

8122.0550 AUDIT.

Subpart 1. **Minimum requirements.** The annual financial audits must be prepared on the regulatory basis of accounting and contain, at a minimum, an opinion, financial statements, supplemental schedules, a report on internal controls, a response to internal controls report, and other information as noted.

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 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:

- (1) all game starting banks;
- (2) all gambling checking accounts;
- (3) all savings accounts;
- (4) all certificates of deposit and other negotiable instruments;
- (5) inventory from pull-tabs, tipboards, paddlewheels, bingo, and raffles, in play and unused;
- (6) fund losses;
- (7) excess cash shortages to be reimbursed;
- (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:

(1) gross receipts detailed by game type, such as bingo, pull-tabs, tipboards, paddlewheels, and raffles, including ideal or actual gross receipts from games found to be missing or unreported, respectively;

(2) actual prizes paid out detailed by game type including ideal or actual prizes from games found to be missing or unreported, respectively;

(3) interest income;

(4) gross profit;

(5) allowable expenses;

(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 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.

C. The statement of changes in fund balance must include, at a minimum:

(1) beginning fund balance (profit carryover);

(2) profit or loss for the year;

(3) ending fund balance (profit carryover); and

(4) other adjustments.

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

(1) nature of organization;

(2) basis of presentation of the financial statements;

(3) related party activity;

(4) restrictions on assets;

(5) subsequent events;

- (6) uncertainties;
- (7) commitments such as mortgages, rent, donations, or all taxes not paid or not filed, if material;
- (8) contingent liabilities;
- (9) board-approved expenditures;
- (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
- (11) a list of all forms of gambling conducted by the organization which must be confirmed by the chief executive officer.

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:

- (1) gross profit for the year;
- (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
- (4) expenses below or above the allowable limit, which is the amount by which the allowable expenses expended is below or above the statutory total allowable expense limit.

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;

(2) any difference between the adjusted gambling fund balance and the fund balance (profit carryover) is a variance; and

(3) any or all of the items that identify the variance if known.

C. The annual audit must include a reconciliation between the number of pull-tab, paddlewheel, and tipboard games played to the number of pull-tab, paddlewheel, and tipboard games reported on schedule B, Report of Non-bar Coded Games Played, Destroyed or Lost, or B-2, Report of Bar Coded Games Played, Destroyed or Lost, for the fiscal year audited. The schedule must include, at a minimum:

(1) the cost and number of games in beginning inventory;

(2) the cost and number of games purchased during the year audited;

(3) the cost and number of games available during the year audited;

(4) the cost and number of games in ending inventory as of the last day of the organization's fiscal year end;

(5) the cost and number of games used which is determined by subtracting the ending inventory from total games available;

(6) the number of games reported as played, lost, or destroyed on schedule B, Report of Non-bar Coded Games Played, Destroyed or Lost, or B-2, Report of Bar Coded Games Played, Destroyed or Lost; and

(7) calculate the difference between the games determined as played and games reported as played, lost, or destroyed on schedule B, Report of Non-bar Coded Games Played, Destroyed or Lost, or B-2, Report of Bar Coded Games Played, Destroyed or Lost.

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 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 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 based upon criteria set by the CPA within professional standards. The sampling and testing of tipboard, pull-tab, paddleticket, bingo, and raffle closed games must meet the following requirements:

A. When a minimum sample size is required, the random or systematic method of sampling will be used. When a minimum sample is expanded, the expanded portion of the sample may use random, systematic, or haphazard methods. When a minimum sample is not required, the sample method may be random, systematic, or haphazard. The following chart of gross receipts will be used to determine the minimum size of a sample for closed pull-tab and tipboard games.

Gross Receipts		Minimum Sample Size	
\$0	to	\$999,999	10 games
\$1,000,000	to	\$2,499,999	20 games
\$2,500,000	to	\$4,999,999	30 games
over \$5,000,000			40 games

There is no minimum sample size requirement for testing paddletickets, bingo, and raffles. Closed games and occasions will be sampled independently by the CPA using judgment based on professional standards.

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:

(1) each game specified in the sample was available from closed-deal storage;

(2) the following items as reported on schedule B, Report of Non-bar Coded Games Played, Destroyed or Lost, or B-2, Report of Bar Coded Games Played, Destroyed or Lost, must be compared against test results for the same items, and differences shown:

- (a) ideal gross receipts;
- (b) ideal prizes;
- (c) total value of unsold tickets;
- (d) gross receipts;

- (e) total value of prizes paid;
- (f) net receipts;
- (g) cash in hand;
- (h) cash long or short; and
- (i) date removed from play;

(3) each deposit ticket meets the gambling receipt deposit requirements in Minnesota Statutes, section 349.19, subdivision 2;

(4) each deposit was recorded at the bank within four business days after the game was completed;

(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;

(6) each redeemed prize winning ticket was adequately defaced;

(7) each game flare is easily available from storage; and

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

C. The results of closed game sampling and testing must be provided to the organization upon a request from the organization.

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 Minitex 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;
- (2) inadequate provision for safeguarding of inventory, cash, or other assets;
- (3) excessive cash shortages or overages;
- (4) material delinquent taxes due to state or federal taxing authorities;
- (5) lack of required accounting records maintained;
- (6) lack of or inaccurate preparation of bank reconciliations or gambling fund reconciliations;
- (7) material differences between games played and games reported as played;
- (8) nonuse or inaccurate use of perpetual or physical inventories for all forms of gambling engaged in;
- (9) lack of specific required identification for tracking and accountability of deposit tickets;
- (10) material underreporting or overreporting of allowable expenses, lawful purpose expenditures, or board-approved expenditures;
- (11) failure to properly account for and report fund losses, form LG-250, Fund Loss Report; and
- (12) inattention to and lack of correction to prior year reportable conditions and material weaknesses.

B. A regulatory checklist questionnaire must be included with the report from item A, on a form prescribed by the commissioner. Responses to questions on this checklist must be based on findings and information collected during the course of the audit.

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.

B. If the comparison of games played to games reported on schedule B, Report of Non-bar Coded Games Played, Destroyed or Lost, or B-2, Report of Bar Coded Games Played, Destroyed or Lost, shows a difference, the organization must respond to the reportable conditions item by identifying and stating if the game difference was due to the games being:

- (1) missing or lost;
- (2) destroyed, with state approval;
- (3) played and unreported; or
- (4) reported in following month.

C. Specific items as noted on the internal control structure report must be responded to.

If no response is received from the organization, the organization must submit to the Department of Revenue a copy of the audit management letter upon request.

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; 270C.06; 297E.06*

History: *20 SR 1482; 24 SR 893; L 2005 c 151 art 1 s 114; L 2010 c 191 s 13*

Published Electronically: *August 2, 2010*