

CALIFORNIA GAMBLING CONTROL COMMISSION

**INITIAL STATEMENT OF REASONS**

**CGCC-GCA-2013-04-R**

**HEARING DATE:** January 8, 2014

**SUBJECT MATTER OF PROPOSED REGULATIONS:** Minimum Internal Control Standards (MICS) for Gambling Establishments – Phase IV: Cage Operation and Functions; Security of Floor Banks, Gambling Equipment and Confidential Documents

**SECTIONS AFFECTED:** California Code of Regulations, Title 4, Division 18: Sections 12360, 12386 and 12387

**SPECIFIC PURPOSE OF REGULATORY PROPOSAL:**

**INTRODUCTION:**

The California Gambling Control Commission (Commission) is the state agency charged with the administration and implementation of the California Gambling Control Act (Act).<sup>1</sup> The Commission is authorized to adopt regulations governing the operation of gambling establishments (cardrooms) in California.<sup>2</sup> Specifically, the Commission is mandated to adopt regulations on the subjects enumerated in Business and Professions Code section 19841.<sup>3</sup> Regulations concerning the establishment of minimum policies and procedures by owner licensees to exercise effective control over their gambling affairs have been prepared in compliance with section 19840<sup>4</sup> and subdivisions (h) and (o) of section 19841.<sup>5</sup>

Gambling is the quintessential cash business and internal controls are the primary procedures used to protect the integrity of cardroom funds and games. Internal controls are therefore a vitally important part of properly regulated gambling.

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<sup>1</sup> Business and Professions Code, Division 8, Chapter 4, section 19800 et seq.

<sup>2</sup> Business and Professions Code section 19840.

<sup>3</sup> All statutory references are to the Business and Professions Code, unless otherwise specified.

<sup>4</sup> Section 19840 provides, in pertinent part, that “[t]o the extent appropriate, regulations of the Commission ... shall take into consideration the operational differences of large and small establishments.”

<sup>5</sup> Subdivision (h) of section 19841 mandates that the Commission’s regulations shall “[p]rescribe minimum procedures for adoption by owner licensees to exercise effective control over their internal fiscal and gambling affairs, ...” as specified. Subdivision (o) of section 19841 mandates that the Commission’s regulations shall “[r]estrict, limit, or otherwise regulate any activity that is related to the conduct of controlled gambling, consistent with the purposes of this chapter.

**PURPOSE:**

In general, this proposed action has been drafted in an attempt to establish uniform procedures and standards to assist the Commission and the Bureau of Gambling Control (Bureau) in meeting their oversight responsibilities under the Act, while taking into account variations in the size of gaming operations. More importantly, the proposed action is intended to provide for minimum standards that protect public health, safety and general welfare.<sup>6</sup> These regulations establish a baseline for gambling establishment (cardroom) operation, by requiring that licensees establish and implement written policies and procedures that meet or exceed the prescribed Minimum Internal Control Standards (MICS), as they relate to the established size category of the individual licensee. Establishing baseline standards helps to ensure consistency and uniformity, and provides transparency.

This proposed action would further the implementation of provisions of the Act by requiring that licensees adopt minimum internal controls governing their internal fiscal affairs and gambling operations. This proposed action would further the purpose of the Act by restricting, limiting and regulating the operation of cages, the security and use of floor banks, and the security of gambling equipment and confidential documents. This would not only assist licensees in protecting their assets and the integrity of their gambling operations, but would also help to ensure that the public health, safety and general welfare is protected and that gambling is conducted honestly and competitively.

**BACKGROUND:**

Early in the development of the Phase IV MICS regulations, Commission staff visited a number of cardrooms in order to observe, firsthand, the use and operation of cages, podiums and workstations. Several cardrooms in various areas of the state, and from each of the five tiers, were visited in an effort to see what, if any, variations might exist between the operations in different size cardrooms. These site visits included cardrooms in the Bay Area, Sacramento area, the Delta, and Southern California.

During these site visits, particular attention was given to security and surveillance, patron transactions and access, employee transactions and access, recordkeeping, location, and construction. However, the purpose of these visits did not include an assessment of the extent of compliance or noncompliance with existing laws and regulations. The following is a summary of what was observed in the course of these cardroom site visits:

**Cages and Satellite Cages:**

- The use of satellite cages is generally limited to the larger cardrooms (Tiers IV and V) with only a few exceptions. For example:
  - One Tier I cardroom that has an actual cage (a separate secure room with a cashier window<sup>7</sup>) typically uses a podium as a satellite cage.

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<sup>6</sup> Business and Professions Code, section 19920

<sup>7</sup> It should be noted that the applicable provisions of Section 12386 concerning the maintenance and operation of a cage by cardrooms in Tiers I through III do not require the use of a separate secure room to fulfill those functions.

- One Tier III cardroom maintains what it refers to as a “podium” at its customer service and reception counter directly inside the main entrance of the cardroom. In fact, that “podium” is essentially operated as a satellite cage, even though the cardroom operates an actual cage (a separate secure room with a cashier window) located within about 15 to 18 feet of that “podium.” Patron transactions (sale and redemption of chips, etc.) actually occur at this “podium.” Other true podiums are also located in other areas on the gambling floor.
- One Tier IV cardroom removed all of its podiums from the gambling floor and installed a number of small satellite cages that resemble fully enclosed ticket booths. Portable podiums are also available for use when needed to accommodate a high volume of business.
- Another Tier IV cardroom simultaneously operates two nearly identical cages, the only significant difference being that one is slightly smaller than the other. One is located in the California games section of the cardroom and the other is in the poker section. This cardroom also uses podiums on the gambling floor.
- The Tier V cardrooms that were visited operate multiple cages throughout the cardroom.
- Each of the Tier III, IV and V cardrooms visited operate actual cages (a separate secure room with cashier windows). With the exception of only one of the Tier III cardrooms, the cages all provided at least one separate cashier window for employee (chip runner, dealer) transactions. In many cases, those employee windows were located in areas off the gambling floor and not accessible to the public; i.e., through a separate room off to the side or at the rear of the cage.
- In all but one of the Tier III, IV and V cardrooms, the same security precautions and procedures were employed in both the main cages and the satellite cages, including surveillance coverage. The exception being the surveillance coverage employed by one Tier III cardroom that operates what is essentially a satellite cage at its customer service and reception counter. In that case, there was no dedicated camera covering the satellite cage area. The coverage that was provided was from a short distance away and at an angle so that, even with zoom capabilities, the coverage was not adequate to view the contents of chip drawers or determine the nature of the transactions taking place.

The Bureau has subsequently provided information indicating that there are approximately 21 Tier I and II cardrooms in northern California with approved TPPPS contracts. Of the 21, only two share a podium with the TPPPS company. Of the two, only one keeps chips in a separately keyed drawer within the same podium. The other maintains all chips and confidential documents in the cage.

**Podiums:**

- The primary features associated with the use of podiums include the following:

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However, the Bureau has provided information indicating that all cardrooms, except one, do use separate and secure rooms as cages.

- **Controlled access to the contents.** Access to each drawer or compartment is controlled and limited to designated individuals during a shift. This may be a chip runner, a floor manager, or another shift manager or supervisor.
- **Imprest drawers.** A set value is assigned to each chip drawer which value must be constantly maintained either in chips or a combination of chips and cash.
- **Surveillance coverage.** Most cardrooms had a dedicated camera with zoom capabilities to cover each podium, similar to the overhead coverage at a cashier window. This enabled the contents of drawers, when opened, and the transactions taking place, to be observed and recorded. The denomination of chips and currency was clearly identifiable when counted out and displayed on the work surface of the podium. However, in one instance (not the one mentioned above under cages), the only surveillance coverage of the cardroom's podium was from a camera located on the extreme opposite side of the gambling floor. Even with zoom capabilities, it was impossible to view the contents of chip drawers or determine the nature of the transactions taking place at the podium.
- **Chip purchases and patron transactions.** None of the cardrooms visited allow any patron transactions to take place at a podium. All transactions are conducted through a chip runner at a gambling table.
- **Chip redemption.** All of the cardrooms visited but one prohibit patrons from redeeming chips (“cashing out”) through a podium and require all redemptions to be transacted through a cage. In general, patrons are only allowed to purchase and exchange (“color-up”) chips through chip runners. In the one exception, the cardroom discourages the practice, but does allow patrons to redeem chips through a chip runner up to a \$500 maximum.
- **Other security measures.** The podiums examined were either permanently affixed to the floor or to a wall, or were of sufficient size and weight to make them extremely difficult, if not impossible, to move. In a couple of instances, they were actually incorporated into or were a component of a much larger furnishing or permanent fixture.
- Podiums in poker sections or rooms generally did not restrict patron proximity (e.g., there was no use of a “pit area” to keep patrons physically separated from the podium). If the podium was located out on the gaming floor, patrons had free unrestricted access to the pathways immediately surrounding the podium on all sides. Even when the podium was located off to the side of the floor and against a wall, generally no provision was made to restrict patron access to the immediate area. In most cases (particularly in the smaller cardrooms), this was due in large part to the space limitations.
- Podiums in California game sections or rooms were generally located in a “pit area” thereby restricting patron access and proximity. There were a few exceptions where, in high stakes rooms or sections in the largest cardrooms, there was no “pit” area and a podium was either located in the center of the room or off to one side.
- There did not appear to be any particular standard for determining the number of podiums located in any particular area of the gambling floor. At least one of the larger cardrooms

used a ratio of tables to a podium according to the type of game, stakes/limits or volume of activity. Others just seemed to use the proximity to certain tables or games to determine the number and location of their podiums. In all cases, it appeared that podiums were strategically located in order to provide service to the greatest number of tables with the most convenience for staff and patrons.

- In addition to imprest chip drawers, podiums often had additional locked cabinets for extra gaming equipment and, in a few instances, unlocked cabinets for employee personal items or other items that do not need to be secured (e.g., purses, sweaters, hand lotion, customer service items, blank forms, etc.).
- One cardroom uses temporary podiums during especially busy times. The temporary podiums are portable, but otherwise were subject to the same security precautions and procedures as permanent podiums.
- Larger cardrooms often provided podiums for use by the third-party providers of proposition player services (TPPPS) company. The same security precautions and procedures were employed for these podiums as were employed for the cardrooms' podiums, including surveillance coverage. Cardroom employees did not have access to these podiums.

The Bureau has subsequently provided information indicating that there are approximately 21 Tier I and II cardrooms in northern California with approved TPPPS contracts. Of the 21, only two share a podium with the TPPPS company. Of those two, only one keeps chips in a separately keyed drawer within the same podium. The other maintains all chips and confidential documents in the cage.

#### **Workstations:**

- Generally speaking, workstations were not necessarily maintained as a separate piece of furniture in many of the cardrooms visited. Rather, the workstations were sometimes combined with podiums or podiums were utilized in a way that accommodated whatever work needed to be performed on the floor, including paperwork (e.g., Title 31 reports, patron tracking, etc.) and overseeing dealer rotations or patron waiting lists via computer.
- Even where workstations were maintained separately from podiums, essentially the same provisions were made for security, surveillance, controlled access and patron transaction as were applicable to podiums.
- Workstations often had locked drawers or cabinets to hold and safeguard gambling equipment (e.g., playing cards, dice, dice cups, etc.) and confidential documents.
- In a few instances, workstations had unlocked cabinets for employees' personal items or other items that do not need to be secured (e.g., customer service items, blank forms, etc.).

Based on staff's observations, it appears that there is, overall, a general consistency in the basic operation of satellite cages, podiums and workstations in those cardrooms in which they are used. In the case of cages where some standards are determined by tier (§ 12386), it appears that

the minimum internal control standards for the operation of satellite cages should follow the same applicable existing cage standards for the cardroom's tier. Therefore, there does not seem to be any particular need to distinguish one from the other. All cages, regardless of their designation, should be required to comply with the same standards according to the licensee's tier. However, there are some provisions of the existing regulation that should be modified for clarity and to provide more flexibility in the manner in which licensees may choose to comply.

With respect to podiums and workstations, there does not appear to be any substantive differences in their function or operation with respect to the size or tier of a cardroom. Therefore, it appears that the same minimum internal control standards for the operation of podiums and workstations could be made applicable to all cardrooms without regard for a cardroom's tier. Furthermore, it does not appear that the construction of podiums and workstations varies substantially from cardroom to cardroom regardless of the tier making it unnecessary to address construction criteria. Instead, it is clear that minimum internal controls should concentrate on addressing the security of the contents of podiums and workstations.

**PROPOSED ACTION:**

This proposed action would make the following specific changes within Division 18 of Title 4 of the California Code of regulations:

Section 12360. Chapter Definitions.

In Article 1, Section 12360 provides definitions for numerous terms that govern the construction of Chapter 7. This section incorporates the definitions in Business and Professions Code section 19805 and Section 12002 of Chapter 1, and includes specific definitions for the words and phrases "gaming activity," "house rules," "licensee," "security department" and "surveillance unit." This action would add definitions for several new terms that will be used in Article 3. The proposed amendments to Section 12360 are as follows:

1. A new subsection (a) would be added with a definition for the term "cage bank." The definition of this term is being added as a convenient means of referring, in general, to the monetary content, including gambling chips, cash and cash equivalents, that is held in a cage.
2. A new subsection (b) would be added with a definition for the term "cashier bank." The definition of this term is being added as a convenient means of referring, in general, to the individual imprest fund assigned to an individual cashier inside a cage.
3. A new subsection (c) would be added with a definition for the term "confidential document." The definition of this term is being added as a convenient means of referring to several different types of documents, records or writings with similar characteristics, whether maintained in writing or electronically. This would include documents that contain any private financial or personal information directly obtained from or provided by the subject (e.g., patron credit and check cashing information, exclusion lists, Title 31 report forms, etc.) concerning any individual or group of individuals, or information or documents that are otherwise protect under any other provision of law (e.g., Title 1.81 (commencing with

§ 1798.80) of Part 4, Division 3 of the Civil Code). Also included are documents or information the public disclosure of which may jeopardize the safety and security of patrons, employees and their property or the assets of the gambling enterprise, or the integrity of gambling operations.

4. A new subsection (d) would be added with a definition for the term “floor bank.” The definition of this term is being added as a convenient means of referring, in general, to an individual imprest fund kept on or near the gambling floor.
5. A new subsection (e) would be added with a definition for the term “gambling equipment.” The definition of this term is being added as a convenient means of referring to gambling equipment, in general. Gambling equipment may include playing cards, tiles, dice, dice cups, card shufflers, gaming tables, or any other equipment or supplies used or intended for use in the play of any controlled game.
7. As a result of the additional definitions proposed by this action in the new subsections (a) through (e), the pre-existing subsection (a) through (e) will be renumbered accordingly as subsection (f) through (j).

#### Section 12386. Cage Operation and Functions.

In Article 3, Section 12386 prescribes the MICS that must be addressed in licensees’ policies and procedures relative to the operation and functions of cages. These include standards for cage location, design and construction; security and accountability; staffing and access; activity reconciliation; and, surveillance. The scope and complexity of many of these standards progressively escalate with the higher tiers.

1. Paragraph (1) of subsection (a) would be amended to clarify that the public does not have access to enter a cage. Accessible to the public usually means that customers may enter the room; however, not only are customers not allowed in the cage but the cage is specifically made secure to keep them out. Language would be added to clarify that the purpose of a cage is to provide for a convenient location in which to conduct patron transactions while maintaining security and accountability for not just funds, but also for monetary transactions occurring at the cage and all cage contents. Cage content may include, but is not limited to, the cage bank, cashiers’ banks, and gambling equipment and confidential documents, when kept in a cage. Since gambling equipment and confidential documents are permitted to be, and often are kept in a cage, their protection is just as important as the protection of funds (banks).
2. Paragraph (2) of subsection (a) would be amended to clarify that the names of gambling enterprise employees who work in a cage are not required to be included in the organizational charts of the gambling enterprise. To make this clear, the word “designated” would be changed to “assigned” throughout this paragraph, and the second sentence would be reworded to indicate that the title, classification or position of cage employees must be listed on the organizational charts.

In addition, the reference to the duties of cage employees would be changed to provide that those employees' duties "may include any or all of" the specific duties listed in this paragraph. As currently written, the sentence uses the terms "shall include" and "any or all" in referring to the specified duties. "Shall" is mandatory, but "any or all" indicates permissiveness. This is potentially confusing and should be clarified.

Further clarification of those specified duties would also be provided, as follows:

- Subparagraph (B) would be clarified to refer to the "receipt and "distribution" of gambling chips "through internal operations." In the current text, receipt was intended to refer to not only the receipt of chips from the vault or count room, but also receipt from patrons (for redemption). Distribution was intended to include the sale of chips to patrons and the return of chips to storage. The intended inclusiveness of these terms is potentially confusing. Therefore, these terms "receipt and "distribution" will be limited to the internal operations of receiving chips from the vault or count room and the return of chips to storage. A new subparagraph (C) would then be added to address the sale and redemption of gambling chips in transactions with patrons, and the subsequent existing subparagraphs would be renumbered accordingly.
- Subparagraph (D) [formerly (C)] would be clarified with the addition of the qualifying phrase, "if applicable." Not all cardrooms have or use players' banks or dealers' banks. It should be made clear that this duty or responsibility wouldn't apply if those items do not exist.
- Subparagraph (G) [formerly (F)] would be amended to delete incorrect citations to the Code of Federal Regulations (CFR). This amendment will conform to recent amendments in the CFR. On March 1, 2011, the Financial Crimes and Enforcement Network (FinCEN) transferred its regulations from 31 CFR Part 103 to 31 CFR Chapter X as part of an ongoing effort to increase the efficiency and effectiveness of its regulatory oversight. 31 CFR Chapter X is organized by generally applicable regulations and by industry-specific regulations. The provisions that are applicable to casinos and card clubs (cardrooms), including former sections 103.21, 103.22, 103.23, 103.63 and 103.64, are now found in 31 CFR Chapter X, Part 1021. There were no substantive changes made to the underlying CFR regulations as a result of this transfer and reorganization.

The clause "and any successor provisions" would also be added in order to avoid any conflict or inconsistency should there be any future changes to the applicable federal regulations. Cardrooms are already required to comply with Title 31 of the CFR, and any successor provisions, pursuant to section 14162(b) of the Penal Code. In addition, Section 12404 currently mandates compliance with 31 USC sections 5313 and 5314, and 31 CFR sections 103.21, 103.22, 103.23, 103.63 and 103.64, and any successor provisions. Adding the phrase "and any successor provisions" here would be consistent with Section 12404. This is an appropriate change because the Commission has no control over future amendments to federal regulations.

These changes have no regulatory effect as they are merely conforming and clarifying in nature and do not impose any additional requirements on affected parties.



- Subparagraph (H) [formerly (G)] would be amended to clarify that the cage employees' duties may include not only accounting and safeguarding of banks, but also gambling equipment and confidential documents, when that equipment or those documents are kept in a cage. Cage content may include, but is not limited to, the cage bank, cashiers' banks, and gambling equipment and confidential documents. Since gambling equipment and confidential documents are permitted to be, and often are kept in a cage, their protection is just as important as the protection of funds (banks).
3. Paragraph (3) of subsection (a) would be amended to clarify that it is applicable to both physical cages and areas designated as cages; pursuant to paragraph (1) and that routine access is to be limited to the cage personnel assigned pursuant to paragraph (2). Since Tier I, II and III cardrooms are not required to maintain a physically separate cage, but must, at a minimum, designate an area in the cardroom to function as a cage, this clarification is necessary to avoid the possible interpretation that limiting routine access does not apply to cardrooms in Tiers I, II and III, if they do actually maintain a physically separate cage.  
  
Further clarification would be added by changing the term "gambling establishment" to the correct term, "gambling enterprise," and adding "key employee" to the list of license types held by other gambling enterprise employees who may be given access for the performance of their duties.
  4. Paragraph (4) of subsection (a) would be amended to allow a cage access log to be maintained either in writing or electronically. This change is intended to provide greater flexibility for licensees.
  5. Paragraph (5) of subsection (a) would be amended to specify that it is the cage and cashiers' banks that are to be reconciled, not all cage "activity." The requirement to summarize all cage transactions would be deleted since reconciliations of recordable transactions are already required, making the summarization duplicative and unnecessarily burdensome. The definition of the word "shift" would also be deleted as it is unnecessary and not consistent with shift assignments and designations in cardrooms statewide.

To ensure that reconciliations will continue to be documented in Tier I and Tier II cardrooms, the requirement in paragraph (2) of subsection (b) would be moved to paragraph (5) of subsection (a) as a new subparagraph (B) and the current text of paragraph (5) would become subparagraph (A). Subparagraph (B) would then require cardrooms in all tiers, including Tiers I and II, to document their reconciliation of each cage and cashier's bank on a cage accountability form including minimal basic information, as specified.

In the relocation of paragraph (2) of subsection (b), the accounting referred to therein [subparagraph (C)] would be clarified to apply to the cage and cashiers' banks, and *if applicable*, players' and dealers' banks. In the detail of what is to be included in the accounting, "credits" and "debits" would be deleted and replaced with "all transactions reportable to the general ledger." In subparagraph (D) of paragraph (2) of subsection (b), the confusing parenthetical would be deleted and "as applicable" added at the end of the sentence

to provide for instances when both the incoming and outgoing employees' signatures are not required.

These changes would not require the affected cardrooms to do anything differently or record any additional information because the applicable information that is required to be recorded in a cage accountability form is the same basic information that should be recorded by cardrooms in Tiers I and II currently.

7. This proposed action would add paragraph (7) to subsection (a) to specify that in instances where a licensee operates multiple cages during any shift, all cages, irrespective of their designation (e.g., main cage, satellite cage, auxiliary cage, supplementary cage, secondary cage, back up cage, support cage, etc.), shall be subject to and comply with all applicable provisions of this article.

A cage is the primary area on or near the gambling floor where cash and cash equivalents are kept, as patrons exchange their cash for chips, cash checks, or access their players' banks through a cage. In addition, patrons often fill out required IRS forms or credit request forms at a cage, which are then kept in the cage until they can be transmitted to the accounting department. Thus, cash, cash equivalents and sensitive information is regularly kept in this area. It is necessary and appropriate that these areas be kept secure through video surveillance and restrictions on access by non-authorized personnel, as well as internal controls such as segregation of duties, record keeping and reconciliations. All of the same considerations and concerns exist whether a cage is operated as a main cage or as a satellite cage. Consequently, it is reasonable and appropriate to require that the same minimum internal control standards apply to all cages and cage areas maintained and operated by a licensee, according to the licensee's respective tier.

8. Paragraph (1) of subsection (b) would be deleted as it specifies that only cardrooms in Tiers III through V are required to maintain continuous recorded video surveillance of cages and cage activities. However, Section 12396 (a)(1) provides that "cage and cashier activities" shall be subject to recorded video surveillance in all tiers. Thus, the two provisions appear to be in conflict with each other. This apparent conflict creates consistency and clarity issues which would be resolved by deleting this paragraph.
9. With the deletion of paragraph (1) and the relocation of paragraph (2), the remaining paragraph (3) would become subsection (b). Subsection (b) would be amended to require that cardrooms in Tiers III through V have the reconciliations specified in paragraph (5) of subsection (a) posted to the general ledger by someone other than an assigned cage employee or cage supervisor. This separation of duties is intended to assist in preserving the integrity of the reconciliation. It is applicable to Tiers III through V because the cardrooms in lower tiers are so small that they will rarely have the additional employees necessary to comply with this requirement.
10. Paragraph (1) of subsection (c) would be amended to better describe the construction and function of a cage for Tiers IV and V by specifying that it must be a secure enclosed structure

with at least one window for processing transaction with patrons. A new subparagraph (A) would be added to provide that cage windows must be secure and designed to prevent entry into, or theft from, the cage. These changes would add clarity to and make explicit the original intent of this provision which is that the cage in a Tier IV or Tier V cardroom be operated out of a separate secure, enclosed room.

11. Paragraph (2) of subsection (c) would be amended to clarify that these provisions apply to all banks, and the reference to beginning and ending balances would be deleted as unnecessary.

Subparagraph (C) would also be amended to clarify that the “amount,” rather than the “source,” of other items of monetary value is to be itemized. The need to list other items of monetary value in the cage accountability form is clear, but it isn’t clear what is meant by the phrase “specifying the source of each.” From the examples given, the source should be self-evident; patron checks are issued by patrons, players’ banks are funded by players. Instead of specifying the “source,” it is more relevant to specify the “amount” of each.

Reference to “dealers’ banks” and “chip runner’s banks” would be removed from the examples of other items of monetary value. Subparagraph (D) would be added to address the dealers’ banks and floor (chip runners’) banks by specifically requiring an itemization of the amount assigned to each of those banks. The cage accountability form is prepared by the incoming and outgoing cage personnel every shift. They are responsible for counting down what is in the cage. There are amounts assigned to dealer trays and floor banks and those amounts should be included in the cage accountability form. However, the cage personnel are not actually going out on the floor and counting down the dealer trays or the floor banks. For that reason, it is not possible or practical to include in the cage accountability form an actual count of each dealer tray and each floor bank. What the cage accountability form should show is what has been assigned to those trays and banks.

12. Paragraph (3) of subsection (c) would be amended to allow the names or classifications of employees authorized to access a cage to be recorded either in writing or electronically, and to require that the record must be updated each time an assignment is added or deleted. To provide more clarity and flexibility, the word “list” would be changed to “record.” In addition, the phrase “names of all persons designated” was changed to “names or classifications of all persons assigned,” for added clarity and consistency. This would allow existing records to be used to satisfy this requirement thereby avoiding the need to create an additional list for this purpose. A payroll record or list would be the dynamic list that is updated immediately and has names and job classifications.

13. Numerous nonsubstantive conforming, editorial and grammatical changes would be made throughout Section 12386 to clarify and ensure that that the provisions of the new paragraph (7) apply to all cages and cage areas, irrespective of their designation, and to provide consistency with provisions of the proposed adoption of Section 12387.

Section 12387. Security and Use of Floor Banks; Security of Gambling Equipment and Confidential Documents.

This proposed action would also establish a new Section 12387 in Article 3, which would require cardrooms of all tiers to adopt specified minimum policies and procedures regarding the security and use of floor banks, and the security of gambling equipment and confidential documents, on the gambling floor.

Subsection (a) requires licensees in all tiers to establish policies and procedures to provide for the security of floor banks. Floor banks are generally used throughout the industry to provide certain gambling enterprise employees convenient access to chips and funds on the gaming floor in order to provide services to patrons that would otherwise have to be conducted at a cage. A floor bank will have an imprest value, albeit in an amount typically much less than the amount held in a cage bank. While the total value of the floor bank is less than that of a cage bank, there remains the potential for losses. In some instances, the value of a single floor bank may be as high as \$30,000; possibly even more in high-stakes areas or the largest cardrooms. Therefore, it is necessary and appropriate that precautions be taken to safeguard and properly account for these assets in order to minimize the risk of loss and maintain the integrity of the licensee's assets and financial records.

1. Subsection (a), paragraph (1) would require that a floor bank, when kept in any public area of a gambling establishment, be secured in a locked receptacle, drawer or compartment. This paragraph would specify that the drawer or compartment shall remain locked, with the key removed, except when being appropriately accessed and that all keys, combinations and access codes shall be subject to the key security and control provisions of Section 12395.
2. Subsection (a), paragraph (2) would require the lock or locking mechanism of a receptacle, drawer or compartment containing a floor bank to be keyed differently from any other receptacle, drawer or compartment in the gambling establishment. However, when a single gambling enterprise employee requires access to multiple receptacles in the performance of his or her duties, that access is exclusive to that employee during his or her shift, and the receptacles all contain a floor bank, those receptacles may have a key, combination or access code in common with each other. Managers and supervisors would also be permitted to have a duplicate or master key for the receptacles used by the employees they supervise.
3. Subsection (a), paragraph (3) would require that any cabinet used or intended to be used to contain a floor bank, be located so that it is clearly visible for security and surveillance purposes, and that it be kept under continuous recorded video surveillance with camera coverage that shall be adequate for monitoring and recording the contents of any drawer when open, to the extent reasonably possible, and all activities involving the floor bank. This paragraph would also allow the use of a mobile cabinet and would require that it be kept at a fixed secure location under continuous recorded video surveillance when not being actively used on the gambling floor.
4. Subsection (a), paragraph (4) would prohibit the commingling of a floor bank with any

gambling equipment, documents, supplies or other materials that are not directly related to a floor bank, in the same drawer or compartment. This paragraph would also prohibit the use of the cabinet or any other drawer, compartment or receptacle therein, from being used to store any personal property of any employee, patron, or any other person; or to store any equipment, documents, supplies or other materials that are not directly related to the conduct of gambling operations.

5. Subsection (a), paragraph (5) would require that each floor bank be individually balanced at least daily and the imprest amount verified. Any shortages or overages would be required to be documented in an exception report and included in the cage bank reconciliation for the shift during which the verification was performed.
6. Subsection (a), paragraph (6) would require the licensee to establish the maximum imprest amount that may be assigned to the each floor bank and would limit the imprest amount that may be assigned to a floor bank in a mobile cabinet to \$20,000. This is an integral element in any system of internal controls. This provision would not interfere with the licensee's discretion in establishing those amounts. Licensees are also free to adjust the amounts assigned to various floor banks as business needs dictate. Retail businesses commonly set limitations on the amount of cash that may be kept in cash drawers or cash registers. Banks limit the amount of cash held in tellers' drawers. It is an important part of protecting assets and limiting the exposure to monetary losses.
7. Subsection (a), paragraph (7) would require the licensee to adopt policies and procedures for the establishment of specific provisions governing the sale or distribution of gambling chips and the disbursement of cash to patrons from a floor bank by the assigned gambling enterprise employee. This might include, for example, how currency and gambling chips are to be counted out and displayed for the surveillance cameras during transactions and count down processes and how employees are to "clear" their hands at certain points in a transaction. The procedures may also include directions that employees not stand or position themselves in a manner that would block or limit surveillance coverage; such as, not leaning over an open drawer or blocking a camera's view of the counter or surface where chips and cash are being counted. These procedures could be the same or similar to the procedures that are generally provided to cage cashiers.

This paragraph would also limit the redemption of chips from a floor bank to a maximum amount of \$500, except when the floor bank is being temporarily used as a cage in compliance with the provisions of Section 12386. This paragraph would explicitly prohibit any redemption of chips from a floor bank in a mobile cabinet.

Subsection (b) requires licensees in all tiers to establish policies and procedures to provide for the security of gambling equipment and confidential documents when kept on the gaming floor. Typically, storage for holding such things as gambling equipment, confidential documents, customer service items, miscellaneous supplies and blank forms is provided on the gaming floor. Some of these items – gambling equipment and confidential documents – need to be secured,

protected and properly accounted for. Therefore, it is necessary and appropriate that precautions be taken to safeguard and properly account for the cardroom's assets in order to maintain the integrity of gambling operations and minimize the risk of cheating, as well as to maintain the integrity and confidentiality of patrons' personal and financial information.

1. Subsection (b), paragraph (1) would require that gambling equipment be secured in a locked receptacle, drawer or compartment when being kept, held or stored in any public area of the gambling establishment. Any gambling equipment that is too large to be placed in a receptacle, drawer or compartment, or that is normally left on a gambling table when not in use, would be required to be secured with a locking mechanism (e.g., a cable lock) to prevent it from being moved or tampered with. This paragraph would allow the lock or locking mechanism of the receptacle, drawer or compartment to be keyed the same as any similar receptacle, drawer or compartment used for the same purpose. This paragraph would specify that the drawer or compartment shall remain locked, with the key removed, except when being appropriately accessed and that all keys, combinations and access codes shall be subject to the key security and control provisions of Section 12395.

This paragraph further provides that confidential documents shall be secured in a locked receptacle, drawer or compartment when being kept, held or stored in any public area of the gambling establishment. This requirement would apply to all confidential documents and information, except when maintained electronically or when in use, in which cases the document or information shall be covered and kept out of public view to the extent reasonably possible.

2. Subsection (b), paragraph (2) would require the lock or locking mechanism of a receptacle, drawer or compartment containing gambling equipment or confidential documents to be keyed differently from any other receptacle, drawer or compartment in the gambling establishment. However, when a single gambling enterprise employee requires access to multiple receptacles in the performance of his or her duties, that access is exclusive to that employee during his or her shift, and the receptacles all contain either gambling equipment or confidential documents, those receptacles may have a key, combination or access code in common with each other. Managers and supervisors would also be permitted to have a master key for the receptacles used by the employees they supervise.
3. Subsection (b), paragraph (3) would require that any cabinet containing gambling equipment or confidential document be located so that it is clearly visible for security and surveillance purposes, and that it be kept under continuous recorded video surveillance.
4. Subsection (b), paragraph (4) would prohibit gambling equipment or confidential documents from being commingled with or kept in the same drawer or compartment as a cardroom bank, or commingled with or kept in the same drawer or compartment with any personal property or possession of any employee, patron, or any other person.

5. Subsection (b), paragraph (5) would require the establishment of specific provisions governing the storage, distribution and tracking of gambling equipment kept, held or stored in any public area of the gambling establishment.

Subsection (c) provides that, if a licensee allows access to or the use of any cabinet used or intended to be used for any of the purposes described in subsection (a) or (b), to any TPPPS company, that access and use shall be exclusive to the TPPPS company and its employees, and the cabinet shall not be used by the licensee for any purpose.

Subsection (d) would require cardrooms to implement the applicable provisions of this section no later than six months following its effective date. This is intended to provide licensees with adequate notice and sufficient time to develop appropriate policies and procedures in compliance with these newly adopted standards and requirements. Because recent legislation has established a standard quarterly schedule of effective dates for all regulations based on the calendar quarter in which they are filed with the Secretary of State, this will provide licensee's a minimum of 7 months, to as much as 10 months, in which to comply.

#### **UNDERLYING DATA:**

Technical, theoretical, or empirical studies or reports relied upon:

While no studies or reports are being relied upon, throughout the development of this proposed action Commission staff has worked directly with Bureau staff in an effort to accommodate their regulatory needs. In addition, Commission staff has performed numerous site visits to observe, first hand, the operation of cages and the security of floor banks. Those site visits were followed by three public workshops,<sup>8</sup> conducted by Commission staff and Commissioners, to solicit information and recommendations from the Bureau, the cardroom industry and other interested parties. The resulting body of information was carefully considered and formed the basis for the development and refinement of these regulations. The proposed regulations represent over 1½ years of negotiations between the Bureau and the cardroom industry. Every effort has been made to accommodate the needs of both without compromising the regulatory purpose.

#### **BUSINESS IMPACT:**

The Commission has made an initial determination that the adoption of these regulations would have no significant statewide adverse economic impact directly affecting business, including the ability of California businesses to compete with businesses in other states.

First, this regulatory proposal only makes clarifying changes in Section 12386 regarding the operation and functions of cages. None of these changes would impose any additional

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<sup>8</sup> Public workshops were held with Commissioners, Commission staff, Bureau staff, cardroom owners and representatives, and other interested parties on October 18, 2012, May 21, 2013 and August 20, 2013. These workshops were preceded by several roundtable discussions beginning in May 2012.

requirements on licensees or require that licensees do anything differently to comply than what they are required to do currently. In fact, in some instances the proposed changes would provide additional flexibility to licensees in determining the manner in which they will comply. Therefore, it was determined that there would be no cost or other adverse economic impact associated with these changes.

Second, this regulatory proposal, in adding Section 12387 regarding the security and use of floor banks, gambling equipment and confidential documents, establishes minimum performance standards that are almost entirely consistent with current industry standards and practices. Based on Commission staff's observations in site visits and information provided by licensees and industry representatives at numerous workshops, the regulation was written to provide for the security of floor banks, gambling equipment and confidential documents in ways that are consistent with how licensees currently operate. The only changes that might be needed would be the possible rekeying of some locks and the acquisition of locking devices (e.g., simple cable locks) for some gambling equipment. These costs could amount to no more than a few hundred dollars for the smaller cardrooms to several thousand dollars for the largest cardrooms. If any other minor adjustments would be required, they would be limited to only a very few licensees. For all of the foregoing reasons, it was determined that there would be no significant cost or other adverse economic impact associated with the adoption of Section 12387.

**SPECIFIC TECHNOLOGIES OR EQUIPMENT:**

These regulations do not mandate the use of specific technologies or equipment.

**ECONOMIC IMPACT ASSESSMENT:**

**IMPACT ON JOBS/NEW BUSINESSES:**

The Commission has determined that this regulatory proposal will not have a significant impact on the creation of new jobs or businesses, the elimination of jobs or existing businesses, or the expansion of businesses in California.

This determination is based on the fact that this regulatory proposal will not impose any significant cost or other adverse economic impact on cardroom licensees, as discussed above under "Business Impact." Furthermore, this regulatory proposal would have no affect on any other business or job.

**BENEFITS OF PROPOSED REGULATION:**

This proposed action would clarify certain provisions of existing regulations affecting the operation and functions of cages and would provide licensees more flexibility in determining how to achieve compliance with certain performance standards. The development of internal policies and procedures for the security of floor banks, gambling equipment and confidential would assist licensees in protecting their assets and the integrity of their gambling operations. This would also help to ensure that the public health, safety and general welfare is protected and



that gambling is conducted honestly and competitively. This proposed action would help to ensure consistency and uniformity, and provide greater transparency.

**CONSIDERATION OF ALTERNATIVES:**

No reasonable alternative to the proposed regulations would be more effective in carrying out the purpose for which the action is proposed, would be as effective and less burdensome to affected private persons than the proposed action, or would be more cost-effective to affected private persons and equally effective in implementing the statutory policy or other provision of law.

Set forth below are the alternatives that were considered and the reasons each alternative was rejected:

Initially, the proposed action focused on the details of the design, construction, location and use of podiums and workstations on the gambling floor. In this alternative the proposal specified how podiums were to be constructed, how openings were to be covered, how podiums were to be located and how a podium was to be secured in place so that it could not be moved. Other standards required strict monitoring of the area surrounding a podium and prohibiting patrons and non-authorized cardroom employees from entering that area.

This alternative was ultimately rejected in favor of much less burdensome, less prescriptive and more performance oriented standards. As a result of the discussions at roundtables and workshops with Commission/Bureau staff and industry members, the focus of this proposal was shifted to its principal purpose; i.e., safeguarding assets, gambling equipment and confidential documents. Therefore, the proposed regulations were reduced to more basic elements for securing and safeguarding assets, equipment and documents, and the more prescriptive detailed requirements for the furniture in which things are kept were largely eliminated.