

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

(a) *Computer applications.* For any computer application utilized, alternate documentation and/or procedures that provide at least the level of control described by the standards in this section, as approved by the Tribal gaming regulatory authority **in writing**, will be acceptable.

Justification: Based on previous MICS audits performed, gaming operations do not always obtain specific approval of the computer applications being utilized. Adding the words “in writing” will require them to obtain documentation of approval.

(b) *Pull tab inventory.* (1) Pull tab inventory (including unused tickets) shall be controlled to assure the integrity of the pull tabs.

(2) Purchased pull tabs shall be inventoried and secured by a person or persons independent of the pull tab sales.

(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.

(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.

542.8 (b) (5) - (6) have been moved to proposed Revenue Audit 542.50 (a) (1) and (2).

~~(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.~~

~~(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.~~

(c) *Access.* Access to pull tabs shall be restricted to authorized persons.

(d) *Transfers.* Transfers of pull tabs from storage to the sale location shall be secured and independently controlled.

(e) *Winning pull tabs.* (1) Winning pull tabs shall be verified and paid as follows:

(i) **Prize** payouts of **\$100 or more** ~~in excess of a dollar amount determined by the gaming operation, as approved by the Tribal gaming regulatory authority~~, shall be verified by at least two employees, **documentation required.**

Justification: The standard of \$100 or more was deemed reasonable by the audit division based on MICS audits conducted.

Comment (July): The verification threshold should be \$600 for both manual and automated payout systems.

Response: Disagree. For manual payout systems, foregoing independent verification of payouts of at least \$100 and less than \$600 fails to provide an effective control to mitigate the inherent risk of the transaction. However, we agree with the commenter that \$600 is a reasonable threshold when a computerized payout system is utilized (see below).

Comment (October): The verification threshold should be \$600 for both manual and automated payout systems.

Response: On reconsideration, agree. Modify (i) to reflect comment, strike (ii).

Comment (October): The second employee should be a supervisor, or from another department.

Response: Disagree. It is left to the discretion of the TGRA to adopt a more stringent standard requiring the second verifier to be a supervisor, or from another department.

Comment (October): The \$100 threshold is too low.

Response: Disagree, but defer to the judgment of the Committee.

Comment (October): Retain the TGRA approval of the threshold.

Response: Agree. TGRA approval incorporated as a recommendation only in revised paragraphs (i) and (iii).

Proposed revision resulting from October meeting comments:

(i) **Prize payouts of \$600 or more, or a lesser amount established by the gaming operation, in excess of a dollar amount determined by the gaming operation, as approved by the Tribal gaming regulatory authority,** shall be verified by at least two employees, **documentation required. Tribal gaming regulatory authority of this amount is recommended.**

(ii) **For computerized payout systems that initiate, validate, and print the dollar amount of the payout on the computer-generated form, only one employee signature verifying and witnessing the payout is required on the payout form for a payout amount of \$100 or more and less than \$600. For payouts of \$600 or more and in other situations that allow an employee to input or change the dollar amount of the payout by more than \$1 in the computer system, two employees must be physically involved in verifying and witnessing the payout.**

Justification: Pull tab prize payouts are considered equivalent to gaming machine jackpot payouts and should be controlled as such. In the jackpot payout process, two persons are required to verify and witness all prize payouts. This is mitigated when a computerized system performs one of the jackpot verification procedures and the control is limited to payouts less than \$1,200 (for IRS reporting purposes). Therefore, it is recommended that the equivalent controls and IRS reporting thresholds be included in the pull tabs section.

Comment (July): Can the two witnesses be employees of different gaming facilities?

Response: If the gaming facilities function as a single economic entity and there is common management control, then the procedure would be acceptable.

Comment (July): The standard (relating to payouts of \$100 or more and less than \$600) will be very difficult to implement in an automated payout system.

Response: Agree. The proposed standard has been revised to clarify the applicability of the \$600 threshold relevant to prizes paid in the form of gaming credits.

Proposed revision resulting from July meeting comments:

(ii) For automated payout systems that initiate, validate, and print the dollar amount of the payout on a system-generated form:

(A) Only one employee signature verifying and witnessing the payout is required on the form for a payout of \$100 or more and less than \$600;

(B) For a payout of \$100 or more and less than \$600, if the employee can input or change the dollar amount of the payout by more than \$1 in the automated system, two employees must verify and witness the payout and sign the form;

(C) No employee signature verifying and witnessing the payout is required for prizes of less than \$600 if the prize is paid through the automated system in the form of gaming credits;

(D) For all payouts of \$600 or more, two employees must verify and witness the payout and sign the form.

(iii) Prize payouts over a predetermined amount shall require the signature and verification of a supervisory or management employee independent of the pull tab department (in addition to the two signatures required in paragraph (e) (1) (i) of this section). Alternatively, if a computerized payout system is utilized, only two signatures are required: one employee and one supervisory or management employee independent of the pull tab department. This predetermined amount shall be authorized by management (as approved by the Tribal gaming regulatory authority), documented, and maintained.

Justification: Pull tab prize payouts are considered equivalent to gaming machine jackpot payouts and should be controlled as such. In the jackpot payout process, two persons are required to verify and witness all prize payouts. This is mitigated when a computerized system performs one of the jackpot verification procedures and the control is limited to payouts less than \$1,200 (for IRS reporting purposes). Therefore, it is recommended that the equivalent controls and IRS reporting thresholds be included in the pull tabs section.

Comment (July): The automated system should be relied on for validation of payouts, without employee signature, except in the case of a \$600 or more reportable transaction.

Response: Agree. No form or signature is required for prizes of less than \$600 if the prize is paid through the automated system in the form of gaming credits. The standard is applicable to only cash payments of \$100 or more made by an employee to the customer. Strike (ii), (iii) becomes (ii).

Comment (July): Remove the final set of parentheses, or move the phrase inside the final set of parentheses to after “predetermined amount”.

Response: Agree. Revised accordingly.

Proposed revision resulting from July meeting comments:

(iii) (ii) Prize payouts over a predetermined amount shall require the signature and verification of a supervisory or management employee independent of the pull tab department (in addition to the signatures required in paragraph (e) (1) (i) or (e) (1) (ii) of this section). This predetermined amount (as approved by the Tribal gaming regulatory authority) shall be authorized by management, documented, and maintained.

Note: On review, standard was revised to eliminate the 3 signature requirement, thereby bringing the standard into congruity with gaming machine standards.

Proposed revision incorporating note:

(iii) (ii) Prize payouts over a predetermined amount shall require the signature and verification of two employees, one of whom must be a supervisory or management

employee independent of the pull tab department. This predetermined amount (Tribal gaming regulatory authority approval recommended) shall be authorized by management, documented, and maintained.

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

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

542.8 (e) (2) has been moved to proposed Revenue Audit 542.50 (a) (3).

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

(2) [Reserved]

(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 win, write (sales), and a win-to-write hold percentage as compared to the theoretical hold percentage derived from the flare, 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.

Comment (July): Replace “theoretical” with “expected”.

Response: Agree. Revised accordingly.

Comment (July): Comparison to expected hold is only valid for games sold in entirety.

Response: Agree. Revised accordingly.

Comment (July): Comparison to expected hold is not valid for shift, day, month-to-date, or year-to-date for incomplete games.

Response: Agree. Revised accordingly.

Revised proposal resulting from July meeting comments:

(g) *Standards for statistical reports.* (1) Records shall be maintained, which include **(for games sold in their entirety)** ~~win, write (sales), and~~ a win-to-write hold percentage as compared to the ~~theoretical~~ **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 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.

Comment (July): Comparison to theoretical (expected) hold is not valid for games that have been only partially sold at end of the month.

Response: Agree. Strike (g) (3).

Revised proposal resulting from July meeting comment:

~~(3) Each month, the actual hold percentage shall be compared to the theoretical hold percentage. Any significant variations (3%) shall be investigated.~~

542.8 (h) (1 (i)-(iv) has been moved to proposed Revenue Audit 542.50 (a) (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.~~

~~Comment (July):— Gaming operations utilizing electronic equipment in connection with the play of pull tabs should be exempt from subsection (g).~~

~~Response:— Disagree. The changes made to subsection (g) address concerns about applicability to electronic equipment.~~

~~(i) If the electronic equipment contains a bill acceptor, then §542.21(e) and (f), §542.31(e) and (f), or §542.41(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 or a payment slip to the player, then §542.13(n) (as applicable) shall apply.~~

~~(iv) If the electronic equipment utilizes patron customer account access cards for activation of play, then §542.13 (o) (as applicable) shall apply.~~

~~Justification: The term customer is more frequently used in Part 542 whereas the term patron is more frequently used in Part 543.~~

~~(2) [Reserved]~~