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RE: INTERNAL AUDIT REQUIREMENTS

The primary objective of an internal audit system is to assist the regulatory body in the effective discharge of its responsibilities. To this end, the internal auditor will furnish the Gaming Commission with analyses, appraisals, recommendations, and information concerning the activities subject to review. An annual audit of the financial statements of each gaming operation on Indian lands is required, whether the operation is offering class II games, class III games, or a combination of class II and class III games.

Audit Requirements

Specifically, the Indian Gaming Regulatory Act ("IGRA"), 25 C.F.R. § 571.12, requires the following:

A tribe shall engage an independent certified public accountant to provide an annual audit of the financial statements of each gaming operation on Indian lands. Such financial statements shall be prepared in accordance with generally accepted accounting principles (GAAP) and the audit(s) shall be conducted in accordance with generally accepted auditing standards. Audit(s) of the gaming operation required under this section may be conducted in conjunction with any other independent audit of the tribe, provided that the requirements of this chapter are met.

In meeting the aforementioned requirements, the Tribe must perform the following:

1. Establish the fiscal year for each gaming operation. The NIGC should be notified of any changes to a gaming operation's fiscal year end.
2. The financial statements (balance sheet, statement of operations and retained earnings, and statement of cash flows) should cover the gaming operation only, and not include such non-gaming activities as a hotel, golf course, or other unrelated business.
3. The financial statements must be prepared in accordance with generally accepted accounting principles. The use of another comprehensive basis of accounting, such as the cash basis of accounting, is not acceptable.
4. The independent accountants must perform their audit in accordance with generally accepted auditing standards and must express an opinion on the financial statements.
5. Limitations by the tribe or management of the gaming operation on the auditor's scope of work are unacceptable.

6. Auditors must be engaged in sufficient time for them to be able to perform their work and must have unrestricted access to the books, records, etc. to do their work. Also, the accounting records, internal controls, etc. must be sufficient for the auditors to perform their audit and express an opinion.
7. The financial statements of each individual gaming operation must be set out separately and the independent accountant must audit and render an opinion on each set of financial statements. An audit of the combined financial statements of two or more gaming operations is not acceptable. Further, an audit of the general purpose financial statements of the tribe, even though they may include the financial statements of the gaming operation(s), is likewise unacceptable.
8. An audit can be conducted in conjunction with the audit of the tribe's general purpose financial statements but the auditor's work would have to be expanded to include an audit of the financial statements of each gaming operation and separate report(s) would have to be rendered on each such operation by the independent certified public accountant.
9. Submit to the National Indian Gaming Commission a copy of the report(s) and management letter(s) setting forth the results of each annual audit within 120 days after the end of each fiscal year of the gaming operation. 25 C.F.R. § 571.13.
11. A tribe shall reconcile its quarterly fee assessment reports with its audited financial statements and make available such reconciliation upon request by the NIGC's authorized representative. 25 C.F.R. § 571.14. This reconciliation is necessary to show that amounts being reported on the quarterly fee assessment reports and the audited financial statements agree.
12. All gaming related contracts that result in purchases of supplies, services, or concessions for more than \$25,000 in any year (except contracts for professional legal or accounting services) shall be specifically included within the scope of the audit. 25 C.F.R. § 522.4(b)(4). The inclusion of such contracts specifically within the scope of audit implies that they be subjected to relevant audit procedures. These should include: reviewing the purchasing procedures, checking the pricing, verifying the receipt of goods or services, and checking the mathematical accuracy of all aspects of each transaction.

Generally Accepted Accounting Principles

The American Institute of Certified Public Accountants “(AICPA)” has issued interpretations of GAAP relevant to gaming operations, which are intended to provide accounting and auditing guidelines. Pursuant thereto, the following information is provided as recommended guidance for the auditor:

1. Compare the tribal regulatory authority’s adopted MICS in its entirety to the standards set forth in 25 C.F.R. § 542 to ascertain whether the criteria set forth in the federal standards or NIGC approved variances are adequately addressed in all material respects. Exceptions to the MICS should be itemized in the Compliance Report. Should the auditor determine that the tribally adopted MICS, inclusive of approved variances, adequately address the criteria set forth in the NIGC’s MICS in all material respects, the auditor should utilize the tribal MICS as the benchmark for evaluating the gaming operation’s internal control systems. Should the auditor

determine that the tribally adopted MICS, inclusive of approved variances, fail to adequately address the federal MICS in all material respects, the auditor should use the standards set forth in 25 C.F.R. §542 as the benchmark for evaluating the internal control systems of the gaming operation.

2. As a prerequisite to the evaluation of the gaming operation's internal control systems, it is recommended that the auditor obtain and review an organization chart depicting segregation of functions and responsibilities, a description of the duties and responsibilities of each position shown on the organization chart, and an accurate, detailed narrative description of the gaming operation's procedures that demonstrates compliance.
3. The auditor should develop compliance checklists appropriate for the gaming operations. The checklist should measure compliance on a sampling basis by performing walk-throughs, observations and substantive testing. It is recommended that a separate checklist be completed for each gaming revenue center, cage and credit, internal audit, surveillance, information technology and complimentary services or items.
4. It is recommended that the auditor perform, at a minimum, the following procedures in conjunction with the completion of the checklist:
 - a. At least one unannounced observation of each of the following: Gaming machine coin drop, gaming machine currency acceptor drop, table games drop, gaming machine coin count, gaming machine currency acceptor count, and table games count. The AICPA's "Audits of Casinos" Audit and Accounting Guide states that "...observations of operations in the casino cage and count room should not be announced in advance..." For purposes of these procedures, "unannounced" means that no officers, directors, or employees are given advance information regarding the dates or times of such observations.
 - b. The gaming machine coin count observation would include a weigh scale test of all denominations using precounted coin. The count would be in process when these tests are performed, and would be conducted prior to the commencement of any other walk-through procedures. For computerized weigh scales, the test can be conducted at the conclusion of the count, but before the final totals are generated.
 - c. The checklists should provide for drop/count observations, inclusive of hard drop/count, soft drop/count and currency acceptor drop/count. The count room would not be entered until the count is in process and the auditor would not leave the room until the monies have been counted and verified to the count sheet by the auditor and accepted into accountability. If the drop teams are unaware of the drop observations and the count observations would be unexpected, the hard count and soft count rooms may be entered simultaneously. Additionally, if the gaming machine currency acceptor count begins immediately after the table games count in the same location, by the same count team, and using the same equipment, the currency acceptor count

observation can be conducted on the same day as the table games count observation as long as the auditor remains until monies are transferred to the vault/cashier.

- d. Observations of the gaming operation's employees as they perform their duties.
- e. Interviews with the gaming operation's employees who perform the procedures addressed by the MICS.
- f. Compliance testing of various documents referred to in the MICS. The scope of such testing should be indicated on the checklist where applicable

The above procedures are the recommended minimum procedures to be performed.