

INTERNAL OPERATIONS AND OVERSIGHT

This document (an excerpt from the Lawful Gambling Manual) outlines and emphasizes the importance of good internal controls as they apply to the gambling operation for which an organization’s CEO, gambling manager, and members are responsible.

In this document is basic information that ensure the integrity of a gambling operation by establishing accounting and administrative oversight controls for an organization’s gambling activity.



REFERENCES

- Minnesota Statutes 297E
- Minnesota Statutes 349.15
- Minnesota Statutes 349.19
- Minnesota Statutes 349.2127
- Minnesota Statutes 609.75
- Minnesota Statutes 609.755
- Minnesota Statutes 609.76
- Minnesota Statutes 609.761
- Minnesota Rules 7861.0260
- Minnesota Rules 7861.0320
- Minnesota Rules 7865.0220

- GAMBLING TAXES
- USE OF GROSS PROFITS
- RECORDS AND REPORTS
- PROHIBITIONS
- GAMBLING; DEFINITIONS
- ACTS OF OR RELATING TO GAMBLING
- OTHER ACTS RELATING TO GAMBLING
- OPERATIONS PERMITTED

- Conduct of Lawful Gambling
- Organization Operations, Accounts, Reports, and Records
- Suspensions or Revocations of Licenses or Permits

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Administrative Controls: Organization Responsibility

The best way to have an honest and successful gambling operation is to involve an organization's members.

Delegate within the organization . . . Do not let an outside party, including an accountant, consultant, lessor, or distributor, manage the organization's gambling operation. To do so puts an organization's gambling operation—and eventually its license—in jeopardy.

Involve more than one or two persons . . . Experience has shown that when an organization delegates too much authority to one person (whether a member or not), or when one person takes over the gambling operation—ordering inventory, auditing games, doing deposits, preparing reports—without oversight, theft often occurs. Most organizations with serious problems had only one or two people involved with the actual day-to-day business of conducting lawful gambling.

Keeping everyone honest . . . An organization's gambling operation is conducted on a cash-only basis.

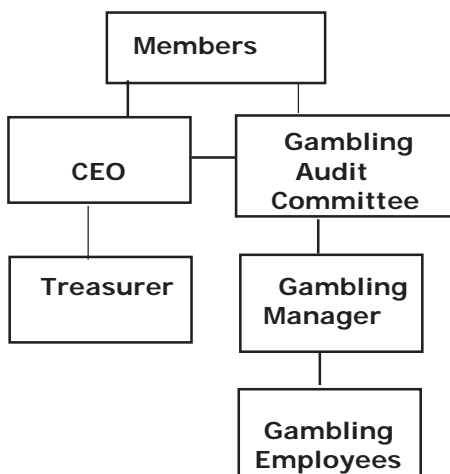
With huge sums of money passing through a person's hand, there may be a temptation to "just take a little that no one will miss."

Involving an organization's membership can prevent a person from being tempted to steal and being criminally charged when caught.

Preventing major problems . . . If an organization's members do their job—provide oversight, approve expenditures, and participate in the gambling operation—major problems will be prevented.

The organization is accountable and responsible for the actions of its employees and volunteers.

Include administrative and accounting controls as part of the organization's business plan. The controls should show how the organization is structured and who is responsible for what.



Job descriptions - To help the employees and volunteers comply with statutes and rules, it is a good idea to have a specific job description for each person.

EXAMPLE: A job description for a pull-tab seller might contain these duties:

- Verify serial numbers on flare to tickets.
- Fill out all prize receipt forms completely.
- Deface all winning pull-tab tickets.
- Do not provide any inside information to customers.



Use the site inspection check list provided in each "conduct chapter" as a guideline.

Administrative Controls: Organization Responsibility

Organization duties

An organization may not “out source” management of its gambling operation.

The following duties must be performed only by organization members, gambling employees, or gambling volunteers:



1. prepare source documents, including:
 - ___ inventory records for daily tracking of game inventory, site inventory, monthly physical inventory, and merchandise inventory. The person who maintains the perpetual inventory must not be the person who performs the physical inventory.
 - ___ gambling deposit slips
 - ___ gambling occasion and daily activity records
 - ___ authorization for disbursement of gambling funds
2. provide oversight of lawful gambling, including:
 - ___ conduct of lawful gambling
 - ___ monitoring the organization’s permitted premises to detect illegal gambling
 - ___ investigating cash variances
 - ___ determining product to be purchased
 - ___ ordering product
 - ___ presenting gambling report to members
 - ___ monitors lawful purpose rating
3. hire, discipline, or fire employees
4. train employees
5. deposit gambling receipts into bank accounts
6. verify cash banks
7. verify the accuracy of records and reports, including but not limited to:
 - ___ check register;
 - ___ monthly bank statement reconciliation;
 - ___ tax returns and schedules;
 - ___ final audit of closed games;
 - ___ bank deposit reconciliation to game and bank records; and
 - ___ reconciliation of physical and perpetual inventory.

Administrative Controls: Membership Meeting & Minutes

Monthly report to membership required



Organizations are required to give a monthly gambling report to their membership and to include the report in the minutes of monthly membership meetings. Minutes must be kept for 3-1/2 years. Use the LG1004 Monthly Gambling Report to Members (next page) as a guideline for the information that is required to be presented to members.

At the monthly meetings members vote on all matters related to the conduct of gambling and give prior authorization for all expenditures of gross profits from gambling.

Prior authorization of membership required for expenditures

- Members must give prior authorization for all gambling expenditures. This means the membership must approve all expenses prior to the check being issued or electronic transaction being made.

Members may authorize estimated expenditures up to a maximum amount for each category, such as rent, inventory purchases, compensation, etc.
- Report the actual expenditures to the membership at the next month's meeting.
- Members must confirm that the actual amounts presented are less than or equal to the amounts authorized previously.
- Record the approval of expenditures by members in the meeting minutes.

Administrative Controls: Chief Executive Officer

CEO responsibilities



The chief executive officer (CEO) is responsible for:

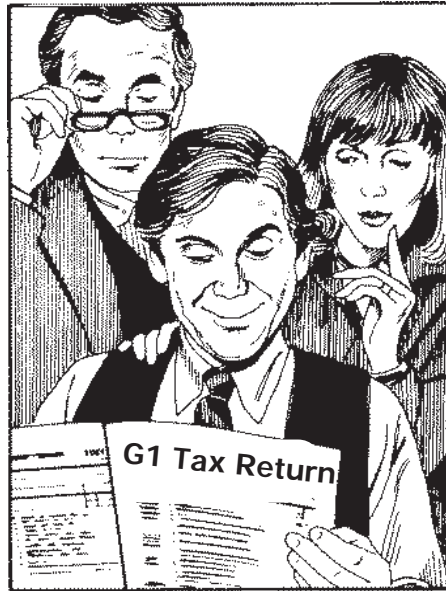
1. knowing the lawful gambling statutes and rules and following them;
2. making sure that all information in applications and other documents is true, accurate, and complete; and notifying the Gambling Control Board of any changes in application information;
3. authorizing the Gambling Control Board access to the organization's records, gambling premises, and gambling bank accounts;
4. along with the gambling manager, developing internal controls to protect the organization's gambling assets and maintain proper accounting;
5. presiding over organization monthly meetings where the expenditure of gambling profits and gambling issues are considered; and verifying that the gambling report is completed;
6. assuring the accuracy of the G1 Lawful Gambling Monthly Summary and Tax Return and attachments, and the monthly LG1010 Schedule C/D, and signing the reports;
7. assuring that gambling funds have been spent only for authorized and approved lawful purpose contributions and allowable expenses; and
8. attending a gambling manager seminar, if the organization has not been licensed in the past 12 months.

Prevent embezzlement or theft

To avoid the possibility of embezzlement or theft, get organization members involved. For example:

- take advantage of continuing education classes,
- establish an audit committee,
- establish a gambling committee,
- establish a committee to get organization members involved in providing oversight, or
- check up-to-date information at www.gcb.state.mn.us.

Administrative Controls: Areas of Oversight



The organization's chief executive officer and membership should establish oversight in the following areas, whether by appointing members to specific duties or establishing gambling committees:

1. auditing closed games;
2. reviewing cash shortages;
3. reviewing deposits;
4. monitoring expenditures and ensuring compliance with the lawful purpose rating;
5. reviewing fund losses and internal controls;
6. monitoring the organization's permitted premises to detect illegal gambling;
7. verifying the inventory;
8. providing information to the membership each month;
9. reconciling and verifying profit carryover;
10. verifying monthly and annual reports provided to the Department of Revenue, Gambling Control Board, and to the local unit of government, if any; and
11. preparing the annual financial summary.

Administrative Controls: Gambling Manager



The **gambling manager** is the person who is in charge of the day-to-day activities of the organization's gambling operation. The gambling manager must:

- be licensed by the Gambling Control Board
- have a \$10,000 bond
- have attended a gambling manager seminar and passed a written test, and
- attend a continuing education class every calendar year.

License required - See the *Gambling Manager License* chapter for qualifications to be licensed.

Gambling manager duties

A gambling manager duties include but are not limited to:

1. supervising, hiring, firing, and disciplining gambling employees, including an assistant gambling manager, if any;
2. reviewing and monitoring the conduct of games;
3. determining the product to be purchased and put into play;
4. determining the policy of when to put games into play;
5. ensuring all receipts and disbursements have been properly accounted for in compliance with statute and rule requirements;
6. ensuring that all inventory records have been reconciled each month;
7. supervising all licensing and reporting requirements;
8. assuring that the organization is in compliance with all statutes and rules related to lawful gambling;
9. assuring that illegal gambling is not conducted at a permitted premises; and
10. attending a majority of the organization's regular meetings.

The gambling manager must also ensure that required reports are properly filed with the Gambling Control Board, the Department of Revenue, the IRS, and if required, the local unit of government.

Administrative Controls: Assistant Gambling Manager

Assistant gambling manager duties



An assistant gambling manager is a person who performs any of the following:

- six or more of the functional responsibilities listed on pages 2 and 3 of the LG202 Internal Controls Worksheet. [Functional responsibilities are defined in Minnesota Rules 7861.0320, Subpart 1D.];
- hires, disciplines, or fires the organization's gambling employees,
- completes the license and permit application requirements,
- negotiates leases, or
- determines product to be purchased.

No license required - There are no licensing requirements for an assistant gambling manager.

More than one assistant gambling manager allowed for an organization

One or more assistant gambling managers may be employed by an organization if each assistant gambling manager is:

- directly supervised by the gambling manager, and
- an active member or employee of the organization.

An assistant gambling manager may not be involved in the conduct of lawful gambling of another organization, except for bingo as noted below.

Assistant gambling manager for bingo

An assistant gambling manager may be employed by more than one organization, if:

- the organizations lease space in the same premises for the conduct of bingo, and
- the assistant gambling manager is not paid directly or indirectly by the lessor or owner of the premises.

Duties allowed - An assistant gambling manager who is employed by more than one organization at the same premises for the conduct of bingo may supervise gambling employees during bingo occasions at the premises and assist the gambling manager with their duties.

Duties not allowed - Assistant gambling managers employed by more than one organization at the same premises for the conduct of bingo may not do any of the following:






1. supervise the organization's licensing and reporting requirements;
2. hire, fire, or impose permanent discipline on gambling employees, except for temporary disciplinary action that may be necessary during a bingo occasion. If temporary disciplinary action is taken, the assistant gambling manager may make a recommendation to the gambling manager regarding permanent disciplinary action;
3. determine program content or prize level requirements;
4. determine the product to be purchased and put into play;
5. be a gambling employee or volunteer at any other site where your organization conducts lawful gambling; and
6. be a gambling employee or volunteer for any other organization conducting lawful gambling at another site.

Accounting Controls: Lawful Purpose Rating

For each 12-month period (July to June) a licensed organization will be evaluated by the Gambling Control Board to determine a rating based on the percentage of annual gross profits spent on lawful purpose expenditures.

Star rating determined

Organizations will be evaluated according to the following criteria.

<u>% Spent on Lawful Purpose</u>	<u>Rating</u>	
more than 50%	5 star	
more than 40%	4 star	
more than 30%	3 star	
more than 20%	2 star	 One year automatic probation
Less than 20%	1 star	 One year automatic probation

Automatic probation for 1 and 2 star ratings

- An organization that fails to expend a minimum of 30% of annual gross profits on lawful purposes is automatically on probation for the following fiscal year starting on July 1.
- By the end of the one-year probationary period, the organization must increase their rating to a minimum of 30% or be subject to sanctions by the Gambling Control Board.
- If an organizations fails to meet the minimum after a one-year probation, the Board may suspend the organization's license or impose a civil penalty of up to \$10,000.

Suspension or civil penalty criteria

Before imposing a suspension or civil penalty, the Board will take into consideration the following factors that may have caused an organization to not meet the minimum rate of profitability:

1. the purchase of capital assets necessary to conduct lawful gambling;
2. road or other construction causing impaired access to the lawful gambling premises;
3. flood, tornado, or other catastrophe that had a direct impact on the continuing lawful gambling operation; and
4. any other unique factors or circumstances that the organization presents to the Board for consideration.

LG1012 Worksheet - Lawful Purpose Rating

Month/Year	A Gross profits this month G1, line 10c	B Col. C from last month	C Gross profits total to date Col. A + Col. B	D Taxes and fees this month G1, line 15	E Lawful purpose this month G1, line 43	F Total LPE this month Col. D+E	G Lawful purpose to date Col. F plus Col. G last month*	H % of Gross profit to date Col. G divided by Col. C
Jul/___		- 0 -						
Aug/___								
Sep/___								
Oct/___								
Nov/___								
Dec/___								
Jan/___								
Feb/___								
Mar/___								
Apr/___								
May/___								
Jun/___								

*For the month of July, the amount in Column G will equal the amount in Column F.

12-month period - For each 12-month period beginning July 1 a licensed organization will be evaluated by the Gambling Control Board to determine a rating based on the percentage of annual gross profits spent on lawful purpose expenditures.

Rating - The rating will be used to determine the organization's profitability percent . It is not a rating of its overall lawful gambling operation.

Organizations will be evaluated according to the following criteria.

% Spent on

Lawful Purpose Rating

more than 50% 5 star

more than 40% 4 star

more than 30% 3 star

more than 20% 2 star

Less than 20% 1 star



One year automatic probation

One year automatic probation

Probation - An organization that fails to expend a minimum of 30% of gross profits on lawful purposes each year (July to June) is automatically on probation effective July 1 for one year. The organization must increase their rating to a minimum of 30% or be subject to sanctions by the Board.

Accounting Controls: Deposit Review

Deposit receipts within 4 business days

An organization must deposit all receipts in the gambling bank account within 4 business days of completion of the bingo occasion, deal, game, or date of raffle.



It's important to get the deposit in on time--otherwise it may be considered "temporary theft".

Prevent late deposits

Know your bank's cut-off time to ensure deposits are credited on the day they are made.

Deposit slip information

The deposit slip must clearly identify the premises, amount deposited, source of income, and also include the following.

- For pull-tabs and tipboards include the serial number for each game.
- For bingo, include the date of the bingo occasion.
- For raffles, include the date of the raffle. Raffle deposits made prior to the month of the raffle are carried as a reconciling entry on the Schedule F Gambling Fund Reconciliation.
- For paddlewheels include the series numbers of all paddletickets sold during that day's paddlewheel activity.
- For other gambling-related income, deposit tickets should describe the income source, such as:
 - reimbursements for excessive cash shortages,
 - tax refund,
 - deposits for missing receipts,
 - reimbursement for disallowed expenditures, or
 - advertising.

Audit deposits each month

Auditing deposits and closed games prevents the hiding of fund losses, such as theft, and ensures that information is reported accurately.

1. Verify that all receipts for closed games have been deposited into the gambling bank account. This verification should be done by someone other than the person who completes the Schedule B2 or G1 Lawful Gambling Monthly Summary and Tax Return.
2. Compare each cash-in-hand amount reported on the Schedule B2 to a deposit receipt. The amounts should match.
3. Check for accurate amounts, and verify that all deposits were made within 4 business days of closing the game. Are deposits consistently late? If yes, it is possible that money is being "borrowed" (temporary theft) by someone and reimbursed before the deposit is actually made.
4. Compare the date game removed from play as shown on the Schedule B2 to the date on the LG861.
5. Match all deposit receipts to the gambling bank statement.

Accounting Controls: Bank Reconciliation

Reconcile monthly bank statement



Reconciliation of monthly gambling bank statements is a part of the profit carryover reconciliation. The following procedures are recommended for reconciling monthly bank statements.

1. Record the closing or ending balance from the bank statement.
2. Record the deposits made since the ending date on the bank statement. Identify all deposits recorded in the checkbook register that are not on the bank statement or deposits on the bank statement that are not in the check register. Reconcile the deposits to game and bank records.
3. Subtotal the closing balance and the deposits made since the ending date on the statement.
4. List the check numbers and amounts that have not cleared the account on this statement or any prior statements. Include electronic transactions.
 - Compare the list of checks and electronic transactions that have cleared the bank with the checkbook register.
 - List the outstanding checks issued and electronic transactions made but not yet listed on the bank statement. Record the check number and the dollar amount of the checks and electronic transaction information.
 - Record any bank debit or credit memos not recorded in the checkbook register, such as bank service charges.
5. Add the total amount of all checks not returned or electronic transactions not on the statement.
6. From the subtotal in item 3 above subtract the total checks not returned and electronic transactions not on the statement. This is the balance.

The month-end balance shown on the gambling bank statement should match the checkbook register balance. This process is much easier and faster if you have the bank cut the monthly bank statement at the close of business on the last day of the month.

Accounting Controls: Profit Carryover Reconciliation

Profit carryover is a cumulative figure showing the total net gambling receipts minus gambling expenditures.

- Reconciliation of the profit carryover with the ending monthly balance in all gambling bank accounts is required.
- An organization is required by law to maintain a zero variance each month.
- Use the Schedule F to reconcile the gambling fund to the profit carryover each month. The Schedule F is filed each month with your G1 Lawful Gambling Monthly Summary and Tax Return.

Steps needed to reconcile profit carryover

1. Reconcile the monthly bank statement for each gambling account. Include a list of outstanding checks and deposits in transit.
2. Reconcile the gambling fund using the Schedule F and all month-end bank reconciliations to get a total gambling fund balance.
3. Determine the profit carryover using the G1 Lawful Gambling Monthly Summary and Tax Return.
4. Compare the gambling fund balance with the profit carryover on Schedule F and investigate any discrepancies.

If a variance remains after it has been thoroughly investigated or to request a copy of the Minnesota Lawful Gambling Tax Forms and Instructions booklet, contact the Department of Revenue for assistance at 651-297-1772.

Accounting Controls: Inventory Verification

Monitor inventory each month

The gambling inventory must be monitored each month. If an organization has missing games, this may mean that the games have been played, the receipts have not been deposited into the gambling account, and the games have not been reported on the Schedule B2 of the G1 Lawful Gambling Monthly Summary and Tax Return.

Two or more persons in the organization must be responsible for inventory. This internal control procedure helps protect an organization from theft.

Perpetual, physical, and annual inventory - separate responsibilities

Perpetual inventory - One person keeps the perpetual inventory record, an ongoing record from distributor invoices and closed games.

- This person may not do the physical inventory or the annual certified inventory and cash count required by Revenue.

Physical inventory - A different person conducts a physical inventory at the end of each month to verify the accuracy of the perpetual inventory record. This means the person actually goes to the premises, records the inventory including games in play, and signs and dates the physical inventory records.

- This person may not be the individual who controls the inventory on a daily basis. For example, a pull-tab seller or a person who does the perpetual inventory may not be involved in doing the physical inventory.
- This person may not conduct the annual certified inventory and cash count required by Revenue.



Comparison of perpetual and physical inventory - A person compares the accuracy of the perpetual and physical inventories to ensure that no inventory is missing. The person doing the comparison must sign in ink and date the physical inventory verifying its accuracy.

Annual certified inventory - Two different persons may conduct the annual certified physical inventory and cash count. They may not be involved with the perpetual or monthly physical inventory. This may be done by an organization's members, officers, or employees, or by an independent certified public accountant.

See the *Inventory* chapter for information on the annual inventory and cash count that is required by Revenue for all licensed organizations at the end of the organization's fiscal year.

Site inventory

At each site an organization must have a site inventory listing all games. When doing a site visit, review the site inventory list, and locate all games on the list. If a game cannot be found or if games are found that are not included on the list, this indicates a potential fund loss. Contact your compliance specialist at the Gambling Control Board for information on how to report missing games.

See the *Inventory* chapter for inventory forms and instructions.

Internal Controls: Auditing Games

Auditing games; verifying B2 and deposit

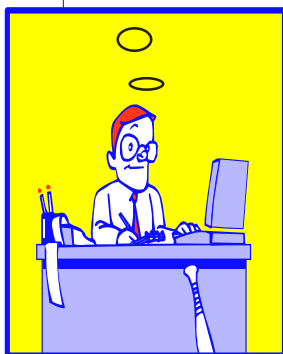
Periodically spot check the auditing of your organization's closed games and the information reported on the Schedule B2.

1. **Review the game flare** to verify the ideal gross receipts and total ideal prizes available including the last sale prize, if any.
2. **Count all unsold tickets.**
3. **Add the prize values** of all redeemed tickets.
4. **Verify the above figures** with the Schedule B2 information. To assure the accuracy of reporting actual long/short amounts, do the math as explained in the column headings of the Schedule B2.
5. **Compare the cash-in-hand** amounts on the Schedule B2 to the amount on the deposit receipt.
6. **Review the prize receipts** for clear and complete information.
 - Are they signed by the employee and the winner?
 - Are they dated?
 - Has all required information been completed?
 - If information is imprinted with time, was redemption within business hours?
 - Do signatures appear valid?

If the answer is "no" to any of the above questions regarding prize receipts, review with the sellers the procedures for completing the prize receipts. Contact a compliance specialist with any concerns.

 - Are lessors, lessor family members, or gambling employees signing as the winner? If the answer is "yes" review with the sellers and/or the lessor the restrictions of who may and may not play.
7. **Examine the tickets**
 - Have winning tickets been defaced?
 - Verify that serial and part numbers correspond between tickets, flare, invoice, and perpetual inventory.
 - Is the game listed on the invoice correctly?
 - Examine the unsold tickets to verify that they have not been tampered with. Broken perforations on the windows of a pull-tab ticket may indicate that an individual has been manipulating tickets (called "peeking" or "cracking") to identify winners. If tampered tickets are found, contact a compliance specialist at the Gambling Control Board.

"Let's see. I have to check if the prize receipts were complete, the serial and part numbers match the flare, winning tickets have been defaced...."



Reviewing games at the site - spot checks

Spot checking games at the site is an effective way to identify and prevent potential theft as late deposits are an indicator that someone may be temporarily using gambling funds. Temporary theft charges could be filed against that person.

For a closed game at the site:

- verify that the cash has been deposited within 4 business days of game close or that the cash is still at the site, and
- review prize receipt dates as that is a good indicator of when a game was played and closed.

For a game in play:

- count the cash drawer,
- compare the value of the unsold tickets and total prizes paid to the cash count and the LG861, and
- check accuracy of posting.

If there are potential problems, contact a compliance specialist at the Gambling Control Board.

Internal Controls

Use the required LG202 Internal Controls Worksheet

In addition to any other documented procedures an organization has approved and implemented, an organization must use the LG202 Internal Controls Worksheet.

The worksheet is used to clarify who may and may not perform functional responsibilities and provides for a proper segregation of responsibilities. The worksheet contains shaded areas to show who may not perform certain responsibilities.

Objectives of internal controls



An organization is responsible for developing a system of internal accounting and administrative controls for its gambling operation that will help the organization to:

- develop a plan for recording, counting, depositing, and verifying gambling funds and resolving any discrepancies;
- determine procedures and accountability for inventory control, opening and closing games, auditing closed games, and resolving any discrepancies;
- maintain security of gambling funds and equipment;
- spend gambling proceeds for lawful purposes and allowable expenses as approved by the organization's membership;
- protect the organization from theft and fraudulent reporting and ensure compliance with reporting requirements; and
- ensure that fair play of games to the public is not restricted.

Internal Controls: Cash Shortages

This section on cash shortages deals primarily with cash shortages in pull-tab games. However, this information can generally be applied to the other forms of lawful gambling.

What is a cash short?

“Cash shortage” is commonly referred to as “cash short.” A cash short is when the cash deposited is less than the net receipts. It occurs when mistakes are made when handling the cash or tickets. A cash shortage is different than negative net receipts (a game played to a loss). Negative net receipts occur when prizes awarded exceed ticket sales for the game. A cash shortage differs from a fund loss, which involves missing cash or inventory. See the *Fund Loss* section in this chapter.

What is the .3% reporting limit?

Some are under the misconception that statutes allow theft or mismanagement of funds up to a .3% limit as a cash shortage. This is not true. Minnesota statutes impose a limit on reporting cash shortages as an allowable expense, but they do not provide an allowable limit for the theft or mismanagement of gambling funds.

What is the Board’s authority to require a reduction in cash shortages?

Minnesota Rule 7861.0320 Subpart 1E, states in part
“...The board must require that the organization revise its internal accounting and administrative control systems if they do not meet the requirements in this subpart. Failure to respond to the board's notice that the organization must revise its internal accounting and administrative control systems must result in the board taking disciplinary action.”

By addressing cash shortages during the compliance review process, your compliance specialist will work with you to be aware of potential problems. This is done by reviewing shortages for each site, recommending changes in internal controls, additional employee training, and changes in procedures. Ultimately, it is your organization and charities that benefit from these efforts.

Does a cash shortage indicate a potential problem?

Cash shortages fall into two general categories.

Human error or mistakes include:

- overpaying on a winning pull-tab
- giving the wrong change to a player
- giving the wrong number of pull-tab tickets to a player
- not auditing or reporting games accurately, which skews net receipt figures reported to Revenue
- money mixing between cash drawers

Dishonesty or stealing include:

- Skimming by anyone associated with the games or cash. Regular losses may indicate that skimming is occurring. For example, gambling employees might be:
 - opening pull-tabs (not allowed) and not paying for them,
 - taking funds directly from the cash banks and game receipts,
 - giving free pull-tabs to friends, or
 - taking a percentage but keeping the amount under .3% to prevent detection.
- Someone stealing cash or pull-tabs when unattended or the premises is closed.

Internal Controls: Cash Shortages (continued)

BOOTH operations - reimbursements for cash shortages

Complete a separate Worksheet CS, Lawful Gambling Cash Shortage Reimbursement each month for each site.

- If an amount is listed in column G of the worksheet, check the records to determine what caused the excessive shortage and if any corrective action needs to be taken. Refer to the *Prevention* section in this chapter.
- Carry forward any positive difference between the shortage limit and actual shortage to offset future excess cash shortages during the fiscal year of July 1 through June 30.
- If the cumulative cash shortages in Column H exceed .3% of the gross receipts per site at fiscal year end on June 30, reimburse the gambling account from a nongambling source of funds by July 20.
- Refer to the Department of Revenue's instructions on how to report the reimbursement on the G1.

BAR operations - reimbursements for cash shortages

Complete a separate Worksheet CS, Lawful Gambling Cash Shortage Reimbursement for each site.

- The lessor is responsible for cash shortages.
- Any cash shortage at the end of the month is deducted from the monthly rent or reimbursed by the lessor to the organization.

Pull-tab dispensing device shortages

- **Cash bank** - If the shortages are in the cash bank used to redeem winning tickets, then the lessor is responsible.
- **Malfunctions** - If the shortages are caused by malfunctions of the machine (when the cash in the machine does not match the number of tickets dispensed), then the organization is responsible.

The organization should keep two cash shortage worksheets for sites with machines:

- ___ one for shortages that are the lessor's responsibility, and
- ___ one for shortages that are the organization's responsibility.

Worksheet and Instructions

The Cash Shortages Worksheet and instructions are available at: <http://www.taxes.state.mn.us/special/gambling/forms.aspx> or call the Lawful Gambling Tax Unit, Department of Revenue, at 651-297-1772.

Keep the worksheet with your records. Do not send it to the Department of Revenue or the Gambling Control Board unless specifically requested to do so.

Internal Controls: Cash Shortages (continued)

PREVENTION

Monitor your site shortages

Monitoring shortages at each site will point out which gambling premises may have problems that require attention.

An organization may also want to monitor its employees. If a site is experiencing excessive cash shortages, do not ignore the problem. Take action!

- Supervise the conduct of games. Review prize receipts for clear and complete information, a valid ID, and names and signatures of winners.
- Develop strong working relationships with gambling employees.
- Continually support employees by supervising them directly, reviewing procedures and changes, rewarding them for jobs well done, and providing additional oversight and training.

Review your internal controls

- Are internal controls being followed?
- Is there enough separation of responsibilities in handling the receipts, so that the organization has checks and balances to verify the amounts deposited with the amounts reported?

For good internal controls, the person who counts the cash, completes the deposit slip, and makes the deposit should not be the same person who is responsible for reporting that information on the Schedule B2. A seller may not complete the final audit of a game for reporting on the Schedule B2.

Limit access to gambling product and cash

Limit access to the gambling product and cash. For example, buy a safe for nightly security of cash from closed games and games in play; lock up all unplayed, in-play, and closed games; tell sellers to secure the games when left unattended for any reason; and when cash changes hands (for example, between lessor and gambling manager), get receipts.

Check games in play

Designate an organization member, employee, or volunteer who is not a seller to select and spot check games in play. The person should:

- Count all the unsold tickets, redeemed winning tickets, and the cash drawer.
- Subtract the unsold ticket count from the total ticket count of the game to get the gross receipts.
- Subtract the redeemed winning ticket amount from the gross receipts amount to get the net receipts.
- Compare the net receipts to the cash on hand, less the starting cash bank. They should match.

If a large variance in a game occurs, investigate:

- Review the LG861 Site Control/Tracking and Auditing of Pull-tab Game form.
- Determine who has been selling from the game since it was placed out for play or the last spot check was made.
- Interview sellers and remind them that cash shortages are not tolerated.
- Review prize receipts (see next page).

Internal Controls: Cash Shortages (continued)

Cash shortages continue? What to do?

Change your internal controls

If cash shortages continue in spite of spot checks, establish stronger internal controls.

To strengthen the organization's internal controls, make each seller or group of sellers responsible for a separate game or games. This procedure helps to secure the game and can identify a specific person if shortages occur.

- Assign sellers their own pull-tab games to sell.
- Lock and secure the game.
- Allow no one other than the seller access to the game.
- Keep receipts in a locked bank bag in a safe when the seller is not working.

Audit games every shift

This is similar to spot checking. Ask each seller to audit the games at either the beginning or the end of the work shift. The seller should:

- count the cash drawer, unsold tickets, and redeemed winning tickets, and
- record the information on a control form and sign it.

The next seller should audit the same game and sign the control form to confirm the accuracy of the previous shift.

Suggestion: Someone other than the sellers should periodically compare the cash to the LG861 tracking form. This review ensures the accountability of the sellers.

Review your prize receipts

Look for clues that may indicate a problem.

- Does one person's name continually appear on prize receipts for most of the major winners in a game?
- Is this person a regular customer? A friend or relative of the seller? An unfamiliar name?
- Are date or signature lines frequently left blank?
- Is the signature for the same player consistent?
- Is information legible?
- If the prize receipt has a time listed, is the time during business hours?
- Are the dates on the prize receipts prior to or after the dates the game was in play?

Make changes at the premises

If cash shortages continue, consider other options.

- Install a pull-tab dispensing device. If the space is leased, the lessor may provide the cash bank.
- Install security cameras and watch the tapes.
- Discontinue gambling at the site and notify the Gambling Control Board of the reason for terminating the lease.

Internal Controls: Fund Loss

Fund loss by questionable means

- A “fund loss by questionable means” involves missing cash or inventory, counterfeit currency or tickets, or prizes paid from a game not conducted in compliance with statute and rule. A fund loss may be due to situations such as burglary, robbery, or employee theft.
- Use the LG250 Fund Loss Request form to request approval from the Gambling Control Board to adjust the profit carryover to account for the loss.
- A police report is required in order for the Gambling Control Board to consider the fund loss request.
- If either unplayed (new) games or played game remnants (storage) are lost due to a disaster such as fire, flood, blizzard, tornado, or other catastrophic event, contact the Department of Revenue at 651-297-1772 immediately for instructions on how to handle the inventory loss.

Cash shortages

A cash shortage is the difference between the net receipts for a game and the actual cash on hand to be deposited for that game, and usually is caused by a mistake. (See the *Cash Shortages* section in this chapter for additional information.) A fund loss by questionable means is not included in the cash shortage calculation.

Notify local law enforcement immediately



"I just discovered a theft from our gambling site."

When a fund loss is discovered, report it to local law enforcement officials:

- within 24 hours for a fund loss from a pull-tab dispensing device, or
- within 5 days of the discovery for all other forms of gambling.

If the loss is not reported to the local law enforcement officials within these timeframes, the Board will not consider the fund loss request and the organization will be required to reimburse its gambling account with funds from a nongambling source for the amount of the loss.

Reporting a fund loss

1. Report the loss to the membership and document it in the meeting minutes.
2. For instructions on reporting the game(s) on a separate Schedule B2, refer to the tax instruction booklet available from Revenue.
3. If part of the game or money is missing, contact Revenue at 651-297-1772 for assistance on determining how the game should be reported on the Schedule B2.
4. Submit the Schedule B2 with the tax return due for that month.
5. The games should be noted in the inventory records as a fund loss and should no longer be included as unplayed on the inventory records.
6. Record the ideal net receipts on the Schedule F until the fund loss is either approved or denied by the Gambling Control Board.

For questions on reporting a fund loss, contact Revenue at 651-297-1772.

Internal Controls: Fund Loss (continued)

Required action that must be taken within 60 days . . . ONE of the following

Request an adjustment to the profit carryover

IMPORTANT

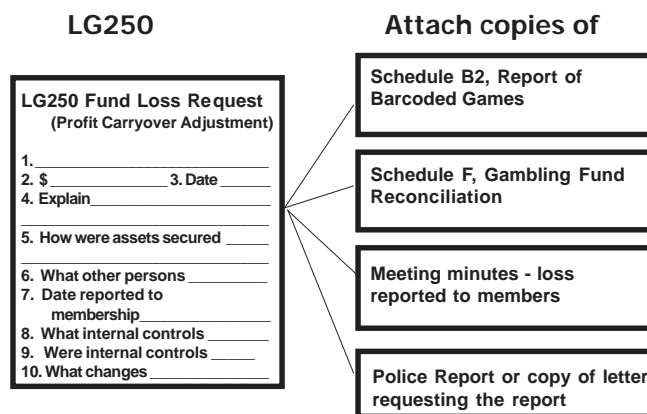
- An organization may request an adjustment to its profit carryover.
- **Within 60 days of discovering the loss**, send the LG250 Fund Loss Request form and attachments directly to the Gambling Control Board.
- **The Board will not consider a fund loss request for an adjustment if the request is not submitted within 60 days of discovering the loss.**
- To avoid having to reimburse the gambling account, be sure to submit the fund loss request to the Board (with or without the attachments) within 60 days of discovering the loss.

Attach copies of the following:

- local law enforcement report, if available, or a copy of a letter indicating that a report copy has been requested,
- separate Schedule B2 for the games in question,
- Schedule F, and
- meeting minutes where the loss was reported to the members.

Do not attach the request form and any attachments to the tax return or other reports.

Until the fund loss is either approved or denied by the Gambling Control Board, record the fund loss amount on the Schedule F.



If an organization does not request an adjustment to its profit carryover, reimburse the gambling account and provide proof of the reimbursement

If an organization does not submit an LG250 Fund Loss Request, then within 60 days of discovering the fund loss the organization must provide documentation to the Gambling Control Board showing that the gambling account was reimbursed with funds from a nongambling source for the amount of the loss.

Submit the following:

- a copy of the canceled gambling bank account deposit slip and bank receipt,
- a copy of the canceled check from a nongambling source, and
- the date the loss was reported to the membership.

Internal Controls: Fund Loss (continued)

Fund loss - restitution or insurance payment

If an organization has insurance that may cover part or all of the loss, the Gambling Control Board will not take action on the fund loss request until the insurance claim has been settled. If restitution will be received, the Board will take action on the fund loss request, even if the restitution has not been received.

IMPORTANT: Even if the insurance payment or restitution has not been received within the 60 days of discovery, the organization must still submit the fund loss request within 60 days of discovering the loss.

When an insurance payment or a one-time restitution payment is received, do the following:

1. deposit the funds into the gambling account within four business days;
2. make copies of the insurance check and the deposit receipt and submit them to the Gambling Control Board. Write the organization's license number and "Fund Loss Attachment" on the copies; and
3. on your next monthly Schedule F, reduce the amount that is listed on the Schedule F as a fund loss by the amount deposited.

The Board will reduce the amount of the requested profit carryover adjustment (fund loss request) to reflect the insurance or restitution payment amount.

If multiple restitution payments will be received over a period of time, an organization should follow the same procedures above whenever payment is received, or contact their compliance specialist for instructions.

Gambling Control Board consideration

When an organization submits a fund loss report, the Gambling Control Board will review whether the organization had adequate security and internal controls in place to prevent the loss. A major reason for denials of fund losses is that an organization had inadequate internal controls and/or security over its gambling assets.

Security

When gambling equipment and funds are not under an employee's direct control, they must be in a secure, locked location.

- Leaving gambling funds on a counter—even in a premises that is closed and locked—may be considered poor security.
- Another reason for denial of a fund loss request is a lack of acceptable security, such as hanging a pull-tab booth key on the wall, or setting a bank deposit on the bar and walking away to do something else.
- An example of good security is to lock the gambling money in a secured safe. Many organizations bolt the safe to a floor.

Internal controls

Good internal controls will help an organization identify a fund loss in a timely manner and will assist in identifying who would have had access or an opportunity to steal the funds or equipment.

Examples of poor internal controls:

- If an organization discovers that deals of pull-tabs are missing from inventory and determines that this occurred over the last six months, the fund loss request will likely be denied because of poor internal controls and oversight.
- If money from a game closed on December 10 is stolen from the gambling manager's car on December 24, the Gambling Control Board would likely deny the request because the funds were not deposited within 4 business days.

Gambling Control Board approval or denial

Approval - If the Gambling Control Board approves a fund loss request, the organization will be notified in writing to adjust the G1 Lawful Gambling Monthly Summary and Tax Return.

Denial - If the Gambling Control Board denies a fund loss request, the organization will be notified in writing.

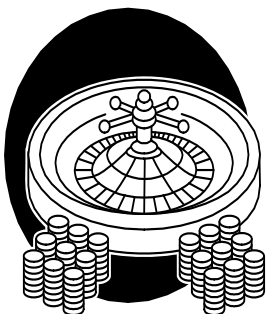
The organization may be required to reimburse its gambling account for the amount of the loss and provide proof of reimbursement with funds from a nongambling source within 90 days of the Gambling Control Board's denial.

Internal Controls: Illegal Gambling

Sanctions imposed for illegal gambling

Premises permit - If illegal gambling occurs at a premises, the Gambling Control Board shall suspend the premises permit up to 90 days for a first occurrence.

The Gambling Control Board considers several factors in determining the length of the suspension:



1. Did the organization notify the lessor, in writing, that illegal gambling was being conducted at the premises and request that the lessor take appropriate action?
2. Did the organization or any of its agents know that the game or device at the site was illegal or was designed to be capable of being used in a manner that causes illegal gambling?
3. To what degree did the organization cooperate with state and local authorities?
4. Did the organization or any of its agents participate in the illegal gambling?
5. What was the nature or severity of the violation?

Organization license - The Gambling Control Board will suspend or revoke an organization's license if the organization or any of its agents participated in the illegal gambling or knowingly permitted it.

What to do if you suspect illegal gambling is happening at your site

Notify the lessor, in writing, that illegal gambling is being conducted at the premises. In addition, contact the local law officials or the Alcohol and Gambling Enforcement Division of the Department of Public Safety at 651-201-7500 Ext 2.

It is important that action be taken to stop the illegal gambling activity before it affects the status of the organization's premises permit.

Payment of rent when premises permit is suspended

The Gambling Control Board may authorize an organization to withhold rent from a lessor for a period of up to 90 days if the Board determines:

- that illegal gambling occurred on the premises, or
- that the lessor or its employees participated in the illegal gambling or knew of the gambling and did not take prompt action to stop the gambling.

The organization has the right of continued tenancy during the time period that the Board determines rent may be withheld.

Suspended premises - If the premises permit is suspended, the organization may not pay rent or other costs contained in the lease agreement for the site during the term of the suspension.

Exception: If the organization or its agents is found to be solely responsible for the illegal gambling at the site, the organization must continue to make rent payments, according to the terms of the lease—even though the premises permit has been suspended (unless the agents are also agents or employees of the lessor).

Internal Controls: Illegal Gambling (continued)

What is a bet? When is it illegal?

A “bet” is defined as “a bargain whereby the parties mutually agree to a gain or loss by one to the other of specified money, property or benefit dependent upon chance, although the chance is accompanied by some element of skill.” According to this definition, any card game where the participants pay to play, and have a chance to win money, would constitute a “bet” and, therefore, be illegal gambling.

Private social bets allowed - exception

Social bets are allowed only if they are done in a private social setting. However, social bets are illegal if:

- they are part of “organized, commercialized, or systematic gambling”
- the owner of the location of a social bet derives any profit from the bet, organizes regular occasions for such bets, or advertises their occurrence

Card games allowed - exceptions

Tournaments or contests for card games known as cribbage, skat, sheephead, bridge, euchre, pinochle, gin, 500, smear, or whist are only allowed when:

- there is no direct financial benefit to the promoter or organizer, and
- the sum of all prizes does not exceed \$200 per occasion.

An entry fee is allowed for these games.

Texas Hold'em - A Texas hold'em tournament (card game) is allowed under the following conditions:

- **no entry fee** or other consideration for participation is allowed;
- there is no direct financial benefit to the promoter or organizer;
- no person under 18 may participate;
- the value of all prizes awarded to an individual winner at a location may not exceed \$200 per day; and
- reasonable accommodations must be made for players with disabilities. Accommodations to the table and cards shall include the announcement of cards visible to the entire table and the use of Braille card for players who are blind.

Texas Hold'em may not be played on a video device.

Chance drawings - may be illegal raffle

The Minnesota Supreme Court and state law allow chance drawings that do not require consideration if:

- the participant is not required to purchase a ticket for a drawing in order to win a prize, and
- the participant must be allowed to enter the drawing without any consideration for a chance to win a prize.

A drawing organizer may not imply that a participant must pay a donation for the chance to win a prize (for example, “Suggested Donation \$5”), or may not coerce a participant to pay a donation for the chance to win a prize. If the organizer implies or coerces the participant in any manner, there is a substantial risk of violating law.

Poker runs illegal

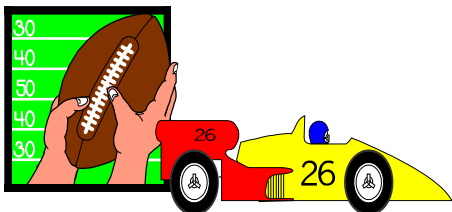


Poker runs are usually associated with snowmobiles or other motorized vehicles, and the participant pays for the chance of picking up cards at various locations that enable the best winning hand to win a prize.

The poker run sponsor runs the risk of operating a gambling place and/or conducting an illegal lottery.

Internal Controls: Illegal Gambling (continued)

Sports boards illegal



Sports boards are often based on the outcome of sporting events, and the participant pays for the chance of winning a prize on the board.

The most common types of sports boards are serialized 55-number boards, 100-number boards, or ten-number boards.

Federal law prohibits this type of gambling in Minnesota.

Dice restrictions

Social dice games are permitted on the premises and adjoining rooms of an establishment licensed to sell alcoholic beverages. Only the following games are allowed, and restrictions apply to these games as noted:

- Board games played with dice, or
- Dice games commonly known as:

Shake-a-day	Horse	Liar's poker	Who buys
Last chance	3-2-1	Aces	6-5-4



Restrictions - Wagers or prizes for the games must be limited to food or beverages, and the retail establishment may not organize or participate financially in the games.

All other forms of dice games are illegal, and are not allowed in establishments licensed to sell alcoholic beverages.

Video game of chance or touch screen video

Any video game may be illegal. Some machines have the capability to change from a legal game (such as Trivia) to an illegal game (such as poker) with the flip of a switch. If the machine is capable of playing illegal games, it is considered a video game of chance.



Ask the lessor questions about the video games at the site to determine if they are legal. Some questions to ask:

- Is the machine capable of playing illegal games that include common gambling forms?
- Is the lessor aware of the consequences?

Video poker machines or eight-line video slots

These are considered gambling devices and as such are illegal outside of a dwelling (home) or a tribal casino.

Questions?

For questions regarding illegal gambling, contact the Alcohol and Gambling Enforcement Division of the Department of Public Safety at 651-201-7500 Ext. 2 or www.dps.state.mn.us.

Reports: Filing Requirements

Due the 20th of the following month

G1 Lawful Gambling Monthly Summary & Tax Return Send to Dept. of Revenue
 Schedule A Gambling Receipts and Expenses by Site Send to Dept. of Revenue
 Schedule B2 Report of Barcoded Games Send to Dept. of Revenue
 Schedule F Gambling Fund Reconciliation Send to Dept. of Revenue
 Schedule E Combined Receipts Tax Keep in organization's file
 LG1010 Schedule C/D Lawful Purpose Expenditures Send to Gambling Control Board

Monthly for membership

LG1004 Monthly Gambling Report to Members Keep in organization's file
 LG216 Rent Worksheet (each leased site) Keep in organization's file
 LG267 Worksheet for Code A22 Real Property or Capital Assets Keep in organization's file
 Worksheet CS Cash Shortage Reimbursement (each site) Keep in organization's file

Due March 20

G7430 Refund for Tax Paid on Unsold Pull-tab and Tipboard Tickets Send to Dept. of Revenue

Annual report due September 30

Annual financial summary report Send to Gambling Control Board

The report is a summary of gross receipts, prizes paid, allowable expenses, and lawful purpose expenditures - July 1 to June 30. The form is updated annually and is available at www.gcb.state.mn.us under *Forms for Licensed Organizations [Worksheets and Reporting Forms]*..

Organization's fiscal year end

Annual certified inventory and cash count required for all licensed organizations Send to Dept. of Revenue
 [NOTE: Contact Revenue for the form or format to use.]

If gross receipts over \$500,000, annual audit required. Send to Dept. of Revenue

Local unit of government

Check with your local unit of government (city or county) regarding any taxes and reporting requirements that may apply to your organization.