

**MINIMUM INTERNAL CONTROL STANDARDS (MICS) FOR GAMBLING  
ESTABLISHMENTS – PHASE IV**

**CAGE OPERATION AND FUNCTIONS, AND SECURITY OF FLOOR BANKS, GAMBLING EQUIPMENT  
AND CONFIDENTIAL DOCUMENTS**

CGCC-GCA-2013-04-R

**UPDATED INFORMATION**

The Initial Statement of Reasons, as published on October 18, 2013, is included in the file and is hereby incorporated by reference as if fully set forth herein. The information contained therein is updated as follows:

**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 of Chapter 7, Section 12360 provides definitions for numerous terms that govern the construction of the chapter. 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 proposed action adds 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) is 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) is 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) is 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 includes 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 protected 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) is 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) is 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 subsections (a) through (e) are renumbered accordingly as subsections (f) through (j).

**Section 12386. Cage Operation and Functions.**

In Article 3 of Chapter 7, 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) is amended to clarify that the public does not have access to enter a cage. When a room or area is referred to as being “accessible to the public” it usually means, or at least implies that members of the public may enter the room or area. However, not only are patrons (the public) not allowed inside a cage but a cage is specifically required to be made secure in order to keep them out. Language would be added to clarify that the purpose of a cage is to provide 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 a cage and all cage contents.
2. Paragraph (2) of subsection (a) is 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” is changed to “assigned” throughout this paragraph, and the second sentence is reworded to indicate that the titles, classifications or positions of all cage employees must be listed on the organizational charts.

In addition, the reference to the duties of cage employees is changed to provide that those employees’ duties “may include any or all of” the specific duties enumerated in this paragraph. As currently written, the sentence uses the terms “shall include” and “any or all” in referring to the specified duties. As used in statutes, contracts, regulations, etc., “shall” is generally imperative or mandatory, but “any or all,” suggests permissiveness or discretion and, in the context of this regulation, is inconsistent with the term “shall.” On the other hand, “may” is usually indicative of discretion or choice between two or more alternatives. Substituting “may” for “shall” will correct the inconsistency, improve clarity and eliminate potential confusion.

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

- Subparagraph (A) is amended to refer to the custody of the “cage inventory,” and the references to “individual cage drawer inventory” and “individual cage drawer” are changed to “individual cashiers’ banks” and “cashier’s bank,” respectively. This provides consistency in the use of terms throughout this regulation as well as improved clarity in this subparagraph.
- Subparagraph (B) is amended to refer to the “receipt and “distribution” of gambling chips “through internal operations” for clarity. 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 has been found to be potentially confusing. Therefore, the terms “receipt” and “distribution” are being 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) is added to address the sale and redemption of gambling chips through transactions with patrons, and the subsequent existing subparagraphs are renumbered accordingly.
- Subparagraph (D) [formerly (C)] is amended with the addition of the qualifying phrase, “if applicable” for clarity. Not all cardrooms have or use players’ banks or dealers’ banks. It should be made clear that this duty or responsibility would not apply if those banks are not used or do not exist.
- Subparagraph (G) [formerly (F)] is amended to delete incorrect citations to the Code of Federal Regulations (CFR). This amendment conforms 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” is 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 is 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)] is 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 necessarily 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) is 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 misinterpretation that limiting routine access does not apply to cardrooms in Tiers I, II and III, if they do actually maintain a physically separate cage. This clarification also helps to maintain consistency throughout this regulation since the provisions of subsection (a) are applicable to all tiers.

Further clarification is 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 to a cage for the purpose of performing their assigned duties.

4. Paragraph (4) of subsection (a) is 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 by allowing them to take advantage of modern technology.
5. Paragraph (5) of subsection (a) is 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 is deleted since reconciliations of recordable transactions are already required, making the summarization duplicative and unnecessarily burdensome. The definition of the word "shift" is also deleted as it is unnecessary and not consistent with shift assignments and designations in all cardrooms statewide.

To ensure that reconciliations will continue to be documented in Tier I and Tier II cardrooms, the requirement to document the reconciliation in paragraph (2) of subsection (b) is moved to paragraph (5) of subsection (a) as a new subparagraph (B) and the current text of paragraph (5) becomes subparagraph (A). Subparagraph (B) then requires 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.

Added to the specified information to be included in the cage accountability form is the recording of the amounts assigned or issued from the cage to dealers' banks and floor banks

in use during the applicable shift. There are often amounts assigned to dealer banks and floor banks from the cage bank, and those amounts should be included in the cage accountability form. However, cage shifts and the shifts of dealers and chip runners are not always the same, so cage personnel do not go out on the gaming floor and count down the dealer banks or the floor banks as part of the cage reconciliation. Dealer banks and floor banks are reconciled according to the assigned dealer's or chip runner's shift. For those reasons, it is not possible or practical to include in the cage accountability form an actual count or reconciliation of each dealer bank and floor bank. What the cage accountability form can and should show is what has been assigned to those banks.

In the relocation of paragraph (2) of subsection (b), the accounting referred to therein [subparagraph (C)] is amended for clarity to apply to the cage and cashiers' banks, and *if applicable*, players' banks. In the detail of what is to be included in the accounting, "credits" and "debits" would be deleted and replaced with "all transactions recordable to the general ledger." Also included in the relocation of paragraph (2) of subsection (b), the confusing parenthetical in subparagraph (D) is 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 (Tiers I and II) 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 currently by those cardrooms.

6. A new paragraph (7) is added 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, temporary 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.

7. Paragraph (1) of subsection (b) is 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, paragraph (1) of subsection (a) of Section 12396 provides that "cage

and cashier activities” shall be subject to recorded video surveillance in all tiers. Thus, the two provisions are in conflict with each other. This conflict creates consistency and clarity issues which are resolved by deleting paragraph (1) of subsection (b).

8. With the deletion of paragraph (1) and the relocation of paragraph (2), the remaining paragraph (3) becomes the whole of subsection (b). Subsection (b) is 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, if ever, have the additional employees necessary to comply with this requirement.
9. Paragraph (1) of subsection (c) is amended to better describe the design 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) is added to provide that cage windows must be secure and designed to prevent entry into, or theft from, the cage. These changes add clarity to and make explicit the original intent of this provision which was, and continues to be, that a cage in a Tier IV or Tier V cardroom be operated out of a separate secure, enclosed room.
10. Paragraph (2) of subsection (c) is amended to clarify that these provisions are in addition to the information required to be included in the cage accountability form referenced in paragraph (5) of subsection (a), and the reference to beginning and ending balances is deleted as that specification is unnecessary.

Subparagraph (C) of paragraph (2) is also 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 is not 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” (floor banks) are 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. As previously discussed, there are often amounts assigned to dealer banks and floor banks from the cage bank, and those amounts should be included in the cage accountability form. However, cage shifts and the shifts of dealers and chip runners are not always the same, so cage personnel do not go out on the gaming floor and count down the dealer banks or the floor banks as part of the cage reconciliation. Dealer banks and floor banks are reconciled according to the assigned dealer’s or chip runner’s shift. For those reasons, it is not possible or practical to include in the cage accountability form an actual count or reconciliation of each dealer bank and floor

bank. What the cage accountability form can and should show is what has been assigned to those banks.

11. 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 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” would be 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 as changes occur and includes both names and job classifications of employees.
12. 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 of Chapter 7, 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. Paragraph (1) of subsection (a) 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. Paragraph (2) of subsection (a) 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, those

receptacles may have a key, combination or access code in common with each other when: (1) a single gambling enterprise employee requires access to multiple receptacles in the performance of his or her duties; (2) that access is exclusive to that employee during his or her shift; and (3) the receptacles all contain a floor bank. Managers and supervisors would also be permitted to have a duplicate or master key for the receptacles used by the employees they supervise.

3. Paragraph (3) of subsection (a) 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: (1) the contents of any drawer when open, to the extent reasonably possible; and (2) 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. Paragraph (4) of subsection (a) 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 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. Paragraph (5) of subsection (a) 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. Paragraph (6) of subsection (a) would require the licensee to establish the maximum imprest amount that may be assigned to each floor bank and would limit the imprest amount that may be assigned to a floor bank in a mobile cabinet to \$30,000. 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. This is an important part of protecting assets and limiting the exposure to monetary losses. This is particularly important with respect to floor banks kept in mobile cabinets due to the increased vulnerability created by their mobility.
7. Paragraph (7) of subsection (a) 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 during 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 area 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. These limitations are an important part of protecting assets and limiting the exposure to monetary losses. This is particularly important with respect to floor banks kept in mobile cabinets due to the increased vulnerability created by their mobility.

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. Subparagraph (A) of paragraph (1) of subsection (b) would require that gambling equipment that is not actively being used be secured in a locked receptacle, drawer or compartment when kept, held or stored in any public area of the gambling establishment. 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 subparagraph does not apply to any gambling equipment that is too large to be placed in a receptacle, drawer or compartment when not in use (e.g., gambling tables and card shuffling machines).
2. Subparagraph (B) of paragraph (1) of subsection (b) 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.
3. Paragraph (2) of subsection (b) 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.

4. Paragraph (3) of subsection (b) 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.
5. Paragraph (4) of subsection (b) would prohibit gambling equipment or confidential documents from being commingled with or kept in the same drawer or compartment as a floor 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.
6. Paragraph (5) of subsection (b) 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. When a licensee utilizes a cabinet for financial transactions, holding assets, storing confidential documentation or gambling equipment, and other purposes, the over-arching concerns are segregation of functions and controlled access. This provision addresses those concerns by explicitly prohibiting the sharing of cabinets between a licensee and a TPPPS company.

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, it is estimated that this could provide licensees a minimum of 7 months, to as much as 10 months, in which to comply.