

1994

## Audits of casinos with conforming changes as of May 1, 1994; Audit and accounting guide:

American Institute of Certified Public Accountants. Gaming Industry Special Committee

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**AICPA**

**Audit  
and  
Accounting  
Guide**

**AUDITS of  
CASINOS**

*With Conforming Changes as of May 1, 1994*

**AICPA**

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and  
Accounting  
Guide**

**'AUDITS of  
CASINOS**

***With Conforming Changes as of May 1, 1994***

This edition of the audit and accounting guide *Audits of Casinos*, which was originally issued in 1984, has been modified by the AICPA staff to include certain changes necessary due to the issuance of authoritative pronouncements since the guide was originally issued. The changes made are identified in a schedule in Appendix E of the guide. The changes do *not* include all those that might be considered necessary if the guide were subjected to a comprehensive review and revision.

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## NOTICE TO READERS

This audit and accounting guide presents recommendations of the AICPA Gaming Industry Special Committee on the application of generally accepted auditing standards to audits of financial statements of casinos. This guide also presents the committee's recommendations on and descriptions of financial accounting and reporting principles and practices for casinos. The AICPA Accounting Standards Executive Committee and members of the AICPA Auditing Standards Board have found this guide to be consistent with existing standards and principles covered by Rules 202 and 203 of the AICPA Code of Professional Conduct. AICPA members should be prepared to justify departures from this guide.

### Gaming Industry Special Committee (1984)

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## Preface

This audit and accounting guide has been prepared to assist the independent auditor in auditing and reporting on financial statements of casinos by describing those conditions or procedures unique to the industry and by illustrating the form and content of casino financial statements and related disclosures.

Casino gambling is legal in two states and legalization is under consideration in others. Many casinos are "going public" or have been acquired by public companies. The expansion of corporate ownership of casinos and the increased activity of state regulatory authorities are bringing about many changes in the operation of casinos, including increased awareness of effective controls.

Although many casinos operate as hotel-casinos, and, accordingly, their financial statements reflect such combined operations, the discussion in this guide pertains only to the casino operations. This guide does not address forms of legalized gambling other than casinos. During the period that this guide was developed, legalized casino gambling was conducted in Nevada and New Jersey, and the text was prepared based primarily on the operating practices in those states. Independent auditors should be alert for new or differing practices in other jurisdictions, including Puerto Rico and, when applicable, those outside the United States.

While generally accepted accounting principles and generally accepted auditing standards as they pertain to casinos are the same as those applicable to business entities in general, this guide is directed to those matters considered particularly pertinent or unique to the casino industry.

Many terms in this guide are unique to the casino industry. Those terms defined in appendix D, "Glossary," are in italics the first time they appear in the guide.

### Effective Date

The provisions of this guide shall be effective for audits of financial statements for periods ending on or after December 31, 1984.

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## Chapter 1

### ***Description of the Industry***

#### **History**

1.01 Gambling has existed in every society, from the most primitive to the most complex. Gambling as we know it today has its roots in sixteenth-century Europe, when many games of chance that were forerunners of games now played in casinos throughout the world were developed. English colonists brought gambling to the New World in the seventeenth century. Gambling was severely restricted in Puritan New England; however, in New York and the southern colonies attitudes toward gambling were more lenient.

1.02 The modern era began in 1931 in Nevada, when the so-called wide-open gambling bill was passed. The passage of the bill was precipitated by (a) dissatisfaction with widespread illegal gambling, (b) the influence of the mining camp heritage, and (c) hopes for general enhancement of business within the state, which was suffering severely during the Depression.

1.03 Most of the nation felt that Nevada's experiment was doomed to failure, and, in fact, growth was slow during the initial ten years. The first major breakthrough occurred in 1937 with the opening of Harolds Club in Reno.

1.04 A turning point in Nevada's gaming history came in late 1946, when the Flamingo Hotel opened outside the Las Vegas city limits. The Flamingo's financial success prompted the development of several new hotel-casinos. Initially the casinos in Reno and Las Vegas catered mostly to local residents. However, with the introduction of the larger casinos, gambling became big business.

1.05 In 1950 a Senate committee conducted a study of Nevada casinos. As a result of its report, Nevada and the federal government expanded their control efforts. In 1959 the Nevada Gaming Commission was created as the state's authority in licensing and disciplinary matters, and the Gaming Control Board was established as the active operating regulatory authority over the daily activities of casinos.

1.06 Starting in the 1960s large corporations, some publicly held, became owners and operators of gambling properties.

1.07 In 1976 New Jersey voters passed a referendum allowing casino gambling in Atlantic City. It was hoped that casino gambling would contribute to the redevelopment of Atlantic City.

1.08 Other states are currently considering legalizing casino gambling. Most already have at least one other form of legalized gambling. These include on-track and off-track betting on horse racing, on-track betting on dog racing, state lotteries, and jai alai. Casino gambling is legal in many areas of the world. Some of the casinos in other parts of the world are owned by publicly held companies based in the United States.

#### **Regulatory Environment—Licensing and Taxation**

1.09 The ownership and operation of gaming facilities in the United States are subject to a number of state or other local laws, regulations, and ordinances concerning the responsibility, financial stability, and character of casino operators and persons financially interested or involved in casino operations.

1.10 Casinos are licensed by state or other local gaming authorities. The licenses are not transferable and must be renewed periodically. The licensing authorities have broad discretion in granting and renewing licenses.

1.11 Officers, directors, and certain key employees of a casino must be licensed by the gaming authorities, and employees associated with gaming must obtain licenses or work permits. The gaming authorities have the power to require the casino to (a) suspend or dismiss officers, directors, or other key employees or (b) sever relationships with other persons who refuse to file appropriate applications or whom the authorities find unsuitable to act in such capacities. Certain jurisdictions require all employees of the casino and companies that service the casino industry to be licensed.

1.12 If it is determined that gaming laws have been violated, a casino's gaming license can be limited, conditioned, suspended, or revoked, and the casino and persons involved may be subject to fines at the discretion of the applicable licensing authorities.

1.13 No person may acquire control of a casino (whether by ownership of securities, agreement, or otherwise) without the prior approval of the gaming authorities. The authorities may require controlling stockholders, officers, directors, and other persons having a substantial relationship or involvement with the casino to be found suitable for that relationship or involvement or to be licensed. The gaming authorities have the power to investigate any principal security holder.

1.14 To be licensed, the casinos give up certain management rights and are subject to requirements that do not apply to business entities in general. For example, some jurisdictions legislate detailed provisions concerning (a) employment practices of casino operators, contractors for casino facilities, and others; (b) security standards, management control procedures, accounting and cash control methods, and reports to gaming authorities; (c) advertising, standards for entertainment, and distribution of alcoholic beverages; and (d) the purchase of gaming equipment.

1.15 For the operating methods that the casinos will use, some jurisdictions prescribe (a) the rules of the games, including minimum and maximum wagers and the manner of selling and redeeming chips and (b) the manner of granting credit, the duration of credit, and the enforceability of gaming debts.

1.16 Casino operators are generally required to file with regulatory agencies reports describing, in narrative and diagrammatic form, detailed operating procedures for gaming and gaming-related activities. An accounting system and system of internal control<sup>1</sup> must be established before a casino's operations begin. The systems and any significant revisions to them are evaluated and reported on by an independent auditor and are subject to review by the regulatory agencies.

1.17 Casinos are generally charged a fee or tax, based on a percent of gross gaming revenue, by the state in which they operate. In some jurisdictions the establishment is granted a gaming license only after it remits a monthly fee that is collected three months in advance. A jurisdiction may also require a casino to pay a deposit to ensure that the locality receives the tax revenue even if the casino ceases to operate.

1.18 In addition to the gross revenue fee or tax, certain jurisdictions also impose numerous license fees on table games and coin-operated devices. County and city license fees are also common. The license fees are generally prepaid.

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<sup>1</sup> In some jurisdictions this is referred to as a *system of accounting and internal control*.

1.19 A wagering tax is levied by the federal government on *race and sports book* operators. This tax is based on a percent of the amount wagered by customers. The tax may be passed on to the customer by either increasing the amount the customer pays for a bet or deducting the amount from the customer's winnings. In addition, each race and sports book writer must pay an annual license fee.

1.20 In addition to the aforementioned fees and taxes, the operating costs of casino regulatory and investigatory agencies may be passed on to casinos in the form of fees.

## Brief Descriptions of the Games

1.21 The jurisdiction in which the casino is located determines the types of games of chance that the casino may operate. A brief description of the games most likely to be found in a casino follows. More detailed descriptions of some of these games are included in appendix C, "Rules of the Games."

### Table Games

1.22 As would be expected, table games are simply those that are played at a table and involve one or more players usually wagering against the casino bankroll. The table may include a *layout*—a diagram, usually on felt, with spaces for the bets to be placed. The house is represented by *dealers*, which is a general term that may include *stickpersons*, *boxpersons*, and *croupiers*. The most common table games are—

- *Craps*, a game in which two dice are thrown and various bets are accepted on the outcome.
- *Blackjack*, or *Twenty-One*, a card game in which the object is to draw cards whose total is higher than the dealer's total without going over 21.
- *Roulette*, a game in which a ball is spun on a rotating wheel and drops into a numbered slot on the wheel. Bets are placed on which slot the ball will come to rest in.
- *Wheel of Fortune*, or *Big Six*, a game in which players bet on which number a large spinning wheel will stop at.
- *Baccarat*, a card game in which two hands, a player's hand and a banker's hand, are dealt. Wagers are made on which hand will be higher without exceeding 9.

### Card Games

1.23 Card games such as *poker* and *panguingui* (*pan*) differ from table games in that the customers wager against each other rather than against the house. The revenue derived by the casino is merely a percentage *rake-off* or a *time buy-in*—a commission charged by the house for the privilege of playing in the establishment.

### Slots and Other Coin-Operated Gaming Devices

1.24 Slots and other *coin-operated gaming devices* are machines in which the player generally deposits one or more coins for a chance to win a jackpot or other *payoff*. Payoffs may be based on the alignment of like symbols appearing on three or more narrow cylindrical drums, called reels, but there are many variations. These devices may also be machines that simulate other games, such as poker or blackjack, on a video screen.

## Keno

1.25 A keno ticket has the numbers 1 through 80 on it. These numbers correspond to eighty numbered Ping-Pong-like balls contained in a special holding unit. Generally, twenty balls are then drawn randomly, and winning wagers are determined by how many numbers on the customer's ticket match those drawn.

## Bingo

1.26 A *bingo* ticket has five rows of five numbers each. As numbers are selected at random by the casino, the players cover any corresponding numbers on their cards. The first customer to cover a specified row or design is the winner.

## Race and Sports Book

1.27 Race and sports book is an operation in which the player places a bet on the outcome of a horse race or other sporting event.

# Overview of Transactions in the Casino and the Casino Cage

## Overview of Table Game Transactions

1.28 A simple illustration of a transaction cycle in a casino operation starts with the *casino cage* containing a specified amount of cash and a specified amount of *chips*<sup>2</sup> (*the house bankroll*). For a gaming table to have chips with which to operate, the chips are transferred from the casino cage, and a *fill slip* is prepared to record the transfer of the chips from the casino cage to the gaming table. A copy of the fill slip is deposited in the locked *drop box* attached to the gaming table. A player at a gaming table will generally be playing with chips acquired either in exchange for cash or on credit. If he is playing for cash, the cash is immediately placed in the drop box.

1.29 If the customer is playing on credit, he signs a credit instrument, in exchange for which he receives chips. A portion of this instrument form is ordinarily deposited in the drop box. The remaining portion of the instrument is ultimately transferred to the casino cage, where a *credit slip* is issued to the table issuing the instrument, thus placing the credit instrument in the custody of the casino cage and establishing *accountability* in the cage. Upon completion of play, the customer may take whatever chips he has remaining to the casino cage and use them to repay the credit and exchange any remaining chips for cash. (In certain jurisdictions, the procedures may be different; for example, credit instruments may be repaid at the table.)

1.30 At the change of a shift or the closing of a table, the gaming table returns all its chips to the cage, and the cage issues a credit for the amount of chips it received from the table. When the contents of the drop box are counted, the amount of *win* or loss is determined by totaling the amount of cash, the credit instruments issued, and the credit received for chips returned to the cage and by deducting the *fills* received from the cage. This net figure reflects the table win or loss. In most cases, however, the gaming table does not return all its chips to the cage. Instead, it maintains a *table inventory* of chips (which may be recorded on *openers* and *closers*), and thus, the increase or decrease in the table inventory during a shift also enters into the determination of table win or loss.

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<sup>2</sup> Gaming tables often have *tokens* and *plaques* in addition to chips. For simplicity, the term *chips* as used in this guide also includes tokens and plaques.

1.31 The following list summarizes the types of transactions at gaming tables that affect the inventory of chips:

- A transfer from the casino cage to a gaming table (documented by a fill slip)
- A transfer to the casino cage from a gaming table (documented by a credit slip)
- A transfer (sale) of chips to a customer from the table inventory in exchange for either currency or a credit instrument
- Gaming transactions which result in either an increase or decrease in the table inventory, depending on whether the casino wins or loses the bets placed

1.32 All the above transactions, except gaming transactions, are either recorded on a document (fill slip, credit slip, or credit instrument) or are exchanges (currency for chips).

1.33 *Win or loss* is the change in the casino's net assets as a result of gaming transactions. The win or loss can be determined for each table in each shift as shown in the following illustration:

Cash in the drop box		\$6,000
Credit issued and outstanding		3,000
		9,000
Less: Beginning table inventory	\$14,000	
Chip transfers		
Fills	5,000	
Credits	(1,000)	
		18,000
Ending table inventory	(11,000)	7,000
Win		\$2,000

1.34 The computation of the win or loss amounts, by table, for each shift, is made on the *master game report*, or *stiff sheet*. These results are summarized by game into shift totals and daily totals.

### Overview of the Slot Machine Cycle

1.35 An operating cycle for the *slot machine* starts with the *hopper* of a machine being loaded with a predetermined amount of coins of the required denomination (*hopper load*), which may be segregated in the casino cage accountability. The initial or subsequent hopper loads, or *slot fills*, are obtained from a *slot booth*, the casino cage, or the vault, depending on the individual operation. A fill slip or other numerically controlled form of documentation is prepared to record the transfer of coins.

1.36 As the slot machine is played, the hopper fills up with coins inserted by the customers and the coins overflow into the *drop bucket*. Machine payoffs to the customers will decrease the hopper and will occasionally require a slot fill.

1.37 When a customer hits a jackpot other than those paid automatically by the machine, the jackpot is paid by the *change person* from his change bank, the slot booth cashier, or the casino cage, concurrent with the completion of a numerically controlled *jackpot payout slip*. The payout of jackpots over a specified amount, as determined by the casino management, requires supervisor approval.

1.38 The drop buckets, which are secured in cabinets beneath the machines, are periodically removed and the coins are collected. Each machine's coins are counted or weighed to determine the slot *drop*, which is then recorded. This procedure is called the *hard count*.

1.39 Normally the *meters* on the machines are read in conjunction with the collection of the drop buckets. Meters may be read visually or electronically, depending on the system in operation. Machines have one or more meters, such as coins-in, handle pulls, drop, coins-out, jackpot, and progressive jackpot. From the meter information, actual *hold percentages* can be computed and compared to the expected or *theoretical hold* percentages for each machine. Recorded drop-meter readings can be compared to the actual drop.

1.40 Win or loss is normally computed by machine, by denomination, and in total. Slot machine win or loss is equal to the drop less the fills and less any hand-paid jackpots.

### **Overview of the Cage and General Ledger Control**

1.41 At the end of each shift the casino cage prepares a reconciliation, or accountability, of cash and cash equivalents in its possession. These may be summarized on a daily basis. This report includes the casino's inventory of currency, coins, credit instruments, and gaming chips and is reconciled to either an imprest balance maintained by the cage or, as is more often the case, the accountability at the end of the preceding period.

1.42 The change in the inventory levels of cash and cash equivalents is, in part, a function of the gaming transactions. For example, the cash inventory is affected by (a) the cash collected from table drop boxes and slot machine drop buckets and transferred to the cage, (b) payments received for credit instruments, and (c) funds transferred to or from bank accounts. Funds in excess of the anticipated currency and coin requirements for the next day's activity or in excess of the imprest balance maintained by the cage are deposited in bank accounts. The total of the credit instruments under the cage's control fluctuates due to instruments received from gaming tables and payments received at the cage. The amount of chips in the cage accountability changes due to the chips in the customers' possession (*chip float*).

1.43 In addition to cage accountability over cash and cash equivalents in its possession, general ledger control is also maintained. The general ledger control accounts at the period's end should agree with the cage's daily summaries.

## Chapter 2

### ***Accounting and Financial Reporting***

2.01 Most of the accounting and financial reporting practices of the gaming industry are essentially the same as those of other industries. However, some accounting and financial matters are peculiar to the gaming industry and are explained in this guide.

#### **Casino Revenue Recognition**

2.02 Casino revenue is reported on the accrual basis. Revenue recognized and reported by a casino is generally defined as the win from gaming activities, that is, the difference between gaming wins and losses, not the total amount wagered.

#### **Promotional Allowances**

2.03 Promotional allowances (*complimentaries*, or *comps*) represent goods and services, which would be accounted for as revenue if sold, that a casino gives to customers as an inducement to gamble at that establishment. Examples are rooms, food, beverages, entertainment, and parking. The cost of providing promotional allowances is included in costs and expenses.

2.04 The retail amount of promotional allowances is often disclosed in the financial statements. This disclosure, if made, is preferably made in the financial statement notes. However, the retail amount of promotional allowances may be included in gross revenues and offset by deducting it from gross revenues on the face of the income statement. The retail amount of promotional allowances should not be included in gross revenues and charged to operating expenses because that would overstate both revenues and expenses.

#### **Accounts Receivable**

2.05 Many casinos grant credit to their gaming customers. The credit instruments include *markers* or *IOUs*, postdated or *hold checks*, *counter checks*, and returned checks held for deposit or other settlement by the customer. Credit play is accounted for on the accrual basis, with revenues and receivables from customers being recorded. The related casino revenue taxes based on the receivables are also accrued.

#### **Preopening, Licensing, and Major Entertainment Production Costs**

2.06 Some or all costs related to the period before the opening of a casino, licensing costs, and costs of major entertainment productions are either charged to expense as incurred or deferred and amortized. These costs should only be deferred and amortized where it is probable that they will benefit future periods. The costs of major entertainment productions are usually amortized over the period that management believes the productions will run. Other deferred costs should also be amortized over their periods of expected future benefit.

#### **Income Taxes**

2.07 Financial statement reporting for casinos differs from income tax reporting, resulting in deferred income taxes when (a) recognition of casino



receivables is used for financial statements and the “when collected” method is used for income tax reporting, (b) preopening and other costs are deferred for financial statements and are charged to expense for income tax reporting, and (c) progressive slot jackpots are accrued based on meter readings for financial statements and are charged against revenue when paid for income tax reporting.

## Base Jackpots

2.08 *Base jackpots* are charged to revenue ratably over the period of play expected to precede payout; however, if immaterial, they are charged to revenue when established. Any portion of the base jackpot not charged to revenue when the jackpot is paid is charged to revenue at that time.

2.09 Normally, *progressive slot machines* contain base jackpots that increase at a progressive rate based on the number of coins played. (For example, each time a one-dollar coin is played, the amount of the jackpot is increased by five cents.) The accrual of the liability and the reduction of revenue as the amount of the jackpot increases results in recognition of liabilities and matching of costs and revenues.

## Participating Slot Machines

2.10 In some operations, the casino pays a percentage of the win of participating slot machines to slot machine lessors. In those cases the win is usually recorded as revenue, and the participating fee is shown as an expense.

## Accounting for Gaming Chips

2.11 Gaming chips are accounted for from the time the casino receives them even though the casino may not issue them immediately, but, instead, hold them in reserve. When a customer exchanges cash for gaming chips, the casino has a liability as long as those chips are not redeemed or won by the house. That liability is established by determining the difference between the total chips placed in service and the actual inventory of chips in custody or under the control of the casino. The chip liability is adjusted periodically to reflect an estimate of chips that will never be redeemed (for example, chips that have been lost, taken as souvenirs, and so on).

## Customer Deposits

2.12 Customers sometimes deposit funds (*front money*) with a casino in advance, intending to draw on those funds later for gaming. Those deposits are recorded as a liability.

## Race and Sports Book Operations

2.13 Some casinos accept wagers on the outcome of horse races and professional or amateur sporting events. The amount received is recorded as a liability until the final outcome of the event when the payoffs, if any, can be determined.

## Gaming Regulations and Licensing

2.14 Continuity of the company's casino operations is subject to the applicable regulatory agency's granting or continuing the company's license. FASB Statement No. 5, *Accounting for Contingencies*, requires disclosure if unusual circumstances that may jeopardize the casino's license exist.

## Industry Segment Information

2.15 Operations of a company with a casino property that also includes a hotel, restaurant, parking garage, and the like are generally considered as one industry segment. The operating revenues of each are generally separately determinable. However, because of the natural interdependence of such operations, an allocation of costs among them to determine relative contributions to income (operating profit) would be largely arbitrary and, therefore, not meaningful.

## Chapter 3

# Audit Planning

## General Considerations

**3.01** As expressed in SAS No. 22, *Planning and Supervision*, audit planning involves developing an overall strategy for the expected conduct and scope of the audit. The extensiveness of planning varies with the size and complexity of the entity and the auditor's knowledge of the entity's business.

**3.02** The auditor should understand the unique aspects of the gaming industry and should be aware of potential problem areas that may exist in a company engaged in casino operations. For example, experience has shown that a greater possibility of irregularities exists in operations where there are people handling large amounts of cash. Some planning matters identified in SAS No. 22 and the related considerations involved in an audit of a casino are described in this chapter.

**3.03** The auditor should become familiar with regulations and reporting requirements of regulatory authorities, as well as the authorities' involvement in the casino's control environment, before fieldwork starts.

**3.04** The auditor should read recent communications with regulatory agencies. If there are any investigations being made by government enforcement agencies, the auditor should be aware of the stage of any such investigation and management's and counsel's expectations of the outcome. These matters should generally be described by management in its representation letter to the auditor.

**3.05** Regulations require many casinos to have internal audit staffs. In applying SAS No. 65, *The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements*, the auditor should be aware that the work of internal auditors in this industry may differ from that in other industries. A significant portion of the internal auditor's work involves observation of casino activities, and, accordingly, the auditor should consider the difficulties associated with examining documentary evidence of the internal auditor's work.

## Special Considerations

### Timing

**3.06** Tests of controls over cage accountability and casino revenue should normally be performed periodically during the year. Generally, these audit procedures include observations of compliance with controls, such as those relating to the casino cage, count rooms, *pit*, and other casino operating procedures. Specifically, these audit procedures normally include the observation of (a) the collection of drop boxes and drop buckets; (b) cage and count room procedures; (c) fill, credit, and credit instrument procedures; and (d) other casino procedures.

**3.07** The observation of the cash count, the principal substantive test regarding existence of cash, is usually done as of the balance sheet date, but the count may be performed at an earlier or later time in some instances. If the observation is done at an interim date, the auditor should perform substantive tests that are sufficient to provide a reasonable basis to extend the observation-based conclusions to the balance sheet date. The absence of controls that provide assurance about the completeness of the recording of

transactions and the physical movement of assets may impair the effectiveness of those substantive tests (see SAS No. 1, section 310, *Relationship Between the Auditor's Appointment and Planning*, as amended by SAS No. 45, *Omnibus Statement on Auditing Standards—1983*, "Substantive Tests Prior to the Balance Sheet Date").

**3.08** In normal circumstances, when an auditor is appointed to perform an audit close to a company's year-end, although the timing of the observation of inventory is critical, audit work that might normally have been performed on an interim basis may be shifted to year-end. However, when auditing the financial statements of a casino, retroactive satisfaction about compliance with certain controls, particularly those relating to casino revenues, usually cannot be obtained. These controls are those that do not produce a trail of documentary evidence or those that are particularly susceptible to noncompliance and thus result in errors or irregularities. If the auditor is not able to carry out observational tests of compliance during a substantial part of the period covered by his audit, the scope of his audit may be limited and his opinion may be appropriately qualified or disclaimed.

### **Accounts Receivable**

**3.09** The audit procedures for casino receivables require special care by the auditor and cooperation from the client so that customers are not alienated and the scope of the audit is not restricted. Since the response to positive confirmation of transactions and account balances might be low, the auditor should be prepared to use alternative methods of determining the existence and proper valuation of casino receivables.

**3.10** In some jurisdictions regulatory agency auditors also confirm casino receivables, and therefore consideration may be given to coordinating confirmation requests if possible or practical.

### **Staffing**

**3.11** Ideally, the selection of the audit staff is based on such criteria as experience in the industry, knowledge of casino operations, and, if applicable, related hotel and food service knowledge. Training programs and briefing sessions should be considered.

### **Branch Offices**

**3.12** The client may have out-of-town reservation offices and agents that hold cash and original casino receivable documents. The auditor should consider whether such locations need to be visited to perform tests of controls and other substantive procedures relating to cash and for inspection of receivable documents.

### **Other**

**3.13** The auditor should be aware of the casino's promotional programs, such as coupon redemptions, *junkets*, promotional allowances, and other give-away programs. The nature, timing, and extent of audit procedures regarding them will depend on the type of programs in use and their significance.

## Chapter 4

### ***Consideration of the Internal Control Structure***

**4.01** Gaming operations are subject to a greater-than-normal risk of loss as a result of employee or customer dishonesty because (a) it is not practical to record all individual table game transactions, (b) cash receipts or equivalents are not recorded until they are removed from the drop boxes and counted, and (c) the revenues produced are not from the sale of products or services that are readily measurable. Management is responsible for reducing such risks to the extent practicable without significant impediment to play and within the limits of reasonable cost by establishing and maintaining an internal control structure, including procedures for the supervision of employees. (Appendix A illustrates management control objectives of certain casino operations.)

**4.02** The broad area of casino controls covers controls over authorization, accountability, and safekeeping. These controls take the form of paper safeguards (which include elements of authorization and accountability controls), physical safekeeping controls, and human safeguards (which include elements of all three types of controls). Transactions are normally subject to being witnessed, recounted, validated, analyzed, initialed, or a combination of these.

**4.03** Paper controls include forms and other documentation that are originated, checked, and followed through the process or system with appropriate approval steps or check points along the way. Financial reports and statistical yardsticks are vital to analyzing, evaluating, and comparing results and trends.

**4.04** Physical safeguards include electronic surveillance or monitoring equipment, table drop boxes, safes, vaults, count room equipment, control over access to gaming equipment and supplies, control over keys, slot machine meters, and other mechanical devices used as part of the internal control structure.

**4.05** Locked security devices are used to accumulate and safeguard cash before the initial count of cash and the assumption of custody by the casino cashier. However, the controls in effect prior to the placement of cash in these devices at the gaming tables are largely those of direct supervision and observation of personnel, sometimes called people-watching-people checks. If casino personnel carry out their assigned duties of supervision and observation, satisfactory control can be achieved over this aspect of operations.

**4.06** Systems of people watching people, including the *eye in the sky* and closed circuit television, are major elements in casino internal control structures. To support these visual control techniques, the movement of cash should be standardized.

**4.07** Human controls include continued supervision or accountability for transactions involving the purchase and redemption of chips, gaming transactions, accounts receivable transactions (credit instruments), currency counts and deposit preparation, and interpretation of financial and operating reports. As in any sound internal control structure, segregation of duties is of paramount importance in the overall control considerations.

## Electronic Data Processing (EDP) Applications

4.08 Many aspects of a casino's accounting system may be computerized. Common computer applications include credit systems, slot machine systems, master game reports, and keno systems.

## Consideration of the Internal Control Structure

4.09 The auditor is interested not only in whether a casino has earned as much revenue as is reported in financial statements, but also in whether the statements report as much revenue as was actually earned; that is, he is interested in the completeness assertion as well as the existence assertion described in SAS No. 31, *Evidential Matter*. In making these judgments, he places a great deal of reliance on the internal control structure.

4.10 Because of the lack of physical evidence supporting the completeness of the amounts to be reported as gaming revenues, the auditor normally relies on internal control structure policies and procedures to support a reduction in the assessed level of control risk. If the auditor is unable to obtain sufficient competent evidential matter about the effectiveness of both the design and operation of internal control structure policies and procedures that are relevant to financial statement assertions concerning gaming revenues to support an assessed level of control risk that allows the auditor to conclude that the risk of material misstatement of the balance has not been reduced to an acceptable level, the auditor may have a scope limitation and, if so, should modify his opinion accordingly. This scope limitation may exist even though procedures such as analyses of variations in operating ratios are used in auditing casinos (see chapter 5) because these procedures often do not provide sufficient evidential matter in the absence of effective controls over gaming revenues.

## Tests of Controls

4.11 An important phase of the auditor's consideration of the internal control structure is testing of controls in order to obtain evidential matter about the effectiveness of the design and operation of internal control structure policies and procedures and whether they support lower assessed levels of control risk. These are the tests an auditor undertakes to provide reasonable assurance that procedures on which he plans to rely to support an assessment of control risk at less than the maximum level are being applied as prescribed. The application of some internal control structure policies and procedures leaves a trail of documentary evidence, and their design and operation can be tested by the inspection of (a) revenue and other transaction documents and records and (b) reconciliations and reports for the appropriate signatures, initials, or stamps. On the other hand, performance of other duties, such as critical people-to-people checks, frequently leaves no audit trail of documentary evidence, and tests of such controls takes the form of corroborative inquiries and actual observation of routine operations.

4.12 In audits of other types of entities, the extent of actual observation of routine operations and corroborative inquiries is normally confined to the periods during which the auditor is present on the client's premises to conduct other phases of his audit. This practice has proven effective in ordinary circumstances, but because of the importance of people-to-people checks in casino operations, the extent of tests of controls not involving a trail of documentary evidence is usually greater than in most other audits.

4.13 Since the auditor's tests of controls attempt to determine whether the controls are actually in effect, his observation of casino floor operations

should not be announced in advance, and some phases of the observation may be undisclosed. In a similar fashion, observation of operations in the casino cage and count room should not be announced in advance even though casino security procedures will usually prevent them from being undisclosed.

**4.14** In addition, these observations should be carried out at various times throughout the period under audit. Letters of introduction to casino personnel should be obtained, and arrangements should be made for prompt access to restricted areas during such visits in order to maintain the element of surprise. The precise number of visits is a matter of professional judgment. However, the length and frequency of observation normally exceed those in audits of entities in other industries and should provide the auditor with reasonable assurance that control procedures were applied as prescribed during the period under audit.

## Chapter 5

### **Analytical Procedures**

**5.01** Because of the lack of documentation regarding casino revenues and the resulting inability to apply tests of details, analytical procedures are unusually important in testing casino revenues. As expressed in SAS No. 56, *Analytical Procedures*, a basic premise underlying the application of analytical procedures is that relationships among data may reasonably be expected by the auditor to exist and continue in the absence of known conditions to the contrary. The auditor's application of analytical procedures may indicate the need to vary the extent of other auditing procedures.

**5.02** In performing analytical procedures, the auditor may analyze data from various shifts or months, or current data can be compared with prior periods' data or with internal or other available statistical data. Some factors that can be considered when applying analytical procedures include the following:

#### *Table Games (by type)*

- Win-to-drop percent
- Win per table
- Drop per table
- Comparison to statistical probability curves (regression analysis)

#### *Slot Machines (by denomination)*

- Win-to-handle percent
- Comparison of theoretical win to actual win
- Win per machine
- *Handle* per machine

#### *Keno*

- Win-to-write percent

#### *Race and Sports Book*

- Win-to-write percent

#### *Relationships With Other Departments*

- Hotel
- Conventions
- Entertainment

#### *Relationships With Outside Conditions*

- Traffic flow
- Weather
- Special events

**5.03** The following are some common factors that may affect such comparisons:

#### *Overall Factors*

- Economic conditions
- Variations from industry statistics
  - Types of clientele
  - Size of operations
  - Wager limits
- Seasonality of operations
- Lack of sufficient volume
- Promotional programs



- Turnover of personnel
- Changes in competition
- Change in clientele

#### *Table Games*

- Changes in rules of the games
- Use of more decks or dealing devices
- Change in volume of credit play

#### *Slot Machines*

- Large jackpots
- Reliability of meters and readings taken
- Changes in machines or theoretical percentages
- Mechanical failures

#### *Keno*

- Changes in payout schedules
- Large payouts

#### *Race and Sports Book*

- Layoff of bets
- Adjustments of point spreads
- Limits on odds

**5.04** Meaningful comparison of win-to-drop percentages for table games among casino companies can be difficult since, among other factors, some casinos include only net credit play (credit extended less payment received at the tables), rather than total credit issued, in computing drop. Win-to-drop percentages do not reflect the percentages of the total table game wagers won by the casino because drop is not the total of all wagers (an amount that is not practical to determine). The win-to-drop percentage may be affected by drop that did not generate a corresponding gaming activity. For instance, a player may purchase chips, thus creating drop, but decide not to play. This is sometimes referred to as *false drop*.

**5.05** The extent of credit play and how it is recorded will also affect the comparability of ratios among casinos. If the players are permitted to pay off or make a partial payment on the credit instruments at the tables and only the resultant net credit amount is recorded as drop, the win-to-drop percentage is higher than if the players are not permitted to make a payment on the credit instruments at the tables. More extensive use of credit may cause a lower win-to-drop percentage.

**5.06** Other factors that affect comparability of win-to-drop percentages are the type and experience of customers, the use of promotional items such as "lucky bucks," the differences in rules of the games, and the betting limits that are in effect.

**5.07** Statistical information for the gaming industry may fluctuate more than some other industries because games are based on chance. Short-term fluctuations are not unusual, but variations over a longer term generally will not deviate from an expected range unless there have been changes in the nature or policies of the casino. Variations from an expected range should be investigated. To facilitate prompt investigation, there should be regular communication between the auditor and casino management during the year.

## Chapter 6

# Cash Balances and Revenue Cutoff

## Introduction

6.01 A casino company's cash comprises four components:

- General bank accounts and imprest accounts, such as payroll
- Special-purpose bank accounts, such as field office accounts, that may be recorded on the general ledger individually or as part of the casino cage accountability
- Cash and cash equivalents on hand and in branch offices
- Amounts in drop boxes, gaming devices, and so on

Bank accounts normally present no unique auditing problems. This discussion is therefore directed to the remaining elements.

## Components of Casino Cage Accountability

6.02 Certain assets and liabilities included in cage accountability are normally recorded on the general ledger individually; the remainder are recorded, net, in a single account. For purposes of this discussion, cash in banks, receivables, and chips in service (liability) are assumed to be recorded in separate general ledger accounts, with the balance of cage assets and liabilities being initially recorded in the casino cash-on-hand account and later reclassified. The casino cash-on-hand account normally comprises the following components:

- Currency and coins
- House chips, including reserve chips
- Personal checks, cashier's checks, and traveler's checks for deposit
- *Customer deposits*, often called customer, or front, money (The related cash is usually commingled with the casino's cash, and the customer deposits total is treated as a liability.)
- Chips of other casinos (Regulations normally prohibit acceptance of *foreign chips*; nevertheless, they may be present in the casino cage in small amounts and, in effect, represent receivables from the issuing casinos.)
- Chips on tables
- Gaming device loads (coins put into machines when they are placed in service)
- Fills and credits (These documents are treated as assets and liabilities, respectively, of the casino cage during a business day because they evidence the transfer, in or out, of assets. When win or loss is recorded at the end of the business day, they are removed from accountability.)

Some of the items listed above would be physically located outside the casino cage (for example, at change booths or in the coin room, the race and sports book, the keno desk, or branch offices).

6.03 For financial statement presentation, certain amounts are reclassified unless immaterial. Chips on hand are offset against chips in service; the net liability represents chips held by customers. Customer deposits are reclassified to a current liability account. Foreign chips are reclassified as receivables.

### Casino Cage Procedures

6.04 Transactions of the casino cage include (a) undocumented even exchanges of assets—cash for chips and (b) documented transfers of assets—chips for fill slips, credit slips for chips or credit instruments, cash or chips for credit instruments, or customer money receipts for cash or chips. Even exchanges are controlled by the use of imprest funds within the casino cage accountability and by supervisory observation. Documented transfers are controlled by multiple participation in transactions, and they are evidenced by the participants' signatures on documents as well as by supervisory observation.

6.05 Components of cage accountability are counted at the end of each shift. The count is made jointly by the outgoing and incoming custodians of a particular component, sometimes observed by a supervisor, and recorded on a *cash count sheet*. The count total is then reconciled to accountability at the beginning of the shift. Reconciling items may include win or loss determined by count of gaming proceeds transferred from the count rooms, deposits to or transfers from bank accounts, customer deposits, and amounts paid out for promotional items.

### Tests of Accountability

6.06 Tests of casino cage accountability are similar to those performed for a bank or other financial institution. The most important aspect is simultaneous audit control of all accountability components to prevent a double count or substitution among the various assets. The components of casino cage accountability, including receivables, are usually counted simultaneously; and such a count is usually done at the balance sheet date, although in those instances in which conditions justify it (see chapter 3), the counts may be made at an earlier or later date. In some instances conditions may justify testing of receivables at a different date from other components of accountability. If the count is at a date other than the balance sheet date, changes in balances between the count and the balance sheet date should be subjected to analytical procedures and tests of details.

6.07 The casino count procedures may be both complex and time-consuming. The count may be performed while the casino is in operation, normally at the changing of a shift. Because timing is of particular importance, the observation of the casino count procedures should be adequately planned by the auditor. It is important to know the types of items that constitute the total cage accountability, their locations, and the custodians. The auditor should also determine if there is any cash in the casino cage that is not included in the cage accountability.

6.08 The number of staff assigned to a cash count is also a consideration. There should be enough auditors to simultaneously control all material components of the accountability until they are counted.

**6.09** Auditing procedures for cash and chips consist primarily of observation of the casino's normal closing procedures, that is, counting and recording of assets. Currency counting procedures, however, do not normally include counting each bill, but rather counting and testing bundles of bills. The auditor will normally want to fan bundles of large bills to determine that all are of the same denomination. Coins and chips will normally be similarly tested.

**6.10** The count of reserve chips is often a time-consuming process and can usually be made at a less busy time, provided the container in which these chips are located can be sealed or otherwise controlled by the auditor.

**6.11** Customer money receipts are usually sequentially prenumbered so that outstanding receipts and the related dollar amounts can be determined by referring to a log accounting for used and unused receipts on hand.

**6.12** Personal checks, cashier's checks, and traveler's checks for deposit should be examined on a test basis and totaled. Checks for deposit should be kept under audit control until they are delivered to the bank or picked up by armored car. The auditor may also wish to have his client advise the bank to notify the auditor directly of any dishonored or returned items from that deposit.

## **Cutoff Procedures**

**6.13** Most casino revenue, unlike revenue of most other businesses, is not recorded in the accounting records at the time a transaction occurs. The results of customer wagers are recorded when the win for each table, machine, and so on is determined, that is, at the time the drop box contents or other receipts are counted. This count may be several hours after the wagers were made and at a time other than at shift end. Therefore, in addition to cash and equivalents already included in the casino cage accountability at the time of the count, proceeds of gaming activities for the final shift on the count date should be tested to establish the existence of the cash and credit instruments. The auditor should obtain reasonable assurance that proceeds of gaming activities not included in the casino cage accountability are not used to cover a shortage.

**6.14** Many casinos operate twenty-four hours a day. Since play is continuous, it is not often practical to establish precisely the same cutoff times for the casino cage count and for all games and machines. To remove the contents of all gaming devices and to remove drop boxes at table games, for instance, usually requires several hours. An important consideration for the casino and the auditor is reasonable assurance that revenue is recorded properly and that the cutoff plan is adequate and consistent from year to year, to minimize revenue fluctuations related to cutoff. Particular care should be taken if the final day of the year is a busy day, such as New Year's Eve.

## **Table Games**

**6.15** At the time of the cutoff the auditor may wish to witness the inventorying of chips and tokens at the tables. As is usually done at each shift change, play is momentarily stopped at each table as this inventory is taken. Immediately after the inventory is taken and before play resumes, the drop box is removed from the table and taken to the count room. The auditor may

wish to observe the inventory and record inventory test counts in order to later trace them to count documentation. He may also wish to observe the removal of drop boxes until they are stored and locked in the count room.

**6.16** A proper cutoff of credit instrument balances at the time of the count is also necessary. The auditor's primary consideration in this regard should be that credit instrument balances, including credit extended for which credit instruments have not been issued, are determined as of the same time that the revenue is cut off. Instruments in the casino pit at the time of the count may not be physically transferred to the casino cage and exchanged for credit slips until several hours after the cutoff. These credit slips, however, will be retroactively recorded as of the time of the count, and the related instruments will be included in accountability as of that time. To establish that instrument transactions are recorded in the proper accounting period, the auditor may wish to remain in the pit until all instruments from the closed shift are transferred.

### **Coin-Operated Gaming Devices**

**6.17** If the count of coin-operated gaming devices is at a later date than the cutoff and a portion of this drop is to be included in revenue (by proration), the auditor may wish to observe the removal of drop buckets, the reading of machine meters, and the transfer of the drop buckets to the coin room. He may also wish to determine that there is a proper cutoff of gaming device fills, manual jackpot payout vouchers, and progressive slot machine jackpot liabilities, both in the casino cage and in any change booths or other locations where such records may be kept.

### **Other Games**

**6.18** Keno and bingo cutoff testing requires observation of closing procedures at the keno and bingo desks. These procedures include a count of all cash on hand and the preparation of a request for credit or fill for the difference between the amount of cash on hand and the imprest amount of cash. The credit or fill will be included in casino cage accountability as of the time of the count. Since the desk was returned to its imprest amount as of that hour, win or loss for the game will be net of credits and fills, including credits or fills during the shift.

**6.19** Race and sports book cutoff and testing are similar to that for keno and bingo, although to determine win or loss, revenues are adjusted for the net change in wagers with results that have not been determined.

**6.20** Card room operating procedures will dictate appropriate cutoff procedures and testing. The cutoff and revenue (rake) determination will normally be similar to that for table games.

### **Count Procedures**

**6.21** The count of proceeds for the final shift preceding the cutoff time will normally be made during business hours of the following business day. Count procedures, all of which would normally be observed by the auditor, are as follows:

- The drop boxes are removed from the locked area in which they are stored.

- The cash contents of a box are removed, counted, and recorded; other documents are removed and recorded.
- Documents in the box—fill slips, credit slips, opening and closing table inventory slips, and in some cases credit instrument stubs or copies—are compared to lists or copies of such documents prepared by casino cage personnel. (These procedures may be performed by accounting department personnel rather than by the count team.)

All procedures are performed by the count team for each box before the next box is opened. The procedures are repeated until the contents of all boxes have been counted.

**6.22** Once cash proceeds are counted and recorded by the count team and documents removed from the drop box are checked, win or loss can be determined. This determination is made by either the count team or the accounting department and is done using a form called the master game report (stiff sheet).

**6.23** When the count team completes its work, members of the team sign the count sheet, the count proceeds are transferred to the casino cage, and the count sheet and documents removed from the drop boxes are transferred to the accounting department.

**6.24** The count of gaming device proceeds is made in a similar manner, with proceeds from each machine recorded separately. Coins are normally counted by a coin machine or weighed. For this count the auditor should also consider whether the count machines or weighing devices are accurate. Procedures should be in effect to ensure that any other funds present in the count room are segregated from gaming device proceeds.

## Chapter 7

# Receivables

### Background

7.01 In the gaming industry, granting casino credit and collecting the resulting receivables are high-risk areas. The unique procedures involved in the approval of credit limits, the issuance of credit instruments, and the control over and collection of such instruments have long been a concern to operators, auditors, and regulators.

7.02 Although the characteristics of the gaming industry may sometimes require that the auditor use innovative methods to attain audit satisfaction, these characteristics do not reduce the need for confirmation of receivables or reduce the auditor's responsibility for satisfying himself concerning the existence and collectibility of receivables.

7.03 The auditor should understand the casino's policies for granting credit and the regulatory requirements in the jurisdiction. Credit may be extended to customers either in the casino pit or at the casino cage. Casino receivables are usually represented by executed instruments acknowledging receipt of credit, which is usually extended in the form of gaming chips. The credit instruments include markers, or IOUs; counter checks; postdated or currently dated hold checks; and returned checks.

### Accounting for Casino Receivables

7.04 Several methods have been employed to determine the net amount to be reported as casino receivables. These methods have evolved from various operating practices. The key element in the selection and use of any of these methods is that the net receivable amount reported for financial statement purposes should represent the best estimate of the net realizable value of all casino receivables, considering potential bad debt and collection costs.

7.05 Occasionally, foreign customers will pay credit instruments in the currencies of their home countries whether or not the instruments are denominated in those currencies. Accordingly, potential foreign exchange losses should be considered when evaluating such receivables, even if the credit instrument is denominated in U.S. dollars. Any restrictions on foreign currency transactions should also be considered in the estimation of net realizable value of receivables.

### Legal Status

7.06 The legal status of various types of casino receivables may differ, depending on the jurisdiction. It is generally legal to *collect* a casino receivable in any jurisdiction, although it may not be possible to *enforce* collection in the courts.

### Control Procedures

7.07 Casino receivables are controllable, and procedures can be implemented to establish control over authorization (that is, extending credit and setting credit limits) and to create an appropriate trail of documentary evidence for this phase of credit operations. No attempt is made here to describe satisfactory procedures in detail. In general, the procedures should require either that an initial record of accountability is created when credit is extended to customers or that sufficient documentation of credit extension is established through the use of prenumbered, multipart forms.

7.08 Regardless of the form of instrument evidencing a casino receivable and the place of origination (pit or casino cage), certain controls over the issuance and collection of casino receivables are characteristic of an effective internal control structure. The following controls are relevant regardless of the method of processing data (real time, batch, or manual) that is used for recording transactions:

- Accountability for receivables should be established at the time chips are advanced to patrons or as soon thereafter as is practical.
- Responsibility for the custody of instruments evidencing casino receivables, the accountability for them, and the receipt of collections should be separated as soon as practical.
- Tabulation of the receivable amount should be performed at either the end of each shift or the end of each day, and it should be compared to recorded accountability.
- Periodic examination of the instruments, preferably on a surprise basis, should be made by someone independent of the custodial function.
- Accounts submitted for write-off should be investigated by an employee independent of credit granting, custodial functions, and collection through contact with the patron. Approvals of write-offs will generally be made by the credit manager, the casino manager, the controller, and the chief operating officer, although this may vary depending on the amounts involved.

## Confirmation

7.09 SAS No. 67, *The Confirmation Process*, provides guidance about the confirmation process in audits performed in accordance with generally accepted auditing standards. The discussion that follows here supplements SAS No. 67 for matters characteristic of, or unique to, casino receivables.

7.10 Because casino documents may be in several locations and the amounts may be included in more than one accountability, an essential element of audit planning is identification of these locations and areas of accountability and maintaining control of them at the confirmation date. Control of credit instruments held in the pit is particularly difficult, as advances and collections may be taking place at any or all tables at the cutoff time on the confirmation date. Care must be exercised to ensure a proper cutoff of receivables and any related chips and cash.

7.11 Factors that affect the nature, timing, and extent of confirmation procedures include the following:

- *The effectiveness of the internal control structure.* Documents supporting casino receivables may be found in several locations, and segments of the receivable balance may be included in more than one area of accountability, such as the casino pit, casino cage, branch offices, or collection agencies. Because there is a possibility that assets from one area might be used to cover shortages in another, it is generally advisable to consider all casino receivables as one population to be confirmed as of a single date. Internal control structure policies and procedures may be different for each area; accordingly, the effectiveness of the internal control structure for each should be considered separately.



- *The possibility of disputes and the possibility that debtors will be unable to confirm the information requested.* The possibility of disputes and the possible inability to confirm information are greater than normal in casino operations because customers do not generally receive copies of documents evidencing indebtedness; they rely primarily on their own records, if any, or on their memories.
- *Customers' knowledge of components of account balances.* Confirmation procedures may be directed to account balances or to individual items included in such balances. While casino customers' balances may include several separately executed instruments, it is likely that the customers will be able to confirm only their account balances. They do not generally know, nor do they usually have records of, the individual components of their balances.

7.12 Casino customers may be more sensitive to contact about their accounts than customers in other businesses. Customers' true names may not be on the credit files (generally, though, such records are maintained), or the record of their true names may be kept elsewhere. Customers may have requested that they not receive mail or, perhaps, not be contacted at all regarding their accounts. Such situations require care by the auditor and cooperation from management so that the casino customers are not alienated and so that the auditor can satisfactorily confirm the accounts, thus avoiding a possible significant limitation on the scope of his audit.

7.13 When confirming casino receivables, it is important that the accounts confirmed include items that have been written off and items settled for less than face value during the period under audit.

### **Mail Circularization**

7.14 A customer's credit file usually includes (a) a credit application completed, at least partially, by the customer; (b) notations of credit verification; (c) transactions history; and (d) documentation of collection efforts. In some instances the file may contain no further evidence of the validity of addresses, and despite the casino's best efforts, the addresses may be out of date. Unless there is an indication in the file, casino employees, rather than the auditor, should usually determine whether mail should be sent to the customer's home or to his business address. For the auditor to satisfy himself about the validity of the address and to reduce the number of confirmation requests returned by the postal service, he should consider independent substantiation of the address by use of the telephone directory or a name-to-address cross-reference directory and by use of registered mail. For foreign residents the auditor should consider the postal service procedures that may be applicable, such as whether undeliverable mail is returned to its sender.

### **Telephone Confirmation**

7.15 Telephone contacts are normally limited to situations in which management or customers have indicated that there be no mail contact regarding the accounts or when customers have not replied to mail requests. Because telephone contacts do not produce any external evidence of confirmation, the auditor should exercise particular care to document these telephone conversations. The auditor should also consider independent verification of the telephone number called; this can normally be done by use of the telephone directory or directory assistance. In addition, when a client employee is involved in placing the call (for introduction purposes), the auditor should ascertain that the proper number is called.

### **Face-to-Face Contact**

7.16 Personal contact either at or away from the casino is normally necessary only when management or the customer have indicated that no mail contact and, perhaps, no telephone contact be made. The auditor's primary concern with such contacts should be satisfaction regarding the customer's identity and documentation of the confirmation.

### **Alternative Procedures When No Reply Is Received**

7.17 The primary documentary evidence of a casino receivable is the executed credit instrument. Normally the auditor applies alternative procedures only after he has determined that no reply to his confirmation request is likely to be received. However, when the casino customer pays his account, the instrument is generally returned to him, and sometimes the casino may not retain a copy. It is therefore advisable to examine the executed instruments for all accounts selected for circularization at the confirmation date. In the gaming industry the alternative procedure of reviewing subsequent cash receipts is of limited usefulness for establishing the existence of receivables because payments are often made in the form of currency, personal checks, chips, and cash equivalents. The casino retains little or no documentation for such payments. To overcome this problem, the auditor may request that copies of checks, money orders, and so on be made to permit subsequent review and identification of collections of specific patrons' accounts. The auditor may also arrange to be notified if a large collection is being received when he is on the client's premises so that he may observe the collection.

### **Branch Offices**

7.18 Many casinos have branch offices located in major domestic and foreign cities. These offices are regional centers and may be responsible for certain casino activities, including the collection of credit instruments from customers. Since the staff in such offices is usually small, there is little, if any, segregation of duties among cash collection, record keeping, and records and cash transmission functions. In such instances the branch may maintain the original credit instrument and casino receivable records that duplicate certain records of the casino accounting system. The credit instruments located at the branches are subject to the tests previously described. Accordingly, the auditor's visits to selected branch offices should be scheduled concurrently with the performance of tests of all credit instruments to ensure an accurate cutoff. Another objective of the visit is to determine whether the branch is remitting the collection proceeds promptly. The procedures related to this objective would include tests of cash on hand and in banks, as described in chapter 3. In addition, the controls related to collection procedures, credit instrument safekeeping, and communication of significant credit data between the branch and the casino should be tested.

### **Allowance for Doubtful Accounts**

7.19 Credit customers may reside in jurisdictions where collection of gaming obligations is not legally enforceable. This condition, together with the substantial number of customers with outstanding debts and the longer collection cycle experienced by casinos when compared to that of other industries, should be addressed when the auditor evaluates the collectibility of gaming credit instruments.

7.20 Practices used in establishing allowances for doubtful accounts include (a) review of individual accounts; (b) use of ageing criteria (for example, automatic inclusion of account balances in the allowance when a

specified age is reached; the auditor should be alert to the effects on ageing when current credit instruments merely replace older ones); and (c) application of statistical experience factors. A combination of the specific review of major account balances and the application of statistical experience factors to the various ageing categories of receivable balances is the most common method of establishing the allowance. Subsequent collections are usually reviewed for large account balances in order to further test the adequacy of the allowance.

### **Tests of Controls**

7.21 To support an assessment of control risk at less than the maximum level, the auditor performs tests of controls. Significant controls related to authorization, transaction processing, classification, evaluation, and physical safeguarding should be tested. Often, tests of compliance with applicable regulatory criteria will also be made.

## Chapter 8

### ***Illustrative Financial Statements***

**8.01** The sample financial statements of a hotel-casino<sup>3</sup> that follow are illustrative only and are not intended to establish requirements for reporting. In addition, the amounts shown are not intended to indicate any customary relationship among accounts.

**8.02** The notes to the financial statements indicate the subject matter unique to casinos that is generally disclosed, but such disclosures should be modified to suit individual circumstances as well as materiality considerations. In addition to the illustrative notes that are presented, the notes to financial statements of a casino should include any other appropriate disclosures required by generally accepted accounting principles. Such disclosures might include, among other items, information concerning related-party transactions, subsequent events, pension plans, postretirement benefits other than pensions, postemployment benefits, stock options, lease commitments, extraordinary items, accounting changes, off-balance-sheet risks, concentrations of credit risk, the fair value of financial instruments, and other matters that are not unique to casinos.

**8.03** The sample financial statements and notes follow in paragraphs 8.04 through 8.07.

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<sup>3</sup> This guide does not discuss accounting and auditing for the hotel industry. The inclusion of the hotel in the sample financial statements is for illustrative purposes only.

8.04

**ABC Casino, Inc.**  
**Balance Sheets**

<u>Assets</u>	December 31	
	<u>19X2</u>	<u>19X1</u>
Current assets		
Cash	\$ 2,678,300	\$ 2,287,100
Marketable securities (at cost, which approximates market)	1,000,000	500,000
Accounts receivable, less allowance for uncollectible accounts of \$500,000 and \$470,000	1,800,100	1,695,200
Other current assets	240,700	229,100
Total current assets	5,719,100	4,711,400
Property and equipment, at cost		
Land	2,201,100	2,201,100
Buildings	27,602,300	27,602,300
Furniture and equipment	9,581,100	8,995,200
Total	39,384,500	38,798,600
Less accumulated depreciation	9,000,600	7,803,500
Net property and equipment	30,383,900	30,995,100
Other assets and deferred charges	1,300,000	1,200,000
Total assets	\$37,403,000	\$36,906,500

<u>Liabilities and Stockholders' Equity</u>	December 31	
	<u>19X2</u>	<u>19X1</u>
Current liabilities		
Current portion of long-term debt	\$ 1,000,000	\$ 1,200,000
Accounts payable	928,600	839,200
Income taxes payable	150,000	161,000
Deferred income taxes	806,500	752,100
Other	344,400	207,600
Total current liabilities	<u>3,229,500</u>	<u>3,159,900</u>
Long-term debt, less current portion	15,800,000	16,300,000
Deferred income taxes	261,700	123,900
Total liabilities	<u>19,291,200</u>	<u>19,583,800</u>
Stockholders' equity		
Common stock (\$1 par value 1,000,000 shares authorized, issued, and outstanding)	1,000,000	1,000,000
Capital in excess of par value	6,495,800	6,495,800
Retained earnings	10,616,000	9,826,900
Total stockholders' equity	<u>18,111,800</u>	<u>17,322,700</u>
Total liabilities and stockholders' equity	<u>\$37,403,000</u>	<u>\$36,906,500</u>

The accompanying notes are an integral part of the financial statements.

8.05

## ABC Casino, Inc.

## Statements of Income and Retained Earnings

	Year ended December 31	
	<u>19X2</u>	<u>19X1</u>
Revenue		
Casino	\$12,802,300	\$11,532,100
Room	2,100,600	1,827,200
Food and Beverage	1,990,900	1,781,800
Total revenues	<u>16,893,800</u>	<u>15,141,100</u>
Costs and expenses		
Operating departments	7,712,100	6,817,600
Selling, general, and administrative	3,021,900	2,707,700
Interest	2,050,300	1,935,300
Depreciation and amortization	1,900,200	1,692,100
Total costs and expenses	<u>14,684,500</u>	<u>13,152,700</u>
Income before income taxes	2,209,300	1,988,400
Provision for income taxes	970,200	818,000
Net income (\$1.24 and \$1.17 per share)	1,239,100	1,170,400
Retained earnings, January 1	9,826,900	9,106,500
Dividends (\$ .45 per share in each year)	(450,000)	(450,000)
Retained earnings, December 31	<u><u>\$10,616,000</u></u>	<u><u>\$ 9,826,900</u></u>

The accompanying notes are an integral part of the financial statements.

8.06

**ABC Casino, Inc.**  
**Statements of Cash Flows**

	<i>Years ended December 31</i>	<i>19X2</i>	<i>19X1</i>
	<u>          </u>	<u>          </u>	<u>          </u>
Cash flows from operating activities:			
Net income	\$ 1,239,100	\$ 1,170,400	
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	1,900,200	1,692,100	
Provisions for losses on accounts receivable	30,000	20,000	
Deferred income taxes	192,200	205,500	
Change in noncash assets and liabilities:			
Accounts receivable	(134,900)	(134,400)	
Other assets	(111,600)	27,500	
Accounts payable	89,400	38,500	
Income taxes	(11,000)	(18,300)	
Other liabilities	136,800	74,200	
Net cash provided by operating activities	<u>3,330,200</u>	<u>3,075,500</u>	
Cash flows from investing activities:			
Purchases of marketable securities	(500,000)	(500,000)	
Proceeds from sale of furniture & equipment	6,200	437,300	
Payments for purchases	(1,295,200)	(435,200)	
Net cash used by investing activities	<u>(1,789,000)</u>	<u>(497,900)</u>	
Cash flows from financing activities:			
Repayment of long-term debt	(700,000)	(1,000,000)	
Dividends	(450,000)	(450,000)	
Net cash used in financing activities	<u>(1,150,000)</u>	<u>(1,450,000)</u>	
Net increase in cash	391,200	1,127,600	
Cash at beginning of year	2,287,100	1,159,500	
Cash at end of year	<u>\$ 2,678,300</u>	<u>\$ 2,287,100</u>	
Supplemental disclosure of cash flow data:			
Cash paid during the years for:			
Interest (net of amounts capitalized)	\$ 1,500,000	\$ 1,320,000	
Income taxes	<u>\$ 789,000</u>	<u>\$ 634,300</u>	

The accompanying notes are an integral part of the financial statements.



8.07

## ABC Casino, Inc.

## NOTES TO FINANCIAL STATEMENTS

1. *Summary of Significant Accounting Policies*

*Nature of operations.* The company is engaged in a single industry segment: the operation of a hotel-casino.

*Cash equivalents.* The company considers all highly liquid debt instruments purchased with a maturity of three months or less when purchased to be cash equivalents.

*Casino revenue.* Casino revenue is the net win from gaming activities, which is the difference between gaming wins and losses.

*Preopening costs.* Certain costs incurred in connection with the development and opening of the casino have been deferred and are being amortized over a three-year period.

2. *Accounts Receivable*

Accounts receivable comprise the following:

19X2

	<u>Gaming</u>	<u>Other</u>	<u>Total</u>
Accounts receivable	\$2,050,100	\$250,000	\$2,300,100
Less allowance	440,000	60,000	500,000
Net	<u>\$1,610,100</u>	<u>\$190,000</u>	<u>\$1,800,100</u>

19X1

Accounts receivable	\$1,994,200	\$171,000	\$2,165,200
Less allowance	431,000	39,000	470,000
Net	<u>\$1,563,200</u>	<u>\$132,000</u>	<u>\$1,695,200</u>

3. *Promotional Allowances*

Revenue does not include the retail amount of rooms, food, and beverage provided gratuitously to customers, which was \$2,109,400 and \$1,858,400 in 19X2 and 19X1, respectively.

4. *Income Taxes*

**NOTE: See FASB Statement No. 109, Accounting for Income Taxes, for disclosure requirements that are effective for fiscal years beginning after December 15, 1992.**

The provision for income taxes consists of the following:

	<u>19X2</u>	<u>19X1</u>
Current	\$778,000	\$612,500
Deferred	192,200	205,500
Total	<u>\$970,200</u>	<u>\$818,000</u>

Investment tax credits are recorded as a reduction of the current provision in the year in which the credit is used. The current tax provisions above are net of investment tax credits of \$46,100 and \$97,000, respectively.

The provision for deferred income taxes results from the following:

	<u>19X2</u>	<u>19X1</u>
Gaming receivables recognized on the when-collected basis for tax purposes but on the accrual basis for book purposes	\$ 60,100	\$ 85,600
Accelerated depreciation deducted for tax purposes but not for book purposes	132,400	128,200
Amortization of interest and preopening costs deducted in prior years for tax purposes	(19,900)	(22,400)
Other timing differences	<u>19,600</u>	<u>14,100</u>
Total deferred taxes	<u>\$ 192,200</u>	<u>\$ 205,500</u>

## Chapter 9

### **Internal Control Reporting**

9.01 SAS No. 30,\* *Reporting on Internal Accounting Control*, describes the procedures an independent accountant should apply in connection with various types of engagements to report on an entity's system of internal accounting control, and it describes the different forms of the accountant's report to be issued in connection with such engagements. SAS No. 60, *Communication of Internal Control Structure Related Matters Noted in an Audit*, provides guidance in identifying and reporting conditions that relate to an entity's internal control structure observed during an audit of financial statements.

9.02 Reports on internal accounting control in casino engagements usually relate to (a) an evaluation of the design of a system before the casino begins operations and (b) an evaluation, in connection with the annual audit, of compliance with, deviations from, and material weaknesses in the system. The independent accountant may also be asked to comment in these reports on certain aspects of administrative controls and on compliance with certain regulations. An independent auditor may also be engaged to make recommendations to improve internal controls.

### **Reports on the Design of a System**

9.03 Regulatory agencies generally require that casinos submit a detailed description of a proposed system of internal accounting control together with an independent accountant's report on it. Generally the independent accountant is required to state that the submitted system conforms with the standards of internal control set forth by the agency, or he must state in what respects the system does not conform. These reports vary by jurisdiction and may require either inclusion of all departures from the standards or only those that the independent accountant considers material.

9.04 In some cases the statute and regulations may, for example, be very general and may, in effect, allow a casino the freedom to design its own system as long as the system provides reasonable assurance that certain general guidelines (similar to the broad objectives of an internal control structure described in appendix D of SAS No. 55) have been met.

9.05 On the other hand, the statute and regulations may be very specific in setting forth what controls are required (as in New Jersey's regulation 19:45, for example). In effect, the system is designed through statute and regulations. The statute and regulations may deal with such matters as—

- Job descriptions and the personnel structure, establishing responsibilities among casino employees and identifying primary and secondary supervisory positions for areas of responsibility.
- Complimentary services and junkets.
- The receipt, storage, and disbursement of chips and cash.
- The collection and safeguarding of money and chips at the gaming tables and transfers between the tables and the cage.
- The transfer of coins to and from the slot machines.
- The opening and safeguarding of slot machines.

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\* Statement on Standards for Attestation Engagements (SSAE) No. 2, *Reporting on an Entity's Internal Control Structure Over Financial Reporting*, supersedes SAS No. 30. See SSAE No. 2 for current reporting guidance.

- Formulas covering the calculation of revenues, drop, and hold percentages.
- Accounting, auditing, and financial reporting.
- The credit system.

Suggested forms for a report on the design of an internal control system for a casino appear in appendix B.

## Reports on Compliance With the System

**9.06** Casino regulations generally require an independent accountant's report on the casino's compliance with an internal control system as it is described in a filing with the regulatory agency. This report may be based on the independent accountant's study and evaluation of the casino's internal control system in connection with his audit, performed in accordance with generally accepted auditing standards, of the casino's financial statements.\* In addition, certain regulatory agencies may require testing of compliance with the casino's system beyond what would otherwise be required to express an opinion on the casino's financial statements.

**9.07** The regulations may provide that the independent accountant issue a report stating whether his audit disclosed any material weaknesses in the internal control structure (as defined in SAS No. 60). If there are any instances or procedures that came to the attention of the independent accountant that he believes to be weaknesses or that are not in conformity with the description of the system as filed, he would also have to (a) describe such deviations, regardless of materiality, and (b) make recommendations for improvements in the internal control structure.

**9.08** The reports on internal accounting control required under such regulations present special planning considerations for the auditor, particularly in situations where the approved system of internal accounting control may be amended many times throughout the year. Tests of controls for audit purposes are often integrated with compliance testing for regulatory purposes.

**9.09** Illustrative reports on internal accounting control that may be rendered in connection with an audit are included in appendix B.

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\* SAS No. 60, *Communication of Internal Control Structure Related Matters Noted in an Audit*, supersedes the guidance in SAS No. 30, *Reporting on Internal Accounting Control*, for reporting on internal accounting control based solely on a study and evaluation made as part of an audit. This guidance will be conformed to current authoritative literature in future editions as approval of revised report forms is obtained from applicable state regulatory agencies.

## Appendix A

### ***Management Control Objectives of Certain Casino Operations***

The following items illustrate control objectives and techniques for certain functions unique to casinos that management may wish to consider in establishing specific internal control structure policies and procedures concerning a casino's ability to record, process, summarize, and report financial data that is consistent with management's assertions embodied in financial statements. They are not intended to be all-inclusive but are intended to illustrate certain control objectives and techniques that are usually significant.

#### **Granting of Credit**

##### *Establishment of Credit Lines and Maintenance of Credit Files*

- Controls exist to ensure that establishment of customer credit is authorized in accordance with the system.
  - The integrity of credit files is protected and the data are sufficiently reviewed to ensure proper recording of additions and deletions and to preclude unauthorized alteration of information.
  - Procedures exist to obtain and adequately verify information such as name, address, and bank references provided by applicants.
  - Credit files indicate an approved credit limit.
  - Credit files are periodically reviewed for completeness of required information, and required verification procedures are used.
  - Access to critical forms, records, and processing areas is permitted only in accordance with established criteria.

##### *Extension of Credit*

- Controls exist to ensure that procedures are maintained in accordance with management's policies.
  - There is a clear statement of procedures (that is, procedural manuals, training routines, supervisory requirements, and so on exist).
- Only those credit requests that meet management's criteria are granted.
  - There are formal procedures for determining whether a customer has an approved credit line and whether it has been exceeded.
  - There is designation of those individuals who may process credit-request clearances.
  - There are exception-reporting procedures (for example, over credit limit, unpaid old balances, and so on).
  - Procedures are adequate to safeguard the integrity of pit and casino cashier credit files.

- There is appropriate supervision of credit extension activities, including supervisory approval of transactions.
- Credit instruments are prenumbered, and there is subsequent accountability for them.
- Unissued credit instrument forms are adequately safeguarded.
- There is adequate segregation of duties among employees involved in granting credit and issuing the credit instruments.
- Customers acknowledge credit by signing the credit instruments.
- There is timely preparation of receivable records for subsequent accountability.
- Where credit play occurs prior to the formal documentation of a credit transaction, there are adequate interim procedures to control credit extension.

#### *Recording of Credit Transactions*

- Each credit transaction is promptly and accurately recorded in appropriate credit records.

#### *Custody of Credit Instruments*

- Credit instruments are adequately safeguarded.
- There are periodic reconciliations, in detail and in total, of the actual credit instruments to the records.
- There is adequate segregation of duties between employees responsible for custody of credit instruments and those responsible for credit authorization and collection.

## **Table Games**

#### *Fills and Credits*

- Only those requests for transfers to or from table inventory that meet management's criteria are approved.
- Transfers to or from table inventory should be accurately and promptly recorded.
- Prenumbered slips are used for fills or credits.
  - The slips are used in numerical sequence and accounted for by the accounting department; missing numbers are investigated.
  - The slips are stamped with the date and the time.
  - All voided slips are clearly marked "void" across the face of the slip and are signed <sup>4</sup> by the cashier and the runner.
  - The fill or credit amount is transferred only when accompanied by a slip.
  - The person physically transferring the fill or credit is independent of the transaction (for example, security personnel).
  - The slip is signed by the cashier, the runner, the dealer, and the supervisor after the amount of the fill or credit is agreed to the amount on the slip.

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<sup>4</sup> Throughout this appendix, where a control objective indicates that a document should be signed, an implicit control procedure is that the presence and the authenticity of the signature is checked by another employee.

- Access to table inventories should be permitted only in accordance with management's criteria.
  - All fills and credits are counted at the table prior to being placed in the table tray or the racks for transfer to the cage.
  - *Lammer buttons* are removed only by the dealer.
- Access to important forms and processing areas should be permitted only in accordance with management's criteria.
  - All unissued fill or credit slips are securely stored under the control of the accounting or security department.
  - All unissued fill or credit slips are controlled by log and are agreed to fill or credit slip purchase invoices by the accounting department.

#### *Table Inventories*

- Gaming chips are removed from the table inventory only—
  - In exchange for credit slips from the casino cage.
  - In exchange for cash, credit instruments, or chips from customers.
  - In payment of winning wagers.
- Inventories for tables not in use are under adequate physical control.
- Chips are counted and stored in locked containers attached to the gaming table or stored in another secure area.

#### *Count Procedures*

- The contents of drop boxes are counted at least daily.
  - Drop boxes are adequately secured until the contents are counted.
  - The contents of each drop box are counted by count teams consisting of employees with no incompatible functions.
  - Count teams are adequately supervised.
- Counts are recorded promptly and accurately.
  - Counts are recorded on count sheets posted to the master game report, which is sent to the accounting department.
  - Members of the count team sign the master game report.
- Receipts are transferred to the casino cage immediately following the count and agreed to the recorded count.

## **Slot Machines**

#### *Fills and Credits*

- Only those requests for transfers of cash or tokens to or from inventory that meet management's criteria are approved.
- Transfers of cash or tokens to or from inventory should be accurately and promptly recorded.
- Prenumbered slips are used for transfers.
  - The slips are used in numerical sequence and accounted for by the accounting department; missing numbers are investigated.
  - The slips are stamped with the date and the time.
  - All voided slips are clearly marked "void" across the face of the slip and are signed by the cashier and the runner.

- The cash or tokens are transferred only when accompanied by a slip.
- The slip is signed by the cashier, the runner, and the slot supervisor after agreeing the amount of the fill or credit to the amount on the slip.
- Access to cash and tokens should be permitted only in accordance with management's criteria.
  - All cash and tokens are transported directly to or from the cage by members of the security department.
  - Slot fills are placed in the slot machines by slot mechanics or employees of the security department.
  - Slot fills are witnessed by the slot supervisor or the key person.
- Access to important forms and processing areas should be permitted only in accordance with management's criteria.
  - All unissued fill or credit slips are securely stored under the control of the accounting department.
  - All unissued fill or credit slips are controlled by log and are agreed to fill or credit slip purchase invoices by the accounting department.

#### *Slot Booth Cashier Funds*

- Funds, which are imprest, are counted regularly at each shift change by incoming and outgoing custodians.
- Access to the slot booth is restricted.
- Manual jackpot payouts are documented. (This documentation consists of the signatures of two people—a slot supervisor and another independent person.)

#### *Count Procedures*

- Drop buckets are collected and counted on a regular basis.
  - Scales are tested regularly.
  - The count is performed by count teams consisting of employees with no incompatible functions.
  - If *weigh* and *wrap counts* are made, they are compared and differences are reconciled.
  - Count teams are adequately supervised.
  - Other funds present at the time of the count are adequately segregated.
- Counts are recorded promptly and accurately.
  - Counts are recorded on count sheets.
  - Members of the count team sign the count sheets.
  - Count sheets are posted to the slot win sheet by the accounting department.
  - The count is compared to meter readings, if any, and differences are investigated.
  - Coins are transferred to the casino cage immediately following the count, and they are agreed to the recorded count.



## Appendix B

# ***Illustrative Internal Accounting Control Reports***

## **Report on the Design of a System (Nevada) or Its Conformity With Regulations (New Jersey)**

### **Illustrative Report on the Design of a System\***

A suggested form of report on the design of an internal accounting control system for a casino follows. The actual form of the report should be modified, as appropriate, to fit the particular circumstances.<sup>5</sup>

To the Board of Directors of ABC Casino, Inc.:

We have reviewed the accompanying description of a proposed system of internal control relative to gaming operations of ABC Casino, Inc. as of [date], as required by regulation 6.050[2] of the Nevada Gaming Commission and State Gaming Control Board.

Our review of the proposed internal control system included procedures we considered necessary to evaluate the design of the control procedures specified in the accompanying description, as prepared and represented by management, to be implemented upon commencement of operations, as to whether such system is suitably designed to conform in all material respects to the objectives of internal control as defined in regulation 6.050[1]. Since the system has not been implemented, we did not test compliance with the control procedures, and, accordingly, we do not express an opinion on whether those controls will be applied as prescribed for any period of time or on whether the system, as a whole, will meet the objectives of internal accounting control, when placed in use.<sup>6</sup>

The management of ABC Casino, Inc. is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions.

In our opinion, the control procedures included in the accompanying description of the proposed system of internal control for gaming operations of ABC Casino, Inc. are suitably designed to provide reasonable, but not absolute, assurance that the control objectives specified in regulation 6.050[1] would be achieved if the control procedures were complied with satisfactorily.

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\* This report format follows the guidance provided in SAS No. 30, *Statement on Standards for Attestation Engagements (SSAE) No. 2, Reporting on an Entity's Internal Control Structure Over Financial Reporting*, supersedes SAS No. 30 and eliminates this report as an acceptable reporting alternative. See SSAE No. 2 for current reporting guidance.

<sup>5</sup> See SAS No. 30, \* *Reporting on Internal Accounting Control*, paragraphs 60 and 61.

<sup>6</sup> In Nevada initial submissions may be for casinos already in operation.

This report is intended for the information of ABC Casino, Inc. and the State Gaming Control Board and should not be used for any other purpose.

### **Illustrative Report on a System's Conformity With Regulations (New Jersey)**

A suggested form of report on a casino's system of internal accounting control for conformity with regulations follows. The actual form of the report should be modified, as appropriate, to fit the particular circumstances.<sup>7</sup>

To the Board of Directors of ABC Casino, Inc.:

We have reviewed the description of the proposed internal procedures and administrative and accounting controls of ABC Casino, Inc. as of [date], as submitted to the Casino Control Commission, as required by regulation N.J.A.C. 19:45-1.3 of the Regulations on Accounting and Internal Controls of the Casino Control Commission under the Casino Control Act. Since our review related to a description of internal procedures and administrative and accounting controls that ABC Casino, Inc. proposes to follow when operations of its casino commence, our review could not and did not include any tests of compliance with such procedures and controls.

The management of ABC Casino, Inc. is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions.

We understand that procedures in conformity with the regulations cited in the first paragraph of this report are considered by the Casino Control Commission to be adequate for its purposes in accordance with the Casino Control Act and related regulations and that procedures not in conformity therewith indicate some inadequacy for such purposes. Based on this understanding and on our review, we believe ABC Casino, Inc.'s procedures conform in all [material] respects to the standards of internal control set forth in the Casino Control Act [except for the following conditions (if appropriate, describe in what material respects the system does not conform with the Casino Control Act and the related regulations)].

This report is intended for the information of ABC Casino, Inc. and the Casino Control Commission and should not be used for any other purpose.

### **Report on Compliance With the Casino's System of Internal Accounting Control**

The following reports are illustrative of a report on internal accounting control that may be rendered in connection with an annual audit. The actual

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\* This report format follows the guidance provided in SAS No. 30, Statement on Standards for Attestation Engagements (SSAE) No. 2, *Reporting on an Entity's Internal Control Structure Over Financial Reporting*, supersedes SAS No. 30 and eliminates this report as an acceptable reporting alternative. See SSAE No. 2 for current reporting guidance.

<sup>7</sup> See SAS No. 30, *Reporting on Internal Accounting Control*, paragraphs 54-59.

form of the report should be modified, as appropriate, to fit the particular circumstances.<sup>[8]</sup>

### **Illustrative Report for Casinos Operating in Nevada \***

Nevada regulations require the auditor to consider the continued effectiveness and adequacy of the system of internal accounting control when he reports on compliance. The following is an example of a letter on compliance with the system of internal accounting control for use in Nevada.

To the Board of Directors of ABC Casino, Inc.:

We have examined the financial statements of ABC Casino, Inc. for the year ended December 31, 19X1, and have issued our report thereon dated February 23, 19X2. As part of our examination, we made a study and evaluation of the company's system of internal accounting control in effect during the period to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards and regulation 6.050[6] of the Nevada Gaming Commission and State Gaming Control Board. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the company's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.<sup>9</sup>

The management of ABC Casino, Inc. is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of ABC Casino, Inc. taken as a whole. However, our study and evaluation disclosed no condition that we believe to be a material weakness.<sup>[10]</sup>

[Our study and evaluation disclosed the following deviations from the system of casino internal accounting control on file with the board, none of which is, in our opinion, a material deviation from such system (describe deviations).]

<sup>[8]</sup> [Deleted.]

\* This report is based on the guidance in SAS No. 30 that was superseded by SAS No. 60, *Communication of Internal Control Structure Related Matters Noted in an Audit*.

<sup>9</sup> When the study and evaluation made as part of the audit is sufficient for expressing an opinion on the system as a whole, the auditor may report on it in accordance with SAS No. 30, paragraphs 37-46.\*\*

\*\* This report format follows the guidance provided in SAS No. 30, Statement on Standards for Attestation Engagements (SSAE) No. 2, *Reporting on an Entity's Internal Control Structure Over Financial Reporting*, supersedes SAS No. 30 and eliminates this report as an acceptable reporting alternative. See SSAE No. 2 for current reporting guidance.

<sup>[10]</sup> [Deleted.]

[These deviations were considered in determining the nature, timing, and extent of the audit tests to be applied in our examination of 19X1 financial statements, and this report does not affect our report, dated February 23, 19X2, on those financial statements.]

This report is intended solely for the use of ABC Casino, Inc. and the State Gaming Control Board and should not be used for any other purpose.

## Illustrative Report for Casinos Operating in New Jersey \*

To the Board of Directors of ABC Casino, Inc.:

We have examined the financial statements of ABC Casino, Inc. for the year ended December 31, 19X1, and have issued our report thereon dated February 23, 19X2. As part of our examination, we made a study and evaluation of the company's system of internal accounting control in effect during the period to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards and Regulation N.J.A.C. 19:45-1.7 of the Regulations on Accounting and Internal Controls of the Casino Control Commission under the Casino Control Act. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the company's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.<sup>11</sup>

The management of ABC Casino, Inc. is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation, made for the limited purpose described in the first paragraph, would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of ABC Casino, Inc. taken as a whole. However, our study and evaluation disclosed no condition that we believed to be a material weakness.<sup>[12]</sup>

[Our study and evaluation disclosed the following deviations from the system of internal accounting control approved by the New Jersey Casino Control Commission (describe deviations and recommendations for improvements).<sup>13]</sup>

[These deviations were considered in determining the nature, timing, and extent of the audit tests to be applied in our examination of the 19X1 financial statements, and this report does not affect our report, dated February 23, 19X2, on those financial statements.]

This report is intended solely for the use of ABC Casino, Inc. and the New Jersey Casino Control Commission and should not be used for any other purpose.

\* This report is based on the guidance in SAS No. 30 that was superseded by SAS No. 60.

<sup>11</sup> When the study and evaluation made as part of the audit is sufficient for expressing an opinion on the system as a whole, the auditor may report on it in accordance with SAS No. 30, paragraphs 37-46.\*\*

\*\* This report format follows the guidance provided in SAS No. 30. Statement on Standards for Attestation Engagements (SSAE) No. 2, *Reporting on an Entity's Internal Control Structure Over Financial Reporting*, supersedes SAS No. 30 and eliminates this report as an acceptable reporting alternative. See SSAE No. 2 for current reporting guidance.

<sup>[12]</sup> [Deleted.]

<sup>13</sup> Present New Jersey regulations require enumeration of all deviations whether or not deemed to be material. In addition, regulation N.J.A.C. 19:45-1.7(e)2 requires that the auditor make recommendations for improvement in those areas of the system of internal accounting control that are no longer considered to be effective.

## Appendix C

### **Rules of the Games**

This appendix describes the rules of various games commonly found in a casino. The descriptions are intended to be representative, but the rules, odds, and payoffs often differ, depending on the particular casino and its location.

#### **Craps**

##### **Method of Play**

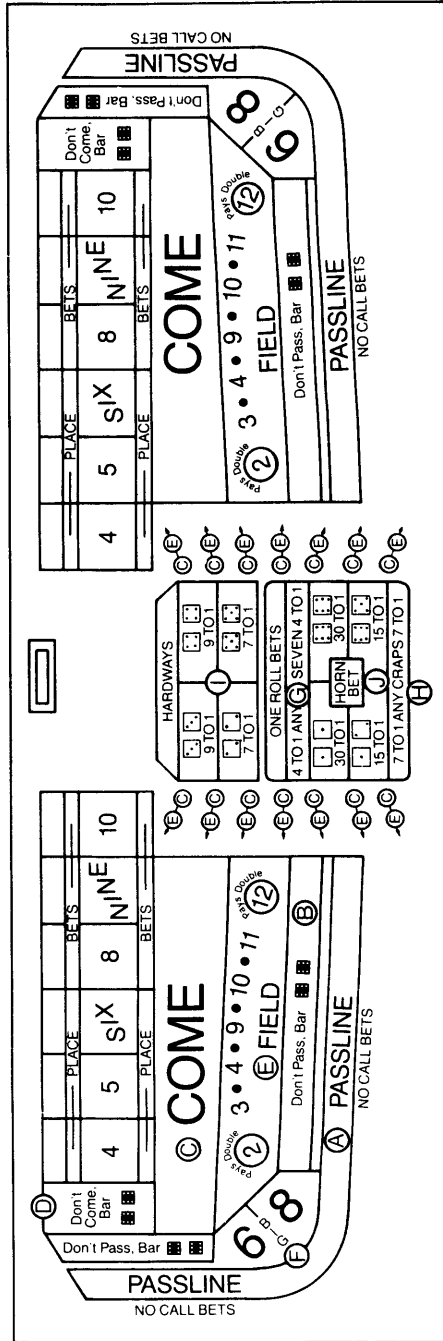
Craps is played on a large table and offers a variety of bets. Each bet is dependent upon the point value of the uppermost sides of two dice that come to rest after having been thrown by the *shooter*. Refer to the diagram of the craps table layout on the following page for placement of various bets.

*Pass Line (A)*. If a player places a bet on the Pass Line and the first roll of the dice (known as the *Come Out Roll*) is a 7 or an 11, he wins automatically. If a 2, 3, or 12 is rolled, he *craps out*, or loses. Any other number rolled (that is, 4, 5, 6, 8, 9, or 10) becomes the Pass Line *point*. Pass Line bets win if the shooter rolls the point before rolling a 7. If a 7 is rolled prior to the point being made, the shooter *sevens out* and the Pass Line bet loses, whereupon the dice are passed to the next player. A player need not be the shooter to make a Pass Line bet; however, the shooter must bet on either the Pass Line or Don't Pass Line.

*Don't Pass Line (B)*. The Don't Pass Line bet is the opposite of the Pass Line bet; that is, the bet wins automatically on the Come Out Roll if a 2 or 3 is rolled and loses automatically if a 7 or an 11 is rolled. A roll of 12 is a standoff on the Don't Pass Line. Any other number rolled becomes the point. To win, a 7 must be rolled before the point is thrown. If the point is rolled prior to a 7, the bet loses. A Don't Pass bet may not be made *after* the Come Out Roll. A player need not be the shooter to make this bet.

*Come (C)*. A player can "come" at any time after a point has been established on the Come Out Roll. The win-loss rules are the same as for the Pass Line. The next roll of the dice determines whether the player automatically wins, loses, or establishes the point that must be rolled before a 7 to win. The Come bet and point are independent of the Pass Line point.

*Don't Come (D)*. The Don't Come bet may be made any time after a point has been established. The win-loss rules are the same as for the Don't Pass Line, but the automatic win, loss, or determination of the point is established by the next roll of the dice. Like the Come bet, the Don't Come bet allows a player to bet on each roll of the dice.



Pass Line, Don't Pass Line, Come, and Don't Come bets are paid even money. Pass Line and Don't Pass Line bets may be made only on the Come Out Roll and may not be bet after the point is established. Don't Pass Line and Don't Come bets may be decreased or removed at any time, but they may never be increased or replaced.

*Odds.* A player may elect to make a wager in addition to the original, or *flat*, bet any time after the point is established. A player may *take* odds on any Pass Line or Come bet. A player may also *lay* odds on any Don't Pass or Don't Come bet. Typical odds payouts are shown on the table on the following page. The Odds bet wins if the flat bet wins and vice versa.

*Buy and Lay bets.* Buy and Lay bets pay odds without requiring a *flat* bet and may be made directly on a 4, 5, 6, 8, 9, or 10 at any time, without waiting for the number to roll the first time. These bets may be made on one or more of these numbers. The *Buy bet* is a bet that the specific number will roll before a 7; it is similar to the Pass Line bet. A *Lay bet* is a bet that a 7 will roll before the specific number; it is similar to the Don't Pass Line bet. In either case, the wager is paid according to true odds. A commission is usually charged on all Buy and Lay bets, either on the amount bet if it is a Buy bet or on the amount that can be won if it is a Lay bet.

*Place bets to win.* A Place bet to win is the same as a Buy bet except that the odds are different and no commission is charged. Refer to the table on the following page for Place bet odds.

All odds, Buy bets, and Place bets may be increased, decreased, taken back by the player, or called "off" at any time. Come odds, Buy bets, and Place bets to win are always off on the Come Out Roll unless designated otherwise by the player. Come odds, Don't Pass odds, Don't Come odds, Buy bets, and Place bets are all given to the dealer, who places them in the proper locations on the layout. Each player is responsible for placing Pass Line odds on the layout and keeping track of all bets paid, won, or lost.

*Field (E).* The Field bet is a one-roll bet that may be made on any roll. If a 2, 3, 4, 9, 10, 11, or 12 is rolled, the bet wins. All numbers pay even money, except 2 and 12, which usually pay double or triple. If any other numbers are rolled, the bet loses.

*Big 6 or Big 8 (F).* The bet wins if a 6 or an 8 is rolled before a 7. The wager pays even money (in some locations, if the wager is six dollars or a multiple of 6, the bet pays 7 to 6). The bet may be made on any roll.

*Any 7 (G).* If a 7 is rolled, the bet wins and pays 4 to 1. All other numbers lose.

*Any craps (H).* If a 2, 3, or 12 is rolled, the bet wins and pays 7 to 1. All other numbers lose.

*Hardways (I).* Hardways may be bet on any roll. The four possible Hardway bets are a Hard Six (two 3s) and a Hard Eight (two 4s), which pay 9 to 1, and a Hard Four (two 2s) and a Hard Ten (two 5s), which pay 7 to 1. The player wins if the Hardway he is betting rolls before a 7. The bet loses if a 7 is rolled first or if the number is rolled with a nonpair combination. For example, a Hard Six wins only if two 3s are thrown before a 7 or before an *Easy way* 5 and 1 or 4 and 2 combination. Hardways are always off unless the player designates the bet to be in action on the Come Out Roll.

*Horn High bets (J).* Horn High bets are typically bet in units of five since a player is effectively betting one unit each on 2, 3, 11, and 12, with one additional unit bet on the one number he designates. For example, a five-dollar



Horn High 12 has one dollar bet on 2, 3, and 11 and two dollars bet on 12. If one of these four numbers is rolled, the payoff is according to the payout odds for that number of dollars effectively wagered on that number less the amount bet on the three losing numbers. The player may also bet on just one of the Horn bets. They are as follows:

**TWO CRAPS OR ACES:** If two “aces,” or a 2, is rolled, the bet wins and pays 30 to 1.

**TWELVE CRAPS:** If a 12 is rolled, the bet wins and pays 30 to 1.

**THREE CRAPS OR ACE-DEUCE:** If “ace-deuce,” or a 3, is rolled, the bet wins and pays 15 to 1.

**ELEVEN:** If an 11 is rolled, the bet wins and pays 15 to 1.

**Craps Payout Odds**

	<u>Payout Odds</u>		<u>Payout Odds</u>
<i>Pass Line Bet</i>	1 to 1	<i>Don't Pass Line Bet</i>	1 to 1
<i>Come Bet</i>	1 to 1	<i>Don't Come Bet</i>	1 to 1
		<i>Don't Pass Line Lay Odds, Don't Come Lay Odds, and Lay Bets</i>	
<i>Pass Line Odds, Come Bet Odds, and Buy Bets</i>			
● Points of 4 or 10	2 to 1	● Points of 4 or 10	1 to 2
● Points of 5 or 9	3 to 2	● Points of 5 or 9	2 to 3
● Points of 6 or 8	6 to 5	● Points of 6 or 8	5 to 6
<i>Place Bet to Win</i>		<i>Big Six or Big Eight</i>	1 to 1
● Points of 4 or 10	9 to 5		
● Points of 5 or 9	7 to 5		
● Points of 6 or 8	7 to 6		
		<i>Hardways</i>	
		● Hard 6 or Hard 8	9 to 1
		● Hard 4 or Hard 10	7 to 1

**One-Roll Bets**

	<u>Payout Odds</u>
<i>Field Bets</i>	
● 3, 4, 9, 10, or 11	1 to 1
● 2 or 12	2 to 1
<i>Proposition Bets</i>	
● Any 7	4 to 1
● Any Craps	7 to 1
● 2 or 12	30 to 1
● 3 or 11	15 to 1
<i>Horn Bets</i>	
● 2 or 12	30 to 1
● 3 or 11	15 to 1
<i>Horn High Bets</i>	
● 2 or 12	12 to 1
● 3 or 11	6 to 1

## Blackjack, or Twenty-One

### Method of Play

The object of blackjack (twenty-one) is to draw cards that total as close to 21 as possible without going over, while beating the dealer's hand. To begin the game, each player places his bet before being dealt any cards. The dealer then deals two cards to each player. He deals himself one card up and the other face down. When the total value of a hand is added up, the king, queen, and jack each count as 10. The ace counts as either one or eleven, and all other cards equal their face values.

If a player has an ace with a 10, jack, queen, or king, he has *blackjack*—a natural 21 total—and is paid 3 to 2 (three dollars paid for each two-dollar bet). If the dealer also has blackjack, it is called a *push*, and the player neither wins nor loses.

If the player does not have blackjack, the player may elect to *stand* (not accept any more cards) or be *hit* (accept more cards from the dealer to get closer to 21). The player may be hit with as many cards as he likes (one at a time), but if his card total exceeds 21, he has *busted* and the dealer collects his bet. When the player believes he is as close to 21 as he can get without going over, he stands.

When all players at the table have either busted or decided to stand, the dealer's facedown card is turned up. If the dealer's card count is 16 or less, he must draw cards to get closer to 21. If the dealer's card count is 17 or more, he cannot draw more cards except in some jurisdictions, where he may draw if he has a *soft* 17 (a hand that can be totaled either 7 or 17, for example, a 6 with an ace).

When the dealer has either busted or is standing on the total of his hand, he totals the cards of each player's hand. He pays off, at even money, bets of the players whose hands are closer to 21 than his, and he collects bets from those players whose hands are farther from 21 than his. If the dealer busts, he pays off, at even money, each player that hasn't busted. If a player's total is the same as the dealer's (and adds up to 21 or less), it is a push and he neither wins nor loses.

### Special Terminology

*Splitting pairs.* If a player's first two cards are a pair, he may split them into two hands provided that the bet on the second hand equals his original bet. Once the hands are split and the wager placed, he plays the first hand and then he plays the second hand. If the split pair are aces, the player is limited to a one card draw on each hand.

*Doubling down.* If a player's first two cards total 10 or 11, he may elect to wager an additional amount that cannot exceed the value of the original bet. If the player doubles down, he draws only one additional card.

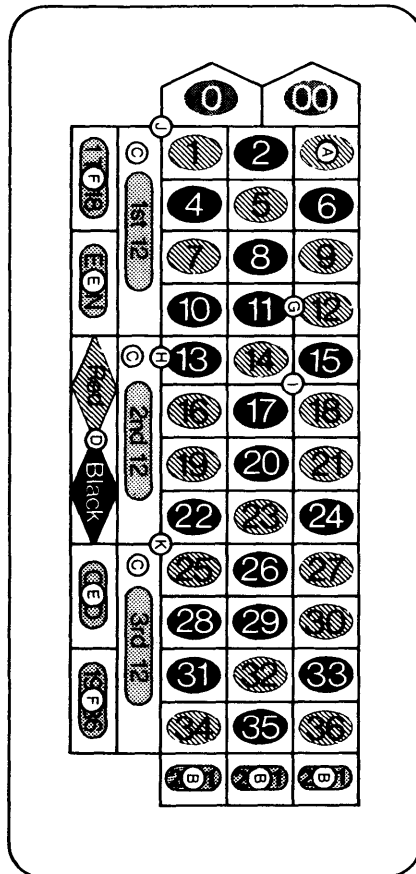
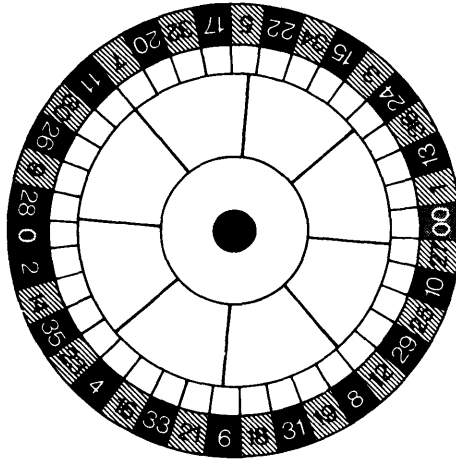
*Insurance.* If the dealer's up card is an ace, a player may elect to *take insurance* by placing, on the insurance line, a bet not greater than one-half of his original bet. The insurance bet is a wager that the dealer has blackjack. Insurance bets pay 2 to 1 if the dealer has blackjack, but they lose in all other instances. The dealer collects all losing insurance wagers before he deals additional cards.

*Surrender.* After a player receives his first two cards, he may elect to surrender one-half of his wager along with his hand if he does not wish to continue to play the hand.

## Roulette

A roulette wheel is numbered from 1 through 36 and also has 0 and 00 (although in some jurisdictions roulette may be played without a 00). The numbers are alternately colored red and black except 0 and 00, which are green. The roulette layout, located on the table next to the wheel, is numbered and colored in the same way as the wheel is.

Even-money bets (bets that pay 1 to 1) may be made on the colors red or black, odd or even numbers, and high or low numbers (the ranges of 1 to 18 or 19 to 36). Bets on just one number pay 35 to 1. In roulette a player may make bets covering more than one number. For example, a bet covering two numbers (called a *split bet*) pays 17 to 1. Bets are made by placing chips (usually nonvalue chips, that is, chips bearing no face value but having a value assigned when issued to the customer in exchange for cash or credit) on the desired number or color on the layout.



The dealer spins the wheel and rolls a small white ball in the opposite direction. Bets may still be made after the wheel is spinning and up to the time that the dealer says, "No more bets." When the ball comes to rest, the dealer points out the winning number and winning bets are paid. The exact placement of the chip(s) determines each bet being made.

The positions of the bets are indicated in the foregoing illustration by corresponding letters. Examples of the payout odds are as follows:

### Roulette Straight Bets

Example Position	Type of Bet	Pays Off If Ball Comes to Rest On	Odds
A	Straight Up	The individual number bet, including zero and double zero	35 to 1
B	Column	Any of the twelve numbers in the column bet	2 to 1
C	Dozen	Any number in the range 1 through 12, 13 through 24, or 25 through 36, depending on which dozen is bet	2 to 1
D	Red or Black	Any number of the same color that was bet	1 to 1
E	Odd or Even	Any odd number for odd bet, even number for even bet	1 to 1
F	1 to 18 or 19 to 36	Any number in the range bet	1 to 1

### Roulette Combination Bets

Example Position	Type of Bet	Pays Off If Ball Comes to Rest On	Odds
G	Split	Either of the two numbers bet	17 to 1
H	Row	Any of the three numbers in the row bet	11 to 1
I	Corner	Any of the four numbers forming the corners	8 to 1
J	Five Numbers	0, 00, 1, 2, or 3	6 to 1
K	Six Numbers	Any of the six numbers in the two rows bet	5 to 1

### Wheel of Fortune, or Big Six

The wheel has positions on it marked by bills in denominations from one dollar to twenty dollars. Two extra positions are marked with special symbols that indicate the largest payoffs. Adjacent to the wheel is a layout that represents the dollar denominations on the wheel.

To place a bet, a player puts the amount he wants to wager on a spot on the layout that corresponds to a denomination on the wheel. The larger the bill on which he wagers, the higher the odds. After all bets have been placed, the dealer spins the wheel. No bets can be placed after the wheel begins to spin. The winning bets are paid after the wheel stops on a position indicated by the *flapper* at the top of the wheel. The payout odds are as follows:

A Bet On	Pays
\$1	1 to 1
\$2	2 to 1
\$5	5 to 1
\$10	10 to 1
\$20	20 to 1
Joker	40 to 1
Flag	40 to 1

## Baccarat

The object of baccarat is to obtain cards that total as close as possible to 9. All cards count as face values, that is, ace is counted as 1, deuce is 2, and so on. All 10s and face cards, or any combination of 10, have no value. For example,  $9 + 5 = 4$ ;  $10 + 1 + 3 = 4$ .

To begin the game, two cards are dealt from a *shoe* to each of two hands, one of which is called *Player*, and the other, *Banker*. Customers may bet on either hand. If the point count of either hand is an 8 or 9, it is a *natural* and no cards are drawn.

If neither hand is a natural, the following rules are always observed:

- Player draws a third card when his first two cards total 0, 1, 2, 3, 4, or 5; he stands when his first two cards total 6 or 7.
- If Player's first two cards total 6 or 7 (and Player stands), Banker draws a third card when his first two cards total 0, 1, 2, 3, 4, or 5; he stands when his first two cards total 6 or 7.
- If Player draws a third card, Banker follows these rules:

Having	Draws when Player's third card is:	Does not draw when Player's third card is:
3	1, 2, 3, 4, 5, 6, 7, 9, 0	8
4	2, 3, 4, 5, 6, 7	1, 8, 9, 0
5	4, 5, 6, 7	1, 2, 3, 8, 9, 0
6	6, 7	1, 2, 3, 4, 5, 8, 9, 0
7	STANDS	

The only decision that a customer makes is what to bet on and how much to bet. If both hands end in equal totals, it is a tie and neither hand wins or loses. A separate tie bet pays 8 to 1. The house collects a 5-percent commission on all money won on Banker's side. These commissions are paid after the shoe has been dealt.

*Mini baccarat* has the same rules as baccarat but it is played on a smaller table. The table is approximately the size of a blackjack table and the layout is half of that on a baccarat table.

## Coin-operated Devices

### Slot Machines

Slot machines are available in a variety of models and coin denominations. One or more coins may be played at one time, depending upon the model of slot machine the player chooses. The player begins by placing one or more coins in the machine, which allows the handle to be pulled. The pull of the handle starts a series of wheels spinning. Each wheel has a number of symbols or numbers on it. The appearance of certain symbols, the number of symbols, and the sequence of symbols determine the payout on each machine model. Winning combinations and the payout are depicted on visual displays on each machine. The frequency of payouts is random.

In multiple-coin machines, additional coins provide more opportunities to win with each handle pull or they provide larger payouts. For example, each additional coin in one type of machine provides another line to match up a winning combination of symbols. In a left-right-left machine, the winning

sequence of symbols occurs either reading from the left to the right or from the right to the left. With another machine, each additional coin “buys” additional symbols. In yet another machine, the more coins a player puts into the machine, the greater the payout.

Some winning combinations are paid automatically by the machine, while others require a slot attendant to pay off the jackpot. A light on top of the machines signals a slot attendant when his assistance is necessary for a payout. Additional coins should not be played until the machine or the slot attendant has completed the payout.

### **Electronic Video Devices**

Electronic video devices are coin-operated electronic simulations of other casino games, such as craps, poker, blackjack, and keno. The rules for the electronic games are typically the same as those for their casino counterparts.

### **Keno**

A keno ticket is numbered from 1 through 80. These numbers correspond to eighty numbered Ping-Pong-like balls contained in a special holding unit. The player marks from one to fifteen numbers on the ticket and the amount of the wager. As the game begins, the balls are mixed in the holding unit, called a *squirrel cage*, and then, one at a time, they are “thrown” by the machine into another holder, called *rabbit ears*. Twenty balls go into the holder. A keno *writer* calls the winning numbers over a loudspeaker and lights up the corresponding numbers on displayed keno boards. Winning wagers are determined by how many numbers on the player’s ticket match those lighted up on the boards. A keno *payout schedule* lists the number of matching numbers—catches—the player needs to make in order to win.

## Appendix D

### Glossary

The following is a list of terms, and a brief definition of each, used in the casino industry. These terms may differ among casinos.

**accountability.** All items of currency, chips, coins, tokens, receivables, and customer deposits constituting the total amount for which the bankroll custodian is responsible at a given time.

**award schedule card.** *See* payout schedule.

**bank (bankroll).** The inventory of currency, coins, and chips in the casino cage, pit area, and slot booths and on the playing tables. Used to make change, pay winning bets, and pay slot machine jackpots. *See also* casino bankroll, casino cage, slot booth, slot machine load, and table inventory.

**base jackpot.** The fixed, minimum amount of a slot machine payout for a specific combination.

**betting ticket.** A printed, serially numbered form used to record the event upon which a wager is made, the amount and date of the wager, and sometimes the line or spread (odds). Used to record bets on sporting and racing events.

**bingo.** A game using the draw of numbered balls for results. The player uses a card with five rows of five numbered squares, with the middle square blank.

**blower.** A device used in a keno or bingo game to mix the numbered balls and blow them individually into a receptacle when drawn.

**booth cashier.** An employee who is the custodian of a slot booth fund.

**boxperson.** The first-level supervisor who is responsible for directly participating in and supervising the operation and conduct of the craps game.

**buy-in.** The amount of money a player must present for coins and chips in a poker or pan (panguingui) game. Usually put in a separate drop box by the dealer. *See also* time buy-in.

**cage credit.** Advances in the form of cash or gaming chips made to customers at the casino cage. Documented by the players signing an IOU or a marker similar to a counter check.

**calibration module.** The section of a weigh scale used to set the scale to a specific amount or number of coins to be counted. *See also* weigh count.

**caller.** The person who calls numbers as they are drawn in bingo or keno.

**cash count sheet.** The form used to record the contents of the bankroll as they are counted.

**cash loads.** The initial currency, coins, chips, and so on issued from a bankroll to a gaming table or a coin-operated gaming device.

**cashier's count sheet (checkout sheet).** An itemized list of the components that make up the cage accountability.

**cashier's count sheet reconciliation.** A detailed reconciliation of the beginning and ending cage accountability.

**casino bankroll.** The working fund of cash and gaming chips. Also serves as a depository control for gaming credit instruments.



- casino cage.** A secure work area within the casino for cashiers and a storage area for the casino bankroll.
- casino cage cashier.** The custodian of the casino bankroll. In some casinos it may refer to the person in charge of the central banking function.
- casino host.** An executive in the casino who is responsible for having knowledge of the financial condition of important customers, including their gambling history and their payment reliability. Is usually responsible for expediting credit play for the better customers as well as arranging for complimentary services for such customers.
- casino manager.** The executive who has the authority and responsibility for all gaming operations.
- Central Credit.** A private information service that maintains credit information supplied by casinos.
- change person.** A person who has an imprest fund of coins and currency for making change for slot customers.
- check credit slip.** A document that shows the total amount of a check accepted by the casino in return for credit to be issued to the customer. Usually a part of a counter check.
- check jacket.** An envelope used to hold a returned check, a hold check, or a market pending collection. Usually contains copies of correspondence and evidence of other collection efforts.
- checkout sheets.** See cashier's count sheet.
- checks.** Slang for chips.
- chip float.** The dollar value of chips held by customers.
- chips.** Money substitutes, in various denominations, issued by a gaming establishment and used for wagering.
- closer.** The original form on which a table inventory is recorded at the end of a shift.
- coin-operated gaming device.** Any of a variety of mechanical or electronic apparatus used in connection with gaming. Includes slot machines and electronic video games such as poker, blackjack, craps, and keno.
- complimentaries (comps).** Promotional allowances to customers.
- count.** The total funds counted for a particular game, coin-operated gaming device, shift, or other period.
- counter check.** A form provided by the casino for the customer to use in lieu of a personal check.
- credit limit.** The maximum dollar amount of credit assigned to a customer by the casino.
- credit manager.** The executive responsible for implementing the credit policies of a casino.
- credit play.** The wagering of chips obtained in exchange for a credit instrument (marker, IOU, and so on).
- credit play memorandum (serialized record, rim card, table card, master card).** A form to record the date, time, shift, game, table, amount of credit given, and the signatures or initials of the individuals extending the credit.

**credit slip.** A form used to record either (1) the return of chips from a gaming table to the casino cage or (2) the transfer of IOUs, markers, or negotiable checks from a gaming table to a casino cage or bankroll.

**cross fill.** The transfer of cash or chips from one gaming table to another or an even-money transfer. (Usually prohibited by regulatory agencies.)

**croupier.** See dealer.

**customer deposits.** The amounts placed with a casino cage cashier by customers for the customers' use at a future time.

**daily pit summary sheet.** A log retained in the pit that reflects the amount of chips received from and transferred to the cage.

**dealer.** An employee who conducts a game in a casino. Includes stickpersons and croupiers.

**deskperson.** An employee who authorizes payment on winning tickets and verifies payouts in keno.

**discard tray.** A tray, box, or specific area where cards used in a game are held until shuffled. Used primarily in baccarat and blackjack.

**draw ticket.** A blank keno ticket whose numbers are punched out when balls are drawn for the game. Used to verify winning tickets.

**drop.**

1. In table games, the total amount of cash and chips contained in the drop box, plus the amount of credit issued at the table.

2. In slots, the total amount of money removed from the drop bucket.

**drop box.** A locked container affixed to the gaming table into which the drop is placed. The game type, table number, and shift are indicated on the box.

**drop bucket.** A container located beneath a coin-operated gaming device for the purpose of collecting coins and tokens from the device.

**drop count card.** A document prepared by the count team to record the amount of cash, by denomination, in a drop box.

**eye in the sky.** An overhead surveillance area used to monitor gaming activity on the casino floor.

**false drop.** The amount of cash or cash equivalents used to purchase chips at a gaming table at which the customer does not play.

**fill.** A transaction whereby a supply of chips or coins and tokens is transferred from a bankroll to a table or a coin-operated gaming device.

**fill slip.** A document evidencing a fill.

**floorperson.**

1. In craps, the second-level supervisor responsible for the operation and conduct of a game.

2. In other games, the first-level supervisor responsible for the operation and conduct of a game.

3. In slots, the supervisor who approves jackpots and observes floor activity.

**foreign chips.** Chips that are redeemed for money or house chips by other than the issuing casino.

**front money.** A customer deposit that is used in lieu of credit to guarantee payment of a marker issued.

**game bankroll (table bankroll).** The inventory of gaming chips stored in the chip tray for each table game. Game bankrolls may be under the control of the casino bankroll or under separate general ledger controls. Table credit instruments are included in the game bankroll until they are transferred to the cage.

**game count sheet.** See master game report.

**gross gaming revenue (win).** The net win from gaming activities, which is the difference between gaming wins and losses before deducting costs and expenses.

**handle.** The total amount wagered.

**hard count.** The count of the contents in a drop bucket.

**hold.** See gross gaming revenue.

**hold check.** A check that is held in the custody of the casino and that has not been deposited at the request of the issuing customer.

**hold percentage (PC).** The relationship of hold to drop or handle.

**hopper (payout reserve container).** The tubes that contain the coins or tokens used to make payouts in a coin-operated gaming device.

**hopper fill slip.** A document used to record the monetary value of coins or tokens put into a hopper.

**house.** A casino.

**inside ticket.** A keno ticket retained by the house, showing the customers' selection of numbers and the amount wagered.

**IOU.** See marker.

**issue slip.** A copy of a credit instrument that is retained for numerical sequence control purposes.

**jackpot payout.** The portion of a jackpot paid by slot personnel. The amount is usually determined as the difference between the total posted jackpot amount and the coins paid out by the machine. May also be the total amount of the jackpot.

**jackpot payout slip.** A form on which the portion of a jackpot paid by slot personnel is recorded.

**junket.** An arrangement whose primary purpose is to induce a group to travel to a casino to gamble. Frequently the transportation, food, and lodging are paid directly or indirectly by the establishment.

**junket representative.** The person primarily responsible for organizing a junket.

**junketeer.** An individual participant in a junket.

**keno runner.** An employee who, as a convenience for customers in the casino and restaurant areas, collects keno tickets and remits winnings to customers.

**key control ledger.** A ledger that authorized personnel sign to receive keys to sensitive areas, such as drop boxes, safe deposit boxes, count room, and cashier's cage.

**lammer button (marker button).** A type of chip that is placed on a gaming table to indicate that the amount of chips designated thereon has been given to the customer for wagering on credit prior to completion of the credit instrument.

- layoff.** A wager by one race or sports book with another to offset an excessive accumulation of customer wagers on a particular race or event.
- layout.** In games like roulette or craps, a diagram on a gaming table, usually on felt, with spaces for bets.
- limit.** The minimum or maximum amount that a customer may wager at a particular table.
- load.** Coins or tokens put into a hopper.
- machine payout.** The number of coins paid out to the customer by a coin-operated gaming device as the result of a winning combination.
- marker (IOU).** A document, usually signed by the customer, evidencing an extension of credit to him by the casino.
- marker button.** See lammer button.
- marker custodian.** See pit clerk.
- marker log.** A detailed list of all marker transactions.
- master card.** See credit play memorandum.
- master game report (game count sheet, stiff sheet, pit report).** A form used to record, by shift and day, each table game's winnings and losses. This form reflects the opening and closing table inventories, the fills and credits, and the drop and win.
- meter.** A mechanical apparatus in a coin-operated gaming device. May record the number of coins wagered, the number of coins dropped, the number of times the handle was pulled, or the number of coins paid out to winning players.
- meter reading summary.** A report reflecting the meter readings on coin-operated gaming devices. The number is recorded when the drop bucket is removed from the cabinet.
- opener.** The form on which the table inventory at the beginning of a shift is recorded.
- outside ticket.** A keno ticket given to a customer as a receipt, with the customer's selection of numbers and the amount wagered marked on it.
- paid outs.** The total amount of money paid to customers as winnings on various games, such as keno, bingo, race and sports books, and slots.
- panguingui (pan).** A card game similar to rummy, usually played in a poker room.
- payment slip.** That part of a marker form on which customer payments are recorded.
- payoff.** The amount paid out on a winning wager.
- payout reserve container.** See hopper.
- payout schedule (award schedule card, award schedule).** A statement, printed on cards, paper, plexiglass, and so on, of the payoffs or awards applicable to a particular game or device.
- PC.** See hold percentage.
- pit.** An area in a casino enclosed or encircled by gaming tables.
- pit bank.** A fund maintained in the pit area, usually in small casinos that do not have cages. Used for services normally provided by a cage cashier.
- pit boss.** The employee who supervises all games in a pit.

**pit clerk (marker custodian).** An employee at a desk in the pit who reports to the cage cashier and who prepares documentation such as requests for fills, requests for credits, and customer credit instruments.

**pit master card.** The form used to record credit activity at all tables in a pit area.

**pit repayment.** A customer's repayment of credit at a table.

**pit report.** See master game report.

**placques.** Rectangular, square, or oval objects used as chips. Used more frequently in foreign casinos and for very high denominations.

**point spread.** The number of points by which a team is favored to win a sporting event.

**progressive slot machine.** A slot machine, with a payoff indicator, in which the payoff increases as it is played.

**puncher.** The device used to punch holes in keno draw tickets. Also, the person punching the draw tickets.

**rabbit ears.** A device, generally V-shaped, that holds the numbered balls selected during a keno or bingo game so that the numbers are visible to players and employees.

**race and sports book.** A section in a casino where wagers are accepted on the outcome of sporting events.

**rake-off (rake).** A commission charged by the house for maintaining or dealing a game such as poker.

**reel strip settings.** Setting positions on slot machine reels so that they correspond to the calibrations regulating winning combinations and payoffs.

**request for credit.** A document prepared by a casino supervisor or pit clerk to authorize the preparation of a credit slip.

**request for fill.** A document prepared by a casino supervisor or pit clerk to authorize the preparation of a fill slip.

**rim card.** See credit play memorandum.

**shift boss (manager).** The executive with overall responsibility for casino operations during a shift.

**shill (game starter).** An employee financed by the house and acting as a player for the purpose of starting or maintaining a sufficient number of players in a game.

**shoe.** A device from which cards are dealt.

**short pay.** A payoff from a coin-operated gaming device that is less than the listed amount.

**sleeper.** A winning keno ticket not presented for payment or a winning bet left on the table through a player's forgetfulness.

**slip dispenser (whiz machine).** A locked device used primarily in a cage to dispense fill slips and credit slips in numerical sequence.

**slot booth.** A booth or small cage in the slot area that is used to provide change to customers, store change banks, make slot fills, and account for jackpot payouts.

**slot drop count.** See hard count.

- slot fill.** The coins placed in a hopper.
- slot fill and payout sheet.** A list of the slot fills and slot payouts.
- slot machine.** *See* coin-operated gaming device.
- slot machine load.** The initial slot fill.
- slot supervisor.** An individual with responsibility for a slot area and jackpots.
- soft count.** The count of the contents in a drop box.
- squirrel cage.** A holding unit used to mix balls before they are drawn in keno.
- stickperson.** The employee at the craps table who controls the dice, calls the numbers thrown, and is responsible for the speed of the game.
- stiff sheet.** *See* master game report.
- table chip tray.** A container used to hold coins and chips at a gaming table.
- table inventory.** The total coins, chips, and markers at a table.
- theoretical hold.** The intended hold percentage or win of an individual coin-operated gaming device as computed by reference to its payout schedule and reel strip settings.
- theoretical hold sheet.** A form that lists the characteristics of an individual coin-operated gaming device, such as reel settings, award schedule, number of coins that may be played, number of reels, theoretical hold, and other data applicable to a slot machine.
- time buy-in.** A fixed amount of money charged for the right to participate in certain games for a period of time.
- tokens.** A coinlike money substitute, in various denominations, used for gaming transactions.
- tokes.** Slang for gratuities given to casino employees by customers.
- vault.** A secure area within the casino where currency, coins, and chips are stored.
- weigh count.** The value of coins and currency counted by a weigh machine.
- whiz machine.** *See* slip dispenser.
- win.** *See* gross gaming revenue.
- wrap.** The procedure of wrapping coins. May also refer to the total amount or value of the wrapped coins.
- write.** The total amount wagered in keno, bingo, and race and sports book operations.
- writer.** An employee who writes keno or race and sports book tickets. A keno writer usually also makes payouts.
- writer machine.** A locked device used to prepare keno or race and sports book tickets.

## Appendix E

### ***Schedule of Changes Made to Audits of Casinos***

<u>Reference</u>	<u>Change</u>	<u>Date</u>
General	The term "examination" has been changed to "audit" to conform to the terminology used in SAS No. 58.	October, 1990
Paragraph 3.05	Reference changed from SAS No. 9 to SAS No. 65.	May, 1992
Paragraph 3.06	Conformed to the terminology used in SAS No. 55.	May, 1992
Paragraph 3.08	Amended to delete language that is no longer in conformity with standards.	May, 1992
Paragraph 3.12	Conformed to the terminology used in SAS No. 55.	May, 1992
Chapter 4	Conformed to the terminology used in SAS No. 55.	May, 1992
Paragraphs 5.01, 5.02, and 6.06	Conformed to the terminology used in SAS No. 56.	October, 1990
Paragraph 7.08	Conformed to the terminology used in SAS No. 55.	May, 1992
Paragraph 7.09	References changed from SAS No. 1, section 331 to SAS No. 67.	May, 1992
Paragraph 7.11 and 7.21	Conformed to the terminology used in SAS No. 55.	May, 1992
Paragraph 8.02	Modified.	April, 1993
Paragraph 8.06	Statement of cash flows added.	November, 1993
Paragraph 8.07	Reference to FASB Statement No. 109 added to Note 4.	April, 1993
Paragraph 9.01	Reference to SAS No. 60 added.	October, 1990
Paragraph 9.01	Note reference updated to reflect the issuance of SSAE No. 2.	May, 1994
Paragraph 9.04	Reference changed from SAS No. 1, section 320 to SAS No. 55.	May, 1992
Paragraph 9.07	Conformed to the terminology used in SAS No. 60.	May, 1992
Paragraph 9.08	Conformed to the terminology used in SAS No. 55.	May, 1992
Appendix A	Conformed to Appendix D of SAS No. 55.	May, 1992
Appendix B	Note references updated to reflect the issuance of SSAE No. 2.	May, 1994

In addition to the above, notes have been added to highlight areas that will be updated in future editions. Those areas include:

Chapter 9, *Internal Control Reporting*, guidance based on SAS No. 30 will be conformed to SAS No. 60, *Communication of Internal Control Structure Related Matters Noted in an Audit*, and to the Statement on Standards for Attestation Engagements, *Reporting on an Entity's Internal Control Structure Over Financial Reporting*, when issued.

Appendix B, *Illustrative Internal Accounting Control Reports*, reports based on SAS No. 30 will be conformed to SAS No. 60 and to the Statement on Standards for Attestation Engagements, *Reporting on an Entity's Internal Control Structure Over Financial Reporting*, when issued.

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