

## SECTION XII--INTERPRETATIONS

### ACCOUNTING INTERPRETATION NO. 9

#### **Subject: Accounting for and Controlling Video Lottery Revenue**

The video lottery presents a unique challenge, not only to players, but also to local government officials. However, with a little planning and a few additional procedures, the video lottery program can provide a new revenue source for those cities and towns that have on-sale liquor licenses.

Because the ability to offer a video lottery game to the public is linked to the possession of a valid on-sale liquor license, the operations of the video lottery must be accounted for within the Liquor Fund (an enterprise fund).

The governing body of a municipality may apply to the South Dakota Lottery Commission (the Lottery) for either an "Operator's License" or an "Establishment License." Because of substantial machine acquisition costs, and the requirement that licensed operators must provide technicians to repair and service the machines they are licensed to operate, it is not likely that a municipality will obtain this type of license. It is more likely that a municipal on-sale licensee will obtain an Establishment License. The establishment license fee is waived the first year it is issued. Subsequently, the annual renewal fee is \$50 unless the establishment also sells instant ticket lottery game pieces, in which case the annual renewal fee is \$10. The governing body should authorize or apply for the "Establishment License" or "Operator's License" regardless of whether or not the municipality manages the on-sale establishment, or has operating agreements.

Assuming a municipality will not own the video lottery machines, a contract will have to be entered into with a licensed operator. The contract term should not exceed one year. Topics covered in the contract might include, but are not limited to: The distribution of net machine income, after provision for the state's share; responsibility for loss or damage; receipt, payout and net machine income information provided the municipality; reimbursement of payouts; and, frequency of settling accounts.

In situations where the municipality holds the license but does not operate the on-sale store, operating agreements may need to be amended to discuss whether or not the municipality participates in the lottery earnings and at what rate. Other amendments concerning liability, etc., may be needed depending on individual operating agreements currently in force.

#### DUTIES OF LICENSED ESTABLISHMENTS:

The South Dakota Lottery Commission has adopted administrative rules that will affect the way the municipal on-sale establishment is operated. A copy of these rules should be obtained from the State Lottery Office by calling 773-5770. (Ref. ARSD 48:02) The following provisions are promulgated in the rules:

- Prohibit machine play by persons under the age of 18 or who are visibly intoxicated.
- Prevent persons from tampering, damaging or interfering with the operation of the machines.

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- Provide a secure location for the placement and play of machines.
- Place the machines in an area within the sight and control of employees from the location where alcoholic beverages are dispensed.
- Place the machines only in the area of the establishment where alcoholic beverages are regularly dispensed and consumed in the ordinary course of business. Do not place them in an area where access to the location is not restricted by age.
- Obey all laws concerning the sale, dispensing and consumption of alcoholic beverages. Your video lottery establishment license is directly dependent on the status of your alcoholic beverage license.
- Obey all video lottery laws and rules.
- Have sufficient change and cash on hand at all times both to pay credits as well as for machine play.
- Do not extend credit for machine play and exercise caution and good judgment in cashing checks for machine play.
- Report promptly all machine malfunctions to your operator or service agent and, if not promptly serviced and repaired, to the Lottery.
- Advertise and promote video lottery honestly and in good taste. You must purchase at least one sign approved by the Lottery that identifies your business as a video lottery establishment.
- Contract only with licensed operators for machine placement and to share in revenues from the machines.
- Ensure that the telephone lines to the machines are connected and in operation.
- Promptly report any violation or possible violation of the video lottery laws and rules to the Lottery.
- Permit the Lottery physical access to the business premises and machine records during normal business hours or as requested by the Lottery.
- Conduct your business in a manner that does not pose a threat to the public health, safety, and welfare of the citizens of the State of South Dakota; that reflects adversely on the security or integrity of the Lottery; or that harms the video lottery business.
- Assist the Lottery in maximizing revenue to the State.
- Keep current in payments to the Lottery and other persons with whom you conduct video lottery business.
- Promptly notify the Lottery of any change in ownership of the business. Establishment

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licenses are not transferable.

THE FOLLOWING SECTIONS ONLY APPLY TO MUNICIPALITIES THAT OPERATE THEIR LIQUOR STORE:

### Payments of Credits

The governing body should adopt policies to establish and regulate the payment of credits.

Credits on valid tickets must be immediately paid in cash or by check when presented for payment by a player. You may also pay credits in instant lottery tickets, if requested by a player.

- No credits may be paid in tokens, chips or merchandise.
- A ticket must be presented for payment before the close of business on the date the ticket was printed. The Lottery is not responsible for the payment of any credits.
- Payment may only be made on tickets for credits awarded on machines located in your establishment. The establishment name will appear on each printed ticket.
- Mark the tickets you pay in some way to prevent them from being presented and paid again.
- In the case of a machine malfunction that is incorrectly awarding credits, contact your operator or service agent immediately and do not allow any further play on the machine.
- Prominently display in the area where the machines are located information on the payment of credits and age restrictions on machine play. The Lottery will provide you posters with this information.

Suggested systems for the payment of credits are as follows:

**CASH BOX** - A cash box may be established for the sole purpose of redeeming credits. The required balance of the cash box should be set by the board.

**TILL** - Credit tickets may be redeemed from the cash in the till. The credit tickets would then constitute a cash item in the till. A transaction should not be registered on the till when redeeming a credit ticket.

**CHECKING ACCOUNT** - A checking account may be established at a fixed amount set by the board. This account could only be used for redeeming credit tickets and should be established separate from the rest of the city's money. It may be necessary to establish several employees to sign as payor to cover the various shifts. Vouchers do not need to be prepared in support of payments. Also, disbursements from this account do not need to be published.

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COMBINATION - Any combination of the preceding systems may be established by the board to be used for redeeming credits. For example, small payouts may be made in cash with the larger payouts being paid by check. This would reduce the amount of cash that would be necessary to have on hand.

No matter which system is used for the payment of credits, the value of the cash items (credit tickets) plus the cash should at all times reconcile to the required balance. Since several of the suggested payout systems will require additional cash to be on hand, an increased awareness over physical security is strongly suggested. The governing body should also designate a person to be responsible for the cash involved in the credit redemption process.

### FINANCE OFFICER DUTIES

At least once a month, on a random, unannounced basis, the finance officer must audit the payout system:

If a cash box is used, or the cash change in the till drawer is utilized to accommodate payouts, the finance officer should perform surprise cash counts to reconcile to the required balance.

If a checking account is used, the finance officer must reconcile this account to its required balance. This should encompass at least a review of outstanding checks, deposits, credit slips and bank statements.

The finance officer will keep and retain all "Audit Ticket" copies for independent audit. The finance officer should periodically verify the municipalities share of the net income from the video lottery by performing the following steps:

1. Locate the "Net In" from the audit tickets.
2. Deduct 50% from "Net In" to give the state its share.
3. The remaining balance of "Net In" is then split as predetermined on the contract between the Municipality (Establishment) and the Operator.
4. The municipality's share should then be reconciled to the amount rung up on the till.
5. Variances should be determined and resolved.

Audit tickets summarize the machines activity for the "Period" and also maintains a "Master" balance representing the total of all "Periods." The finance officer may verify the presence of all audit tickets by reconciling the audit tickets from each period to the "Master."

Evidence of the various cutoffs and reconciliations performed by the finance officer must be retained for audit.

### ON-SALE LIQUOR STORE MANAGER/EMPLOYEE DUTIES

When the video lottery machine is opened by the operator, or his representative, and the cash box is removed, a liquor store representative must be present to observe and verify the cash removed.

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In the event that machine income does not equal payouts, it is the responsibility of the "Operator" to make up the difference.

Each video machine is capable of printing an "Audit Ticket" by the turn of a key. The operator will need a copy of this ticket, and the liquor store/municipality shall receive an additional copy. Payout slips should be presented to the operator for reimbursement at that time. If a payout checking account is used, a deposit should be made to bring the balance up to its required amount. If cash items were removed from the till, the equivalent amount of cash must be replaced.

The municipalities share of the net income from the machine must be rung up on the cash register (as a "No Tax" sale) and the money included in the daily deposit. The "Audit Ticket" copy should be delivered to the municipal finance officer.

Depending upon the payout policy adopted by the governing board, the cash tickets must be placed in the till as a cash item, or kept on an imprest basis with the check book or cash box.

The liquor store manager shall deposit all receipts intact on a daily basis. Each day's deposit should equal gross sales for the day. The change fund balance set by the governing body should equal the sum of the cash on hand plus payout cash items.