

CONTROLS ON CASINO TRANSACTION KIOSKS AT GREAT MOUNTAIN CASINO: A CASE STUDY

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ABSTRACT

The controller at Great Mountain Casino is faced with the task of designing a basic set of internal controls for two Casino Transaction Kiosks (CTKs) before they will be turned on, loaded, and activated. Fortunately, he has experience setting up the new internal controls for the rest of the floor operation and has numerous in-house applications to draw from, such as the control set for slot and video poker machines, but there is no exact precedent to follow when it comes to these new CTKs. Not only did they not come with a suggested set of internal controls, they are not regulated under federal or state law. Regardless, he has just two weeks to at least get the most important internal controls installed in order to reduce his risk level as much as possible. After some initial considerations regarding the task before him, he realizes that he needs a good dose of creative innovation, and he needs it fast.

GREAT MOUNTAIN CASINO

The technicians are just putting the finishing touches on the two Casino Transaction Kiosks (CTKs) that are being installed next to the cashier cage. Michael Johnson, the controller at Great Mountain Casino, recalls how differently the gaming business operated thirty years ago, before so much automation. Sure, there had always been plenty of regulations on gaming policies and procedures, but the rules keep changing as manual duties were replaced by machines. Johnson is very proud of the fact that Great Mountain scored so highly on their last compliance audit. The internal controls at Great Mountain are pretty tight and he has the record to prove it.

These new CTKs, however, are Great Mountain's most recent automated addition and, although the machines are now installed, he has no internal controls in place for them. He knew, when he ordered the machines, that internal controls would be needed. But, he thought he would have more time to install the controls. That was before the decision was made by the Board of Directors, with the intent to further upgrade Great Mountain's already exemplary reputation for customer service, to move the time frame for activating the CTKs to just two weeks. Therefore, Johnson needs to design, install, and document a basic set of internal controls for these two CTKs before they can be turned on, loaded, and activated in just two weeks.

Fortunately, he has plenty of experience after setting up the new internal controls for the entire floor operation when he joined Great Mountain five years ago. He knows the internal control principles and has numerous in-house applications to draw from, such as the control set for slot and video poker machines, but there is no exact precedent to follow when it comes to these new CTKs. Not only did they not come with a suggested set of internal controls, they are not regulated under federal or state law. Regardless, he has just two weeks to at least get the most important internal controls installed in order to reduce his risk level as much as possible. Given the short time frame, it may be smart to draw parallels between the accounting controls applied to slot machines and their service agents, and those that should be applied to casino transaction kiosks.

BACKGROUND

Great Mountain Casino is located on 49 acres of former pasture land in California, 50 miles northeast of Sacramento. In 2003, the federally recognized Indian Tribe officially opened the 75,000 square foot casino which now includes 2,700 state-of-the-art slot and video poker machines and more than 100 games where guests can play Blackjack, Pai Gow Poker, Baccarat, Mini-Baccarat, Texas Hold 'Em, Caribbean Stud Poker and Let it Ride. Pai Gow Poker (also called double-hand poker) is played with a standard 52-card deck and a joker that serves as a wild card in straights, flushes and straight flushes. Baccarat is a card game wherein the aim is to make a total as close as possible to 9, discounting all cards higher than ten or making totals above ten. Mini-Baccarat is a simplified version of Baccarat played with fewer players and dealers. Texas Hold 'Em is one of the most popular poker games in the casinos and poker card rooms across North America and Europe. It is a variant of poker in which players receive two cards each, and five other cards are shared between them. Caribbean Stud Poker is a casino table game with rules similar to Five Card Stud poker. However, unlike standard poker games, Caribbean Stud is played against the house rather than against other players (and, like most such games, it cannot be beaten in the long run). There is no bluffing or other deception. Let it Ride is a casino variation of poker, played against the casino rather than against the other players. The game's relatively slow pace and the chance to pull back two of the three bets has made the game popular with older players and table game neophytes.

Four restaurants and five bars, all of very high quality, contribute to the tribe's goal of producing a world-class, Las Vegas-level casino. One of the more recent features added to Great Mountain Casino is the automated transaction kiosk with its ticket-in, ticket-out technology. These kiosks allow casino guests to redeem their tickets for cash. For security purposes, paper tickets are used to represent cash, which is kept within a locked cage. Customers may also win points and use them to print a comp (complimentary) ticket for use at any of the property's restaurants. Although

the kiosks do not replace the human service agents, they do free the service agents to interact with and serve the guests in ways other than ticket redemption and point conversion.

GAMING INDUSTRY REGULATIONS

The gaming industry, which deals with very large sums of cash, is highly regulated. As the industry has become more complex and competitive, new standards have been established, such as Title 31 in the Code of Federal Regulations which sets anti-money laundering regulations, and Title 25 which sets Minimum Internal Control Standards (MICS). Great Mountain Casino assigns one supervisor and three internal auditors to ensure compliance with Title 31 and is subject to regular audits by the National Indian Gaming Commission (NIGC) and the US Department of Treasury. Title 31, otherwise known as the Bank Secrecy Act (BSA), is administrated by the Financial Crimes Enforcement Network (FinCEN) and enforced by the IRS as part of the Department of Treasury. BSA is charged with detecting or preventing money laundering, which is using funds from illegal sources in a way that makes them look legitimate. Based on this charge, BSA requires Indian casinos with revenues greater than \$1 million to have the following:

1. An Anti-Money Laundering Program (AML) must be present in the operation. The AML needs to be designed to record all cash in and cash out transactions of \$10,000.01 and greater in a day, and to report on a currency transaction report (CTR), which must be filed within 15 days of the transaction with FinCEN.
2. Independent testing (performed at least annually) for compliance with the AML throughout the operation.
3. Designation of a Title 31 compliance officer who is a senior official with the authority to make and enforce policies.
4. Adequate training for the appropriate personnel in the operation. This includes cashiers and tellers, slot attendants, surveillance employees, the bingo staff, and any other employees that could possibly handle currency transactions.

GREAT MOUNTAIN'S CULTURE OF STRICT REGULATORY COMPLIANCE

Great Mountain's management team consists of a casino controller, a financial controller, a director of cage operations, a director of slots, a director of table games, a vice president of table games, a player development director, a marketing director, a general manager, an assistant director of finance/compliance, and a director of finance. All eleven members of the team have strong gaming management experience in the regulated environment of Las Vegas. Therefore, they take their obligation to comply with Title 31 very seriously. In fact, when a U.S. District Court decision (The CRIT decision – Colorado River Indian Tribes v. National Indian Gaming Commission) made Title 25 audits technically optional, Great Mountain signed an agreement that gave NIGC oversight on Title 25 MICS compliance audits in order to improve their business practices. In its most recent audit, Great Mountain had very few findings over a three-year audit period; these ranged from missing signatures on regulatory documents to inventories of serial numbered documents not being completed in a timely manner. After Great Mountain's follow-up response to these findings, the final audit report had only ten findings, a remarkably low number and a source of great pride to the management team.

Having built up such a strong compliance culture, the Great Mountain Casino management team sees the need to assess the risk of the new kiosks and manage that risk through appropriate internal controls. Despite the heavy scrutiny of Title 31 and Title 25 on nearly all areas of Great Mountain Casino's operations, there is one area that, as yet, has no regulation: the automated transaction kiosks. Since a body of regulations for these machines does not presently exist, the risks to be assessed and managed are more operational and financial than legal. Before designing a set of internal controls for the new kiosks, Johnson decides to review the accounting controls that are already in place for the other related operations on the floor, such as the slot machines and the service agents. A brief review of these two areas follows:

Accounting Controls

Accounting controls are the back of house controls. The casino, or house, controls the probabilities of winning, and accounting controls are used primarily to control the kiosk, ensuring that the correct amounts of cash are distributed to redeem winning tickets. Accounting controls utilize information from the kiosk system, the count information from the contents of cassettes and bill validators (mechanical device that verifies a bill's authenticity), the banking information from the electronic journal, and other information from the operational department that puts full cassettes (currency containers) into the kiosks. All this information must be used to control the machine. Once a tolerance level for variances is established, anything beyond that level requires investigation as potential fraud.

Casino Kiosks

Johnson is expecting the new CTKs to reduce payroll costs for service agents, speed up payment of tickets, and make it more convenient for customers to get cash (providing the same functions as an ATM). Before assessing the risks associated with these CTKs and designing a set of controls to mitigate those risks, he takes a mental inventory of what he knows about them so far.

The Need

Casinos traditionally have slot service agents who pay jackpots (any taxable jackpot), fix slot machine issues (bill jams, reel tilts), handle short payouts (where the machine doesn't have enough money to pay out, or something goes wrong with the cash out at the machine), and break bills for customers. Even with CTKs, casinos continue to use slot service agents. However, with competition between casinos getting fiercer, they have shifted their focus to providing more customer service. For example, instead of spending time breaking bills, more customer-oriented slot service agents might assist guests by explaining games and jackpot payouts to guests who have questions.

The Function of Casino Transaction Kiosks

Based on this need, gaming device manufacturers began making machines that pay out with a ticket rather than coins or attendants (for nontaxable payouts). This ticket could then be cashed by either slot service agents or by attendants at the main cage. Some manufacturers saw this as an opportunity to develop kiosks that would cash the tickets for the patrons. There are different types of kiosks that can include one or more of the following: bill breaking capability, ticket cash out capability, ATM withdrawal, and credit card advances. How much money is kept in these kiosk

machines (impress amount) depends on what functionality the kiosk performs. For example, more money is needed in a CTK if it also functions as an ATM, but a smaller amount is required if it only functions to break large bills or cash tickets.

The Procedures

In its function as an ATM, the CTK gets loaded with cassettes full of bills, and a hopper full of coins. Coins will be an immaterial amount to the total machine impress. As customers perform transactions at the machine, the cassettes are depleted. Money, tickets, debit cards and credit cards go into the machine, and cash comes out. Money and tickets will go into a bill validator and are held there until it is removed and taken to a designated room for counting. Debit and credit card transactions are captured on an electronic journal from the banking entity that performs those transactions.

INTERNAL CONTROLS PRIOR TO THE KIOSKS

Operational controls vary greatly from casino to casino. These differences are usually driven by management philosophy, business needs, and staffing levels. Simply speaking, however, three types of controls are utilized:

Key controls are physical keys that unlock secure areas that protect the casino's assets. Segregation of duties regarding the physical handling and recording of casino assets (particularly cash) are called **money controls**. **Drop controls** are the control procedures surrounding the removal of drop boxes and the subsequent count of the box contents. Drop boxes are self-locking boxes secured to a game table into which the dealer places all incoming funds (e.g., outside checks [chips from other casinos], cash, fill slips). Fill slips are formal requests by a floor supervisor to authorize the cage cashier to perform a fill for the distribution of chips or coin to gambling tables.

Given the expediency that the Board of Directors abruptly require of him, Johnson will clear his schedule for the next several days. He knows he will have to devote his full attention, with a healthy dose of creative innovation, to this project. To get these kiosks activated in the next two weeks, he must work efficiently and think fast.

COSO RISK ASSESSMENT AND RISK RESPONSES

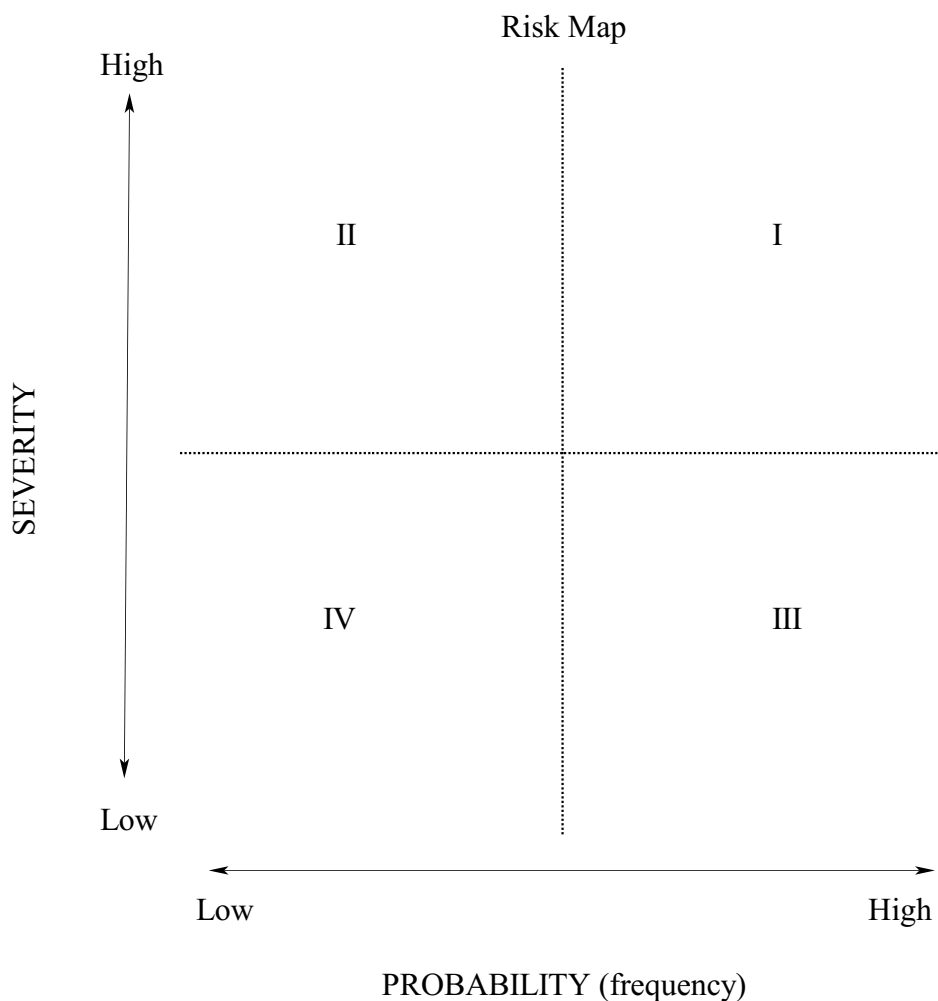
In 1992, the Committee of Sponsoring Organizations (COSO) issued a document titled "Internal Control—Integrated Framework." COSO defined internal control and broke it down into five components, including risk assessment. In 2004, COSO issued a second document titled "Enterprise Risk Management—An Integrated Framework. In this later document, COSO broke Risk Assessment into two categories: Risk Assessment and Risk Response. Much has been written about Enterprise Risk Management (ERM) (e.g., Moeller, 2007; Miccolis, Hively, and Merkley, 2001). Most enterprises realize that they cannot eliminate all risk, but attempt to minimize the risks that are most likely and most severe. This is usually done in three stages: (1) brainstorming to list all possible risks, (2) placing those risks on a risk map according to probability and severity, and (3) taking steps to mitigate the most significant risks. The purpose of this case is to give students the opportunity to go through these three steps for a casino that is automating part of its operations.

The first stage is brainstorming. In this stage, all possible risks should be listed regardless of their consequence or their likelihood. No member of the group should attempt to stifle any other member of the group. The goal is to recognize the many possible risks faced by the enterprise. Since all members of an audit team are to participate in a brainstorming session before working on an audit (SAS 99 Paragraph 14), this case will provide valuable experience for the auditing students.

In the second stage, the relative significance of each risk should be assessed by placing each risk on a risk map like that below. The risks put into Quadrant I are the most dangerous to the enterprise while the risks in Quadrant IV are the least dangerous.

In the third stage, participants are to suggest steps that can be taken to mitigate the risks that have been identified. Some risks might be avoided, others may be shared (by purchasing insurance), and some may be accepted as a cost of doing business. The amount of effort made to mitigate each risk will vary according to its severity and probability.

In small groups or teams, go through these three stages to answer the following questions for the Great Mountain Casino case.



Questions

1. What risks does the casino face as a result of using the kiosks?
2. How serious and likely are the risks?
3. What steps can the casino take to mitigate the risks?

TEACHING NOTES

Teaching notes and course survey are available from the editor. Send a request from the “For Contributors” page of the journal website, <http://gpae.bryant.edu>.