

OCTOBER 27, 1997

The Colorado Limited Gaming Control Commission in July approved changes to Rule 12, Gaming Devices and Equipment, effective September 30, 1997, which have the following effect on the Internal Control Minimum Procedures (ICMPs):

- Regulation 1201 now specifically requires the testing of slot machines by Division of Gaming employees, including the sealing of chips in a manner determined by the Division.
- The Progressive Bonus Award found in the current ICMPs was changed to an Increasing Probability Bonus Award in Regulation 1244.5. The licensee's notification requirements found in the current ICMPs are also found within Regulation 1244.5.
- The changes to Rule 12 that will have the greatest impact on the ICMPs will be those affecting progressives. The old rule allowed a licensee to transfer a progressive from one bank of slot machines to another bank within the same licensed premises. However, licensees had to transfer the entire advertised amount. This rule also required that the slot machine(s) to where the progressive was being transferred have the same probability as the slot machine(s) from which the progressive was transferred. Regulation 1244(11) now permits the transfer of the patron contributions only (the difference between the advertised progressive amount and the base amount). In addition, if no comparable probability slot machine is available (as determined by the Division of Gaming), Regulation 1244(11) permits the distribution of the patron's contribution in another approved manner, such as using an additional payout.
- Rule 12 now defines a component part of a slot machine as any part which is necessary for the proper and essential function of the slot machine as it relates to accepting money or tokens, paying out money, determining or displaying the outcome of the game, record keeping and/or security. This definition is necessary due to C.R.S. 12-47.1-103(28) which defines a slot

machine manufacturer as "...any person who designs, assembles, fabricates, produces, constructs, or otherwise prepares a complete or component part of a slot machine...." However, the Act's definition does not specifically define a component part. Regulation 1257 provides this definition, while Regulation 1258 requires that manufacturers of component parts be licensed as slot machine manufacturers. Licensees must purchase component parts, such as after-market bill validators, from licensed slot machine manufacturers.

- Regulation 1242 changes the theoretical pay out computation for skill-based slot machine games. The old rule required that the theoretical pay out (80-100%) for skill based games be calculated using optimum play strategy. Regulation 1242 now requires that the theoretical pay out for these games be calculated using optimum play strategy for the 100% theoretical pay out, while the lowest manufacturer's expected return be used for the 80% theoretical pay out. Due to this change, licensees should use the highest level of the manufacturer's expected field return pay out percentage for skill based slot games on their theoretical hold versus actual hold report.
- Regulation 1223 now requires that licensees maintain adequate records when soft meters reset. Accounting is responsible for maintaining these records anytime a machine's meters reset. As part of the adequate records requirement, the accounting department should determine and document the cause of the reset.
- A number of slot machines with coin-out meters currently do not comply with our current rule. These machines allow patrons to accumulate credits far in excess of the hopper limit. As soon as the patron cashes out these credits, the machine locks up, requiring a hand pay. When the machine is reset, the coin-out meter, as well as the hand pay meter, increments for these accumulated credits. One of the changes to Rule 12 requires that the coin-out meter increment for all coins, tokens, and credits paid out by the slot machine's hopper for awards won by patrons. On the other hand, the jackpot meter increments for all awards not paid out by the hopper. Counting accumulated credits on the coin-out meter violates Rule 12 because the machine's hopper is not paying out the accumulated credits. In the future, the hopper limit and the credit limit on these types of slot machines will be required to be set at the same value. When set up in this manner, the coin-out meter increments for credits paid out of the hopper and the jackpot meter increments for those credits not paid out of the hopper.

The Audit Section is in the process of updating the ICMPs due to these changes to Rule 12. The Audit staff will also be clarifying other sections of the ICMPs. Because these changes are not significant, the establishment of another ICMP panel with industry input is not necessary. A draft of the changes should be available some time in early 1998.

Any comments or questions should be directed to Paul Hogan in Lakewood, (303) 205-1336; Maren Rubino in Central City, (303) 582-0529; or Brenda Davis in Cripple Creek, (719) 689-3362.