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May 19, 2004

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**TO: ALL GROUP I NONRESTRICTED LICENSEES, GROUP I LICENSEES'
CPA FIRMS AND INTERESTED PERSONS**

**RE: REVISIONS TO THE INTERNAL AUDIT COMPLIANCE CHECKLISTS
AND GUIDELINES**

On March 5, 2004 the Gaming Control Board notified all Group I Nonrestricted Licensees that the proposed CPA MICS Compliance Checklists and Guidelines became effective on January 21, 2004. The Audit Division has now also revised the Internal Audit Compliance Checklists and Guidelines. The Internal Audit Guidelines have been modified to be consistent with the new CPA Guidelines, and the checklists have been updated to include the adoption of regulations and statutes since the previous release of these checklists on October 1, 2000. The Group I nonrestricted licensees' internal auditors will be utilizing these checklists and guidelines in performing procedures pursuant to Regulation 6.090(15).

The proposed revisions to the Internal Audit Compliance Checklists and Guidelines can be obtained from the Board's website at <http://gaming.nv.gov/>, or may be obtained on floppy disk or hard copy at either the Reno or Las Vegas Audit Division offices. The proposed changes to the existing Guidelines are denoted with lines through the deletions and the underlining/bolding of the additions. The compliance checklists have been revised, and the example reports are a new addition. As requested by the industry, example reports have been provided to assist in preparing the required reports to be submitted to the Board. The significant changes made to the October 2000 guidelines and checklists are summarized as follows:

Internal Audit Guidelines

1. In the "Objectives" section, a reference to Regulation 6.090(15) has been added as the authoritative basis requiring the licensee's internal auditor to perform observations, document examinations and inquiries of employees to determine compliance with applicable statutes, regulations, and minimum internal control standards.

2. The “Separate Internal Audit Department” section lists those individuals who are allowed to perform the internal audit function for licensees who are required to maintain a separate internal audit department.
3. In the “Qualifications of Personnel Performing Internal Audit Function” section, the qualifications of the individual performing internal audit work are indicated. The qualifications apply to anyone performing the internal audit function whether performed by casino employees or external auditors. Generally, the individual performing the internal audit function must be independent with respect to the departments subject to audit, and must meet educational or experience requirements or be supervised by an individual who meets the requirements.
4. In the “Required Procedures” section, clarification was added for when internal audit performs similar audit procedures required by both Regulation 6.090(15) and the Minimum Internal Control Standards (MICS). The individual(s) performing the MICS procedure cannot also perform the similar Regulation 6.090(15) procedure.
5. In the “Performance and Completion” section (procedure #3), the licensee’s written system of internal control must be compared by the Internal Auditor to the procedures being used in the licensee’s casino operations.
6. In the “Performance and Completion” section (procedure #4), clarification was added regarding the documentation to be maintained when performing testing procedures. The checklist and/or back-up workpapers must include a description of the original document examined by either explicitly identifying the form(s) (e.g., document number of slot jackpot form) examined or including a copy of the documents(s) examined.
7. In the “Performance and Completion” section (procedure #7), a supervisory review is required to be performed of the internal audit work by someone other than the individual performing the procedures being reviewed when two or more persons perform the internal audit function.
8. In the “Report Submission Requirements” section, the Internal Audit Department is required to submit their findings to the Board semi-annually. The internal auditor’s report for the first-half of the business year report is to be submitted to the Board within 120 days after the end of the first six months of the licensee’s business year. However, the internal auditor’s second-half of the business year report is to be submitted to the Board within 150 days after the end of the business year and must be submitted separate from the CPA’s Regulation 6.090(9) compliance report even though Regulation 6.090(15) and Regulation 13, Section 23 both allow for an alternative reporting method for the second-half reports. Additionally

all workpapers and reports must be completed and reviewed prior to the 120-day and 150-day deadlines to submit such reports, so that workpapers supporting these reports will be readily available for Board review immediately following these reporting deadlines.

9. An "Example Report Formats" section has been added to provide an example of reports to be submitted and suggestions that may be used to comply with these reporting requirements.

Internal Audit Checklists

1. The checklists have been revised to include regulations adopted through November 20, 2003 and minimum internal control standards that became effective on October 1, 2003.
2. Entertainment – A new "Entertainment Area Evaluation Form" has been added. This form is used to record areas of live entertainment in conjunction with completing the "Entertainment Walk-through Procedures" checklist. Additionally, this form is required to be completed as a part of the "Miscellaneous Regulations Testing Procedures" checklist for licensees not reporting live entertainment revenue but which may have areas subject to live entertainment tax that have not been collecting the tax.
3. Information Technology – A testing procedure has been added to review requests for system program changes made during the fiscal year.
4. Miscellaneous Regulations – A walk-through procedure was added to observe one drawing in any gaming area during the year to determine whether the drawing was conducted in accordance with conditions provided to the patrons.
5. Branch Office – The criteria as to when branch office visits need to be performed have been changed. The criteria is the same for both credit and Regulation 6A. The new criteria is as follows:

Branch offices [as defined by Regulation 6A.010] and/or independent agents [as defined by Regulation 25.010(1)] that either accepted more than \$500,000 (cash or non-cash) in deposits or collected, in total, more than \$500,000 (cash or non-cash) on credit instruments during the previous fiscal year, or more than \$500,000 in the fiscal year-to-date, are visited and reviewed at least every other year. Branch offices [as defined by Regulation 6A.010] not meeting the aforementioned criteria are visited and reviewed at least once every five years.

6. Branch Office (Walk-through Procedures #21) - A master list of branch office visits performed by internal audit is maintained.

7. Branch Office (Regulation 6A Walk-through Procedures) - The procedures relating to "Suspicious Activity Reports" have been deleted.
8. Regulation 6A – Currency Transaction Reporting (Version 1) - The checklists dated October 1, 2000 have not been revised and are still in effect until further notice.

To expedite the final release of these Internal Audit Compliance Checklists and Guidelines, the Board is requesting written comments from the industry on the proposed changes rather than holding public meetings to take comments. The Board should receive your written comments no later than June 4, 2004.

Should you wish to submit written comments regarding these revisions by e-mail, the address is AuditIC@gcb.state.nv.us. Alternatively, comments may be mailed to the following address:

State Gaming Control Board
Audit Division
555 East Washington Avenue, Suite 2600
Las Vegas, Nevada 89101
Attn: Shirley Springer

Until the final release of the new Internal Audit Compliance Checklists, which is anticipated to be the end of June 2004, the current checklists with an effective date of October 1, 2000 can be used when performing internal audit compliance procedures.

Due to the ongoing nature of the revision process, it is recommended that you periodically check the Board's website for new developments and information. Please call Internal Control Coordinator Shirley Springer at (702) 486-2060 if you have any questions.

Sincerely,

Scott Scherer
Board Member

SS/SS

cc: Dennis K. Neilander, Board Chairman
Bobby L. Siller, Board Member
Records and Research Services