

DESCRIPTION OF PROPOSED REGULATIONS

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

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

BACKGROUND:

As part of the development of the Phase IV MICS regulations, Commission staff visited 12 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 visits included cardrooms in the Bay Area, Sacramento area, the Delta, and Southern California. The breakdown by tier is as follows:

Tier	Cardrooms Visited¹
I	2
II	2
III	2
IV	4
V	2

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 the cardroom 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 window²) typically uses a podium as a satellite cage.
 - 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

¹ This was a purely random selection of cardrooms and no selection criteria were employed, other than ensuring that all tiers were represented. The cardrooms selected were not intended to be a statistically valid sampling and the gathering of information was not performed for any statistical purpose.

² 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.

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.
- Both 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 the 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.

Podiums:

- The primary features associated with the use of podiums include the following:
 - **Controlled access to the contents.** Each drawer or compartment is only accessible to a single designated individual during a shift. This may be a chip runner a floor manager or other 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 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 sufficiently heavy 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” 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 are 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 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.

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 a controlled inventory (e.g., playing cards, dice, dice cups, card shufflers, 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.

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, with the possible exception of sharing of podiums with a TPPPS company in Tier I and II cardrooms.

PROPOSED ACTION:

Initially, the proposed regulations focused on the design, construction, location and use of podiums and workstations on the gambling floor. As a result of the discussions at prior roundtables with Commission/Bureau staff and industry members, the focus of this proposal has been shifted to its principal purpose; i.e., safeguarding assets, gambling equipment and confidential documents. Therefore, the proposed regulations have been 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 have been largely eliminated.

This proposed action will make changes within Articles 1 and 3, Chapter 7, Division 18, Title 4 of the California Code of Regulations. The proposed changes are as follows:

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, and which includes cashier banks.
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. A cashier’s bank is part of and accountable to the cage bank.
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. 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.

2. Numerous conforming, editorial, grammatical and nonsubstantive 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.
3. Other editorial, grammatical and clarifying changes are also included, as follows:

- Language would be added to paragraph (1) of subsection (a) to clarify that security and accountability is to be provided 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 kept in a cage, their protection is just as important as the protection of funds (banks).
- Language would be added to paragraphs (2) through (6) of subsection (a) for clarification and to provide consistency with provisions of the proposed adoption of Section 12387. In addition:
 - The references to transactions occurring "through the cage" would be changed to "at a cage" to be more accurate and grammatically correct.
 - In paragraph (2), 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.
 - Language would be added in paragraph (4) to allow a log to be maintained either in writing or electronically.
 - Paragraph (5) would be changed 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" would also be deleted as it is unnecessary and not consistent with shift assignments and designations in cardrooms statewide.
- 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.
- Language would be added to the two remaining paragraphs of subsection (b) for clarification and to provide consistency with provisions of the proposed adoption of Section 12387. In addition:
 - In paragraph (2) [renumbered (1)], the accounting referred to in 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), 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.
 - Paragraph (3) [renumbered (2)] would be changed to clarify that it is the cage and cashiers' banks reconciliations, not all cage "activity" reconciliations, that are to be posted to the general ledger.

- Language would be added throughout subsection (c) for clarification and to provide consistency with provisions of the proposed adoption of Section 12387. In addition:
 - Language would be added to paragraph (1) 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.
- Paragraph (2) would be modified to apply to all banks and the reference to beginning and ending balances would be deleted as unnecessary.
- Language would be added to paragraph (3) of subsection (c) to clarify that the specified list may be maintained either in writing or electronically, and that the list must be updated each time a designation is added or deleted.
- Clarifying language would also be added to subsection (d).

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 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 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 reconciled as part of a cardroom bank reconciliation and be itemized in that reconciliation.
6. Subsection (a), paragraph (6) would require the licensee to establishment 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.
9. 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 designated gambling enterprise employee. This paragraph would specifically limit the redemption of chips from a floor bank to a maximum amount of \$500, but would prohibit any redemption 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 in 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

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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.