

COUNTY/CITY LOTTERY COMPLIANCE PROCEDURES REPORT

SCOTTSBLUFF COUNTY

07/01/09 THROUGH 06/30/10

**This document is an official public record of the State of Nebraska,
Issued by Scotts Bluff County.**

DATE OF ISSUANCE 09/20/10

**Jerry Crable
Management Accountant**

BACKGROUND INFORMATION

Title 316, Chapter 35, Section 616 of the Nebraska Administration Code requires a county, city, or village to perform, on an annual basis coinciding with the fiscal year of the county, city, or village, compliance procedure of its keno lottery prescribed by the Nebraska Department of Revenue. The compliance procedures are set forth in Revenue Ruling 35-2006-04 issue by the Department on January 3, 2006.

Section 616 further requires a report outlining the findings from the performance of the compliance procedures to be submitted by the county, city, or village to the Department within 90 days of the end of the fiscal year of the county, city, or village. In the event a county, city, or village cancels its license or allow such license to expire prior to the end of the reporting period, a final report shall be filed with the Department within 90 days of the date the license was canceled or expired.

This report is intended solely for the information and use of the Nebraska Department of Revenue and the Scotts Bluff County. However, this report is a matter of public records and its distribution is not limited.

COMPLIANCE PROCEDURES AND FINDINGS

#1 & #2 COMPLIANCE REQUIREMENT (MANUAL BALL DRAW METHOD): An unannounced observation of the keno activity shall be made at least annually for all Sponsors who utilize a manual ball draw method for selection of winning numbers during the conduct of a keno lottery.

FINDINGS: An unannounced observation of the winning number selection process was performed for the following games:

	Date	Location	Time	Game Number
a.	12/10/09	Main	10:28am	418
b.	12/10/09	Main	10:33am	419
c.	12/10/09	Main	10:38am	420
d.	12/10/09	Main	10:44am	421
e.	12/10/09	Main	10:50am	422
f.	12/10/09	Main	10:56am	423
g.	12/10/09	Main	11:01am	424
h.	12/10/09	Main	11:08am	425
i.	05/18/10	Main	11:16am	69
j.	05/18/10	Main	11:21am	70
k.	05/18/10	Main	11:26am	71
l.	05/18/10	Main	11:32am	72
m.	05/18/10	Main	11:38am	73
n.	05/18/10	Main	11:43am	74

During an unannounced observation, the following licensed lottery workers were present and participated in the winning number selection process.

12/10/09 - Name of Lottery Worker (Caller) Dennis Baynes (Games 418-419.)
Name of Lottery Worker (Marker) Devonne Green (Games 418-419.)
Name of Lottery Worker (Keno Manager) Pat Bloyd (Games 418-419.)

12/10/09 - Name of Lottery Worker (Caller) Pat Bloyd (Games 420-423.)
Name of Lottery Worker (Marker) Dennis Baynes (Games 420-423.)
Name of Lottery Worker (Keno Manager) Devonne Green (Games 420-423.)

12/10/09 - Name of Lottery Worker (Caller) Devonne Green (Games 424-425.)
Name of Lottery Worker (Marker) Pat Bloyd (Games 424-425.)
Name of Lottery Worker (Keno Manager) Dennis Baynes (Games 424-425.)

05/18/10 - Name of Lottery Worker (Caller) Dennis Baynes (Games 69-73.)
Name of Lottery Worker (Marker) Pat Bloyd Sherry Dostal (Games 69-73.)
Name of Lottery Worker (Keno Manager) Alice Guertin (Games 69-73.)

05/18/10 - Name of Lottery Worker (Caller) Alice Guertin (Game 74.)
Name of Lottery Worker (Marker) Dennis Baynes (Game 74.)
Name of Lottery Worker (Keno Manager) Sherry Dostal (Game 74.)

1. The number of the game being drawn was recorded on a blank keno draw ticket.
2. Once lottery worker called the ball numbers as they were selected and entered the number into the keno system.

3. A different lottery worker (marker) recorded the ball numbers on the draw ticket.
4. The keno manager verified the number drawn by visually comparing the ball number in the rabbit ears to the number entered into the keno system prior to computing the game.
5. The keno manager signed the draw ticket as the evidence of his or her review.
6. The method of winning number selection used at the time of the unannounced observation agreed with the designated method on file with the Department.

EXCEPTIONS/COMMENTS:

I also visited the Main Keno Parlor at other times during the year and observed games such as 09/10/09, 12/17/09, 02/26/10, and 07/16/10 at which times there were always a minimum of 3 people. Most of the time there were 4 to accept wagers in a timely manner.

#3 COMPLIANCE REQUIREMENT (AUTOMATED BALL DRAW METHOD):

Verify that keno management personnel have performed on a next day basis a review of all "no read" and duplicate number occurrences. Sponsors must also verify that keno management personnel of the Lottery Operator or Sales Outlet Location have performed on the next day basis a review of the game draw for a minimum of ten percent of the games run for the previous day. A written log of such reviews must be maintained by the Lottery Operator or Sales Outlet location where the automated ball draw equipment is in use.

FINDINGS:

Scotts Bluff County Keno does not have an Automated Ball Draw system only a manual draw. So this procedure is not applicable to us.

#4 COMPLIANCE REQUIREMENT (MANUAL AND AUTOMATED BALL DRAW METHODS):

View the video tape or digital recording for a minimum of five games for each month (from at least two different weeks within each month) to determine that the following items are in compliance with the regulations:

- a. The video tape or digital recording must have a clear image to show the empty rabbit ears or wheel, date and time, and full rabbit ears or wheel. The video tape or digital recording must also show the game number or the time and date which will relate to the game number.
- b. The winning numbers drawn per the video tape or digital recording must agree with the draw ticket prepared by a lottery worker, in the case of a manual ball draw ticket prepared by a lottery worker, in the case of a manual ball draw, and the winning numbers recorded on the transaction log. Verify that all discrepancies were reported to the Nebraska Operator Sales Outlet Location, or Sponsor. Report all discrepancies not previously reported directly to the Nebraska Department of Revenue Charitable Gaming Division. Compare the time of the video tape or digital recording to the transaction log; also examine any procedure which would allow the Lottery Operator or Sales Outlet Location the opportunity to affect the outcome of the keno game.
- c. The video tapes must be retained and may not be reused until the Sponsor has performed the compliance procedures on the tapes and has released the tapes.

FINDINGS: The digital disc for the following dates and game numbers were reviewed:

	Date	Game Numbers		Date	Game Numbers
a.	07/04/09	598	ag.	01/07/10	013
b.	07/09/09	264	ah.	01/11/10	548
c.	07/10/09	332	ai.	01/19/10	636
d.	07/15/09	038	aj.	01/26/10	479
e.	07/16/09	171	ak.	02/06/10	946
f.	08/05/09	988	al.	02/11/10	537
g.	08/10/09	638	am.	02/12/10	720
h.	08/19/09	935	an.	02/19/10	645
i.	08/24/09	630	ao.	02/21/10	902
j.	08/31/09	585	ap.	03/01/10	533
k.	09/05/09	426	aq.	03/01/10	533
l.	09/07/09	609	ar.	03/08/10	463
m.	09/09/09	891	as.	03/16/10	653
n.	09/22/09	724	at.	03/29/10	417
o.	09/22/09	742	au.	04/05/10	267
p.	10/04/09	374	av.	04/16/10	752
q.	10/16/09	111	aw.	04/20/10	290
r.	10/19/09	472	ax.	04/26/10	073
s.	10/21/09	469	ay.	04/29/10	518
t.	10/23/09	052	az.	05/09/10	851
u.	10/24/09	166	ba.	04/09/10	851
v.	11/01/09	273	bb.	05/11/10	158
w.	11/04/09	761	bc.	05/20/10	401
x.	11/11/09	650	bd.	05/28/10	567
y.	11/21/09	173	be.	06/03/10	477
z.	11/27/09	760	bf.	06/19/10	739
aa.	12/05/09	912	bg.	06/24/10	491
ab.	12/12/09	764	bh.	06/26/10	785
ac.	12/17/09	459	bi.	06/29/10	193
ad.	12/17/09	523			
ae.	12/30/09	189			
af.	01/03/10	486			

1. The digital disc that I reviewed had a clear image to show the empty rabbit ears, date and time, and full rabbit ears. The recording showed the game number and the time and date which related to the game number.
2. The winning numbers drawn per the digital disc reviewed agreed with the draw tickets prepared by a lottery worker, and the winning numbers recorded on the transaction log.
3. There were not any ball draw irregularities identified which were not previously report to the Department
4. There were no games recorded over by the Lottery Operator or Sales Outlet Location prior to the performance of the Compliance Procedures.

EXCEPTIONS/COMMENTS:

As of March 17, 2008 the VCR tapes were replaced with DVDs for reviewing and the quality was much better.

#5 COMPLIANCE REQUIREMENT: Verify the accuracy of monthly game summary information provided by the Lottery Operator by tracing the gross proceeds and prize payouts from the keno systems transactions log to the monthly summary information.

FINDINGS: The gross proceeds and prize payouts from the monthly summary information provided by the Lottery Operator were compared to the totals recorded on the keno system transaction logs. The monthly summary information agreed with the totals recorded on the keno System transaction logs.

EXCEPTIONS/COMMENTS:

The monthly summary reports are traced to the daily transactions logs. The monthly summary report is also traced to the Weekly Revenue Report entered by the Keno Director and used in reconciliations for Procedure #6.

#6 COMPLIANCE REQUIREMENT: Determine that the gross proceeds of the keno lottery less prizes paid in cash are deposited into a separate bank account of the Sponsor or Lottery Operator. Monthly trace the deposits per the daily cash summary and the transaction log to the keno operations bank account to determine that the proper amount has been deposited within a commercially reasonable time frame and report any discrepancies.

FINDINGS: The gross proceeds of the keno lottery were deposited to the Operator's banks. The deposits per the daily cash summary and the transaction log were traced to the keno operations bank account by the Sponsor and the Keno Operator and no discrepancies were detected.

All deposits were made in a commercially reasonable time frame.

EXCEPTIONS/COMMENTS:

The Keno Contractor made all daily deposits and provided me with the reconciled monthly bank statements. I also reconcile Luck Keno's bank accounts monthly for comparison and to categorize the expense, transfers and deposits. The Contractor made the calculations and wrote a check to Scotts Bluff County, which was deposited into the Keno Fund (Community Betterment) monthly. I rechecked all his calculations while doing the monthly financial reports. All deposits appear to have been made in a timely manner.

The Keno Contractor paid the vendor the royalties and the Management Accountant calculated the amounts owed to the Cities/villages for royalties and State of Nebraska. As mentioned above the Contractor made the calculations and wrote a check to Scotts Bluff County and was deposited into the Keno Fund (Community Betterment). I rechecked all his calculations while doing the monthly financial reports.

Each month, the monthly summary report for each location is traced to the daily transaction log. The monthly summary reports are also tied to the "Weekly Revenue Report" for each location to ensure that the sales and payouts entered into the spreadsheets are accurate. This gives assurance that the "Weekly Revenue Report" information is correct and that the reconciliation of the deposits is also correct.

The Keno Contractor has all the deposit accounts which can not earn interest by law because he is an LLC. The Reserve Fund is the only account that can and does draw interest, but is retained in that fund. Scotts Bluff County closed the Main Deposit Account in May 2009 and the balance and interest from it was deposited into the Keno Community Betterment Account (2850) and remains exclusively under Scotts Bluff County Keno's name and control. The Platte Valley Bank account for the Rustic Tavern and the Pinnacle Bank account for Dad's Bar and Grill make monthly transfers to the Main Checking Fund, which is where Lucky One pays all royalties and expenses. The Prize Fund receives transfer as needed to pay all prizes and fills. The Reserve Fund is where Lucky One deposits all unclaimed wins.

#7 COMPLIANCE REQUIREMENT: Examine any cash overage or shortage in excess of \$25 per keno writer per shift/day and report unexplained and unresolved discrepancies and irregularities.

FINDINGS: There were not overages or shortage in excess of \$25 per keno writer per shift/day which were not previously report to the Department.

EXCEPTIONS/COMMENTS:

I get a report each month outlining the overage/shortages at all the locations. This report outlines who and how much. I am not aware of any overages/shortages that have not been reported to the Department.

#8 COMPLIANCE REQUIREMENT: The computer-generated prize tables(s) for all types of wagers must agree with the published prize pay table(s). Verify that the Lottery Operator has a procedure to maintain a log of all updates and changes to the prize pay tables and that the active prize pay table(s) on the keno system agree with the published prize pay table(s).

FINDINGS: The active prize pay tables on all the keno systems were examined at the following locations Main Parlor, Sugar Club, Rustic Tavern, Dad's Bar & Grill and Valley Bowl Family Fun Center and agreed with the published prize pay tables. The Lottery Operator maintains a log of all updates and changes to the prize pay tables and it must inform the Scotts Bluff County Board of Commissioners before making any changes or updates.

EXCEPTIONS/COMMENTS:

Pay tables are also checked if a computer malfunctions or goes down due to hard drive failure.

#9 COMPLIANCE REQUIREMENT: Examine the financial security provided for prize payments to verify that the funds are guaranteed and in compliance with the regulations.

FINDINGS: I receive a verified copy from Valley Bank located in Gering NE of an irrevocable letter of credit for Lucky One, LLC in the amount of \$75,000.

EXCEPTIONS/COMMENTS:

#10 COMPLIANCE REQUIREMENT: Ensure that all lottery records are maintained as prescribe in Schedule 59-County/City Lottery Records approved by the Records Management Division of the Secretary of State's office and Regulation 35-622.

FINDINGS: Lottery records are maintained as prescribed in Schedule 59-County/City Lottery Records. The printed and electronic medium transaction logs are stored at 1825 10th Street Gering NE 69341 which is the Administration Building away from all Keno locations. Outside tickets with pay tickets (net winning of \$1,500 or more) and void ticket are also stored at County Administration Building 1825 10th Street Gering NE 69341.

EXCEPTIONS/COMMENTS:

The records are stored in Management Accountant's locked storage room

#11 COMPLIANCE REQUIREMENT: Sponsor must file a Nebraska County/City Lottery Report, Form 35K, for the annual period corresponding to the Sponsor's fiscal year. The report must be filed with the Charitable Gaming Division within 90 days of the end of the Sponsor's fiscal year.

FINDINGS: The Nebraska County/City Lottery Annual Report, Form 35K, covering the period 07/01/09 through 06/30/10 is attached.

MISCELLANEOUS:

Additional procedures are done as requested and approved by the County Board of Commissioners. These additional procedures are as follows: checking game time intervals, opening and closing times, W-2G s figured correctly and filled out completely/correctly, voided tickets are attached to transaction logs, outside and inside tickets are attached to transaction logs, major wins are calculated correctly and traced to transaction logs, audit all wins of \$1,500 and more and 5 – 6 smaller amounts randomly selected per location per month.

In performing these additional procedures: 1. found 5 W-2Gs that needed to be redone correctly and resigned by winners, 2. one site keeps having problems with Day-Light-Savings Time conversion on their computer clocks. I verified that the closing times were not violated by checking the employees' time cards to make sure they were not working past 1am on those dates.

Respectfully submitted,

Jerry Crable
Management Accountant
Scotts Bluff County

Cc: County Commissioners