

CHAPTER 8122
DEPARTMENT OF REVENUE
LAWFUL GAMBLING; ANNUAL AUDITS

8122 0510 MORE THAN A 12-MONTH AUDIT OR
 REVIEW

8122 0550 AUDIT
 8122 0600 REVIEW

8122.0510 MORE THAN A 12-MONTH AUDIT OR REVIEW.

An organization that is terminating gambling activity or changing its year end date in accordance with Internal Revenue Code, section 442, may, upon specific prior approval from the Department of Revenue, have an audit or review prepared for periods longer than 12 months but no longer than 18 months. The audit or review will then be due at the end of the sixth month following the new fiscal year end or the month the organization terminated gambling activity, whichever applies. The request for an extended audit period must be submitted to the Department of Revenue in writing on or before the due date of the audit or review that would be prepared under the organization's actual fiscal year end

Example An organization with a fiscal year end of December 31, 1998, is terminating gambling activity April 30, 1999. The audit or review may cover the period January 1, 1998, through April 30, 1999. The request for the extended audit or review period must be submitted by June 30, 1999, the due date of a December 31 audit or review. The extended audit or review is due October 31, 1999.

Statutory Authority: *MS s 270.06, 297E 06*

History: *24 SR 893*

8122.0550 AUDIT.

[For text of subpart 1, see M.R.]

Subp. 2. Opinion. An audit opinion expressed in accordance with generally accepted auditing standards regarding the fairness of the presentation of the financial statements must be properly signed and dated by the CPA or LPA firm who performed the audit. The address, telephone number, and fax number of the accounting firm must be listed. For firms with more than one office, the address of the office that prepared the financial statements should be specified.

Subp. 3 Financial statements. The financial statements must be comparative financial statements showing the current year and previous year's financial information, unless it is a first year engagement for the accounting firm in which case the preparation of comparative statements is optional. The statements must be presented in a format prescribed by and acceptable to the commissioner of revenue. The financial statements required are as follows:

A. The statement of assets, liabilities, and fund balance must include all assets, liabilities, and the fund balance of the gambling operations as follows, if applicable:

[For text of subitems (1) to (7), see M.R.]

(8) amount of unsold ticket refund receivable from form G-7430, when filed and recorded on Schedule F,

(9) other assets specifically identified,

(10) accrued taxes imposed under Minnesota Statutes, section 297E.02, subdivision 1 (net receipts tax),

(11) accrued combined receipts taxes;

(12) unpaid cost of games, plus sales tax,

(13) loans from all sources,

(14) other liabilities specifically identified, and

(15) fund balance (profit carryover)

B The statement of revenue and expense must include revenues and expenses from the gambling operations and include, at a minimum:

[For text of subitems (1) to (5), see MR]

(6) lawful purpose expenditures detailed by tax imposed under Minnesota Statutes, section 297E 02, subdivision 1, combined receipts tax, unrelated business income tax, federal form 730 and form 11C tax, federal and state income taxes, real estate taxes, restricted use donations from tax savmgs, and donations,

(7) amount of unsold ticket refund from form G-7430 when filed and recorded on Schedule C/D, (this is a negative expense), and

(8) board-approved expenditures

[For text of item C, see MR]

D. The annual audit must include notes to the financial statements. The notes to the financial statements must include, at a minimum

[For text of subitems (1) to (9), see MR]

(10) games tested and results of the games tested, state

(a) if the games tested included games with unsold tickets,

(b) if games were tested from all active sites,

(c) the types of games tested, such as pull tabs and tipboards, and

(d) the manufacturer ID, part number, and serial number of any games that could not be located, and

[For text of subitem (11), see MR]

Subp 4 **Supplemental schedules; reconciliations; physical inventory.** The annual audit must include the following supplemental schedules

A An allowable expense comparison schedule that compares the actual allowable expense amount to the statutory limit set for allowable expenses. The schedule must include, at a minimum

[For text of subitem (1), see MR]

(2) total allowable expense limit. Determined by multiplying the gross profit for the year by 55 percent. If bingo was conducted during the year, list the gross profit from bingo and multiply by 4 15 percent. The two amounts added together determine the total allowable expense limit,

(3) allowable expenses expended, detailed by type of expenditure as listed on the G-1 Monthly Lawful Gambling Activity Summary and Tax Return, which is the total amount of actual allowable expenses from the revenue and expense statement, and

[For text of subitem (4), see MR]

B The annual audit must include a reconciliation of the gambling operations bank accounts to the reported profit carryover. The reconciliation must include, at a minimum.

(1) a comparison of the audited fund balance (profit carryover) made to a confirmed Department of Revenue fund balance (profit carryover) as of the fiscal year end,

[For text of subitems (2) and (3), see MR]

[For text of item C, see MR]

D A physical inventory observation and cash count of all sites and locations must be taken as part of the annual audit process, regardless of when the audit engagement was scheduled. A physical inventory must be taken within 30 days of the balance sheet date or engagement date, whichever is later, unless prior written approval of an alternate date is obtained from the Department of Revenue. A list of the games in inventory by manufacturer ID, part number, and serial number must be submitted to the Department of Revenue within 30 days of the date the physical inventory was taken. The physical inventory and cash count must be performed by

(1) the CPA or LPA engaged to conduct the annual audit, or
 (2) two members, officers, or employees of the organization, appointed by the organization's board, who are not involved in the gambling activity of the organization. These members, officers, or employees must certify to the CPA or LPA the correctness of their physical inventory and cash count.

If the organization deposits all of its cash on hand including cash banks in the organization's gambling account and has fewer than ten games in its inventory at the fiscal year end, it does not have to comply with the physical inventory and cash count requirements of this subpart.

Subp 5 Sampling and testing; closed games. Closed games and occasions must be tested independently by the CPA or LPA based upon criteria set by the CPA or LPA within professional standards. The sampling and testing of tipboard, pull-tab, paddleticket, bingo, and raffle closed games must meet the following requirements.

[For text of item A, see MR]

B. Closed tipboard and pull-tab games selected in the sample will be tested for the following minimum criteria, and any differences or deficiencies must be noted in the results of the games tested.

[For text of subitems (1) to (4), see MR]

(5) each prize receipt form was
 (a) properly completed for prizes awarded of \$50 or more and for last sale prizes of \$20 or more, and
 (b) the dates on the prize receipts fall within the date the game is put into play and the date the game is removed from play, as listed on the Schedule B-2 for that game,

[For text of subitems (6) and (7), see MR]

(8) the serial number on the flare must be compared to the serial number on the tickets.

[For text of item C, see MR]

Subp 6 Report on internal control structure and other matters.

A. A report about internal control structure reportable conditions observed, or evidenced by testing, during the course of an audit, that could affect the organization's ability to record, process, summarize, and report financial data must be submitted. The report shall elevate a condition to that of a material weakness when the magnitude of the condition is considered material in relation to the financial statements being audited. This report must follow and the department adopts and incorporates by reference the most recent edition of the internal audit standards as provided by audit section 325.11 of the American Institute of Public Accountants - "The Standards of Field Work - Communication of Internal Control Structure Related Matters Noted in an Audit," published June 1, 1994. This incorporation is not subject to frequent change and is available to the public through the Mintex interlibrary loan system. If no reportable conditions or material weaknesses are detected, a report must be submitted stating that no material weaknesses were detected. This report is required under subpart 1.

A list of the types of gambling audit reportable condition or material weakness to include in this report follows in subitems (1) to (12). This list is illustrative, and not all-inclusive.

(1) absence of appropriate segregation of duties including a detailed explanation,

[For text of subitems (2) to (12), see MR]

[For text of item B, see MR]

Subp 7 Organization's response to report on internal control structure. The licensed organization shall file with the Department of Revenue a response to the reportable conditions item by item, including any remedial action taken or proposed by the organization. This response may be submitted with the annual audit or review or be

filed separately within 60 days after the due date of the annual audit or review. The response must include the following items:

A Any profit carryover variance as shown on the reconciliation of profit carryover supplemental schedule must be identified. All identified variances which require amendments to tax returns must be amended and submitted to the Department of Revenue along with supporting documentation. The auditor must, upon agreement with the organization, assist in preparing an amended return or returns for the organization. The response must indicate if such amendments have been submitted to the Department of Revenue.

Variances which require adjustments instead of amendments should be adjusted by sending a letter to the Department of Revenue requesting an adjustment along with supporting documentation. Requests for an approved adjustment cannot be substituted for filing amended tax returns that correct the condition that resulted in the variance. If the variance is identified, an amended tax return or returns must be filed.

Unidentified variances must be investigated by the organization and identified. If after investigation an organization is unable to resolve the variance, the organization shall contact the Department of Revenue. The Department of Revenue will then assist the organization in resolving the variance. Final resolution will be based upon an organization's individual situation and can include: amended tax returns, an approved adjustment, required reimbursement from nongambling sources, or a combination of all three.

[For text of items B and C, see M.R.]

Subp 8. **Other.** The front page of the annual audit report must contain the following items:

- A the organization's legal name and licensed name, if different,
- B the organization's license number;
- C the Minnesota ID number, and
- D the federal ID number.

Statutory Authority: *MS s 270 06; 297E 06*

History: *24 SR 893*

8122.0600 REVIEW.

[For text of subpart 1, see M.R.]

Subp 2 **Limited assurance.** An expression of limited assurance regarding the financial statements must be submitted and must be properly signed and dated by the CPA or LPA firm who performed the review. The expression of limited assurance must also include the address, telephone number, and fax number of the accounting firm that performed the review. For firms with more than one office, the address of the office that prepared the financial statements should be specified.

Subp 3 **Financial statements.** The financial statements must be comparative financial statements showing the current year and previous year's financial statements, unless it is a first year engagement for the accounting firm in which case the preparation of comparative statements is optional. The financial statements required are as follows:

A The statement of assets, liabilities, and fund balance, regulatory basis, must include all assets, liabilities, and the fund balance of the gambling operations as follows, if applicable:

[For text of subitems (1) to (7), see M.R.]

(8) amount of unsold ticket refund receivable from form G-7430 when filed and recorded on Schedule F,

(9) other assets,

(10) accrued taxes imposed under Minnesota Statutes, section 297E 02, subdivision 1 (net receipts tax),

(11) accrued combined receipts taxes,

- (12) unpaid cost of games plus sales tax,
- (13) loans from all sources other than gambling,
- (14) other liabilities, and
- (15) fund balance (profit carryover)

B The statement of revenue and expense must include revenues and expenses from the gambling operations and include, at a minimum:

[For text of subitems (1) to (5), see MR]

(6) lawful purpose expenditures detailed by tax imposed under Minnesota Statutes, section 297E 02, subdivision 1, combined receipts tax, unrelated business income tax, federal form 730, Monthly Federal Wagering Tax, and form 11C, Federal Wagering Tax Stamp, federal and state income taxes, real estate taxes, restricted use donations from tax savings, and donations,

(7) amount of unsold ticket refund from form G-7430, when filed and recorded on Schedule C/D, (this is a negative expense); and

- (8) board-approved expenditures

[For text of items C and D, see MR.]

Subp 4 **Supplemental schedules.** The annual review must include the following supplemental schedules

A The allowable expense comparison schedule comparing the actual allowable expense amount to the statutory limit set for allowable expenses. The schedule must include, at a minimum

[For text of subitem (1), see M.R.]

(2) total allowable expense limit, determined by multiplying the gross profit for the year by 55 percent. If bingo was conducted during the year, list the gross profit from bingo and multiply by 415 percent. The two amounts added together determine the total allowable expense limit;

(3) allowable expenses expended, detailed by type of expenditure as listed on the G-1 Monthly Lawful Gambling Activity Summary and Tax Return, which is the total amount of actual allowable expenses from the revenue and expense statement; and

[For text of subitem (4), see MR]

B The annual review must include a reconciliation of the gambling operations bank accounts to the reported profit carryover. The reconciliation must include, at a minimum:

(1) a comparison of the audited fund balance (profit carryover) made to a confirmed Department of Revenue fund balance (profit carryover) as of the fiscal year end;

[For text of subitems (2) and (3), see MR]

C The list of games in ending inventory, identified by manufacturer ID, part number, and serial number, must include all pull-tab, tipboard, and paddlewheel games in play and unused as of the last day of the fiscal year reviewed.

Subp 5 **Other.** The front page of the annual review report must contain the following items

- A the organization's legal name and licensed name, if different,
- B the organization's license number,
- C the Minnesota ID number, and
- D the federal ID number

Statutory Authority: *MS s 270.06, 297E 06*

History: *24 SR 893*