
- (vi) Form number.

NIGC Comment to TGWG Guidance

Appears to be consistent with industry practices.

TGWG Guidance

(2) Storage. Pull tabs (including unused pull tabs) must be kept in a secure location with restricted access (i.e., controlled access, under lock and key), with appropriate surveillance coverage, and accessible only by authorized agents to prevent unauthorized access and tampering.

(i) Best practice suggests that pull tab inventory should be stored in a pull tab storage room and under surveillance at all times.

(ii) For smaller pull tab operations, inventory can be stored in a pull tab cabinet in a separate secured area from the working inventory. Surveillance coverage of the pull tab inventory should be in place at all times.

NIGC Comment to TGWG Guidance

The guidance 2 (i) and (ii) seem redundant to what is stated in (2). In addition, the use of the word “should” in (ii) suggest that surveillance coverage of pull tab inventory is not required for smaller pull tab operations, which is not clearly defined.

TGWG Guidance

(3) Issuances, Returns and Transfers. Issuances, returns and transfers of pull tab inventory can be to or from a storage room, a locked cabinet, cage, pull tab sales agent (i.e., cashier) and/or dispensers. Controls must be established for the following:

(i) Recording issuances, returns and transfers on the appropriate control log, including signatures from the issuing and receiving agents; and

(ii) Securing pull tabs at all times.

NIGC Comment to TGWG Guidance

Appears to be consistent with industry practices

TGWG Guidance

(4) Cancellation and Removal.

(i) Controls must be established for the cancellation and removal of pull tabs, including but not limited to the following:

(A) Cancellation of damaged pull tabs (i.e., damaged by a dispensing machine or damaged in transit from supplier);

(1) Unsold or damaged pull tabs must not be opened by any agent.

(2) Cancellation methods may include perforation or the writing of void across the face of the pull tab, along with the date, time, and persons completing the void.

(3) Damaged winning pull tabs should be returned to the cage along with the winning

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documentation.

- (B) Inventory of cancelled pull tabs;
- (C) Retention and permanent removal procedures; and
- (D) Destruction of permanently removed pull tabs.
- (ii) Cancelled pull tabs should be removed from inventory, recorded on the appropriate log and then destroyed in accordance with established controls. Best practice suggests that at least two agent perform, document and attest to any destruction of pull tabs.
- (iii) Controls should require that for each deal of pull tabs removed and discontinued from play that a summary report be completed explaining eliminating that deal from sellable inventory. The report must be sent to accounting and contain the following:

- (A) Serial number and form number of deal;
- (B) Original pull tab count;
- (C) Pull tabs sold and unsold;
- (D) Pull tabs redeemed;
- (E) Pull tabs destroyed or cancelled; and
- (F) Date placed into play;
- (G) Date removed from play;
- (H) Agent performing the transaction.

NIGC Comment to TGWG Guidance

This guidance is not consistent with industry practice and it is not clear why this is necessary. It would allow an operation to remove one pull tab that was damaged in shipping from a deal and put the deal into to play. In addition, it does not allow damaged pull tabs to be opened by any agents, but requires the damaged pull tabs that are winners to be turned in to the cage. Both of these situations would affect the theoretical hold of the deal and potentially provide misleading information to the patron when compared to the flare.

TGWG Guidance

(iv) In the event of an investigation, other than for a damaged pull tab (i.e., damaged by a dispensing machine or damaged in transit from supplier), the pull tabs associated with the investigation must be retained intact outside of the established cancellation and removal policy. These pull tabs should be sealed and forwarded to a security or surveillance supervisory agent.

NIGC Comment to TGWG Guidance

Appears to be consistent with industry practices

TGWG Guidance

- (5) Inventory Control Logs.
 - (i) The inventory of pull tabs must be tracked on a inventory control log(s) through each step in the process, from original receipt (from vendor/supplier) into inventory through the permanent removal from inventory.
 - (ii) Controls should establish, based on the size of the pull tab operation and inventory needs, where pull tab inventory control logs are required to ensure the integrity of pull tabs in

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play.

NIGC Comment to TGWG Guidance

Section 5 (ii) seems to imply that inventory control logs for pull tabs are not required, but are an option based on the size of the operation or perceived need. It also is contrary to 5 (i), which requires pull tabs to be tracked on a inventory control log. The use of inventory control logs is an established and reliable method of ensuring the integrity of pull tabs.

TGWG Guidance

(iii) Inventory control log(s) should include the following or equivalent information:

- (A) Location (i.e., storage room, cabinet #, sales location);
- (B) Game name;
- (C) Serial number;
- (D) Form number;
- (E) Date;
- (F) Shift;
- (G) Time;
- (H) Beginning balance;
- (I) Inventory received;
- (J) Inventory returned;
- (K) Inventory issued;
- (L) Inventory removed;
- (M) Ending inventory;
- (N) Inventory count;
- (O) Variance; and
- (P) Signature of agent performing transaction.

NIGC Comment to TGWG Guidance

Appears to be consistent with industry practices

TGWG Guidance

(iv) Pull tab inventory must be reconciled at specified intervals based on the outcome of the risk assessment and in accordance with the controls established for audit and accounting in accordance with MICS 543.19 (What are the minimum internal control standards for audit and accounting?) and the guidance provided in the associated document.

(v) The pull tab inventory should be tracked through each step in the process on the pull tab log (i.e. upon receipt, issuance, return, and removal).

Examples:

Log maintained in the pull tab storage room that shows inventory of all pull tabs:

Log maintained in the locked cabinet that tracks pull tab movement:

NIGC Comment to TGWG Guidance

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The guidance as listed in 543.19(g)(4) Monthly Audits is consistent with industry practice provided the inventory is reconciled monthly. If inventories are not reconciled monthly, the risk of fraud or errors going undetected is increased.

TGWG Guidance

Examples:

Log maintained in the pull tab storage room that shows inventory of all pull tabs:

Log maintained in the locked cabinet that tracks pull tab movement:

(g) Pull Tab Sales. Pull tab sales can be recorded manually or by point of sale system (i.e., centralized pull tab sale system, pull tab cash register). Controls must be established for pull tab sales in a manner to adequately record, track, and reconcile all pull tab sales and voids, including, but not limited, to the following:

- (1) Cash, cash equivalents and pull tabs are secured at all times;
- (2) Unsold or damaged pull tabs must not be opened by any agent; and
- (3) All pull tab sales are documented, including but not limited to the following:
 - (i) Location (e.g., booth, window);
 - (ii) Date;
 - (iii) Shift;
 - (iv) Name of agent performing pull tab sales;
 - (v) Game name;
 - (vi) Serial number;
 - (vii) Form number;
 - (viii) Ticket price, which must be identical to the ticket price on the flare;
 - (ix) Total pull tabs sales, including any pull tabs issued to patrons as payment for redeemed winning pull tabs;
 - (x) Total winning pulls tabs redeemed (i.e. total payouts);

NIGC Comment to TGWG Guidance

Appears to be consistent with industry practices

TGWG Guidance

(4) Bingo card sale voids. Controls must be established for the voiding of bingo card sales. Bingo card voids must be processed in accordance with the rules of the game and established controls should include, but not be limited to, the following:

- (i) Patron refunds;
- (ii) Adjustments to bingo card sales to reflect voids;
- (iii) Adjustments to bingo card inventory, which may include but be not limited to:
 - (A) Cancelling voided bingo cards and removing the returned bingo cards from inventory; or
 - (B) Returning the returned bingo cards to inventory, making it available for future games.
- (iv) Document the reason for the void; and
- (v) Authorization for all voids.

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NIGC Comment to TGWG Guidance

Appears to be consistent with industry practices

TGWG Guidance

(h) Winning Pull Tabs.

(1) When a winning pull tab prize exceeds a specified payout threshold, documentation (i.e., flare) should be available to the redemption agent for the purposes of verifying the authenticity of the winning pull tab. The documentation shall include the:

- (i) Game name;
- (ii) Serial number;
- (iii) Form number;
- (iv) Winning combinations;
- (v) Prize value.

(2) Winning pull tabs in excess of a specified amount should be compared against pertinent documentation (i.e., flare, prize schedule) by the redeeming agent prior to the payment of the prize. Such verification should include the following:

- (i) Game name;
- (ii) Serial number;
- (iii) Form number;
- (iv) Winning combination;
- (v) Amount; and
- (vi) Payout authorizations.

NIGC Comment to TGWG Guidance

The guidance in h (1) and (2) appear to be redundant. In addition, (2) (vi) offers no guidance due to a lack of detail regarding reasonable authorizations, which would include the number of people involved in the authorization and specify their position. This is normally done in order to ensure the accuracy and validity of the transaction over a predetermined amount by providing reasonable and independent oversight of the selected transaction.

TGWG Guidance

(3) Winning pull tabs must be cancelled so that they cannot be presented for payment again.

NIGC Comment to TGWG Guidance

Appears to be consistent with industry practices

TGWG Guidance

(i) Statistical Reports.

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(1) Records must be maintained for each shift, each day, month to date and year to date or other specified fiscal periods as required, which include the following:

- (i) Write (i.e., total sales);
- (ii) Payouts (i.e., total prizes paid);
- (iii) Win (i.e., net hold calculated as total sales minus total prizes paid); and
- (iv) Win to write hold percentage (i.e., hold percentage calculated as net hold divided by total sales).

(2) Controls must be established for audit and accounting to review reports for statistical fluctuations in accordance with MICS 543.19 (What are the minimum internal control standards for audit and accounting?) and the guidance provided in the associated document.

NIGC Comment to TGWG Guidance

The guidance offered does not require the actual win to write percentage to be compared to the theoretical win to write percentage. Without requiring a comparison of actual to theoretical hold percentage, a significant statistical analytical tool could be overlooked. Although 543.19(g) (5) does require a review of statistical reports monthly, it does not specifically require a comparison to be made of the theoretical hold and the actual hold. Except as noted, this appears to be consistent with industry practices.

TGWG Guidance

(j) Technologic Aids to the Play of Pull Tabs. If technologic aids are used in the play of pull tabs, the following standards apply.

(1) If the technologic aid contains a bill acceptor, the bill acceptor should be tested upon initial installation and any modification.

NIGC Comment to TGWG Guidance

The guidance offered is unclear as to whether or not drop procedures as specified in section 543.21 of the TGWG guidance are to be followed or what, if any, procedures should be followed to ensure the proceeds from pull tabs are accurately accounted for.

TGWG Guidance

(2) If the technologic aid uses a bar code or microchip reader, the reader should be tested upon initial installation and any modification, and thereafter, periodically to determine that it is correctly reading the bar code or microchip.

(3) If the technologic aid returns a voucher or payment slip (i.e., cash equivalents) to the patron then controls must be established in accordance with MICS 543.14 (What are the minimum internal control standards for cage, vault, cash and cash equivalents?) and the guidance provided in the associated document.

NIGC Comment to TGWG Guidance

The guidance offered in (j) (2) & (3) appears to be consistent with industry practices.

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TGWG Guidance

(k) Cash and Cash Equivalents.

(1) Cash or cash equivalents must be controlled in a manner designed to prevent unauthorized access, misappropriation, forgery, theft or fraud and in accordance with MICS 543.14 (What are the minimum internal control standards for cage, vault, cash and cash equivalents?) and the guidance provided in the associated document.

(2) Best practice suggests that pull tab agent banks be issued from, and returned to, the cage/vault. If issued from and returned to another location(s) (i.e., within the pull tab operations) controls must be equivalent to those established in MICS 543.14 MICS 543.14 (What are the minimum internal control standards for cage, vault, cash and cash equivalents?) and the guidance provided in the associated document.

NIGC Comment to TGWG Guidance

Appears to be consistent with industry practices

TGWG Guidance

(l) Progressive Pull Tab Games. Controls must be established for the operation of progressive pull tab games including requirements for the following:

(1) The progressive portion of the game must be from the same manufacturer and have the same form number and deal serial number as the pull tabs that make a patron eligible for the progressive prize;

(2) Each deal in a progressive pull tab game must contribute the same amount towards the progressive prize.

(3) When the progressive pool reaches the progressive prize amount listed on the flare, no additional contribution is made to the progressive pool;

(4) Patron(s) eligible for the progressive prize must be informed of the rules for playing for the progressive prize, including:

(i) Location, date, and time of progressive prize reveal;

(ii) Requirements for being present, if any, for the progressive prize reveal;

(iii) Requirements for providing personal contact information in the event the patron is not required to be present for the progressive prize reveal; and

(iv) Any other limitations or restrictions regarding eligibility for winning the progressive prize.

(5) Procedures in the event the progressive prize is not won or claimed, including:

(i) Closing the pull tab game;

(ii) Claim notification to the eligible patron(s);

(iii) Accounting for unclaimed progressive prize; and

(iv) Distribution, if any, of patrons' contribution to the unpaid progressive prize.

(6) Procedures for paying the winning progressive jackpot.

NIGC Comment to TGWG Guidance

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The guidance for progressive pull tabs is consistent with industry practices as it relates to progressive pull tabs (e.g. Minnesota Administrative Rules for the Operation of Pull Tabs)

TGWG Guidance

(m) Audit and Accounting.

(1) Controls must be established for audit and accounting in accordance with MICS 543.19 (What are the minimum internal control standards for audit and accounting?) and the guidance provided in the associated document.

(2) Best practice suggests that each operational area secure daily audit and accounting records, forms, and documents prior to audit. For example, a cashier may place records in a locked box for next-day delivery to accounting for audit.

(3) While a pull tab deal is in play, all records, reports, and prize receipts for the deal must be maintained for accounting purposes, including the flare, with the bar code attached, all redeemed and unsold pull tabs separated by game serial number and form number. Unsold or damaged pull tabs must not be opened by any agent.

NIGC Comment to TGWG Guidance

Appears to be consistent with industry practices