

Revenue Notice # 91-14 Annual Audit of Organizations Licensed to Conduct Lawful Gambling

(Update: Revenue Notice #91-14 has been revoked by Revenue Notice #07-04.

Minnesota Statutes § 349.19, subd. 9, as amended by 1991 legislation, states that an organization licensed to conduct lawful gambling in Minnesota must have an annual financial audit of its lawful gambling activities and funds performed by an independent accountant licensed by the state of Minnesota. The legislation requires the commissioner of revenue to prescribe the standards for the audit as well as the filing requirements related to the audit.

Annual Audit

All organizations licensed to conduct lawful gambling in the State of Minnesota must have an annual financial audit of their lawful gambling activities, books of account, and other financial records performed by an independent certified public accountant (C.P.A.) or an independent licensed public accountant (L.P.A.) for all fiscal years ending June 30, 1991 and after. All licensed organizations must submit their annual financial audit report to the Department of Revenue no later than the last day of the sixth month following their fiscal year-end.

A. Financial Audit Report - The annual financial audit report shall contain:

- 1) 'Statement of assets, liabilities and fund balance - regulatory basis of accounting' as of the organization's fiscal year-end.
- 2) 'Statement of revenue and expense - regulatory basis of accounting' for its fiscal year then ending.
- 3) 'Statement of changes in fund balance (profit carryover) - regulatory basis of accounting.'
- 4) 'Notes to the financial statements' as required by generally accepted accounting principles.
- 5) Audit report on the financial statements by the independent certified public accountant or independent licensed public accountant.
- 6) Supplemental schedules of:
 - a) Lawful purpose expenditures
 - b) Allowable expense percentage computation
 - c) Other information that the Department may require to be disclosed.

B. Evaluation of Accounting Procedures and System of Internal Controls - A licensed organization shall file with the Department a report of the study and evaluation conducted by the accountant regarding the accounting procedures of the licensed organization and its system of internal control, including any remedial action taken or proposed, within 60 days after the filing of the annual financial audit report.

The report concerning the organization's system of internal control shall be in the form prescribed by generally accepted auditing standards.

C. Accounting Records - All licensed organizations are required to maintain records that account for the assets, liabilities, and fund balance of their lawful gambling operation. These records must also account for their gambling revenue, prize pay-outs, expenses, and lawful purpose expenditures. If, in the opinion

of the independent certified public accountant or the independent licensed public accountant engaged to conduct the annual financial audit, the licensed organization has not maintained proper accounting records in such a form that can be audited, the accountant must terminate the audit engagement. The accountant must notify the organization of the deficiencies that exist and the corrective action required, with an estimate of the cost to generate auditable records, or, in the alternative, the reason the cost can't be estimated. This notification must be in writing.

D. Definition, Availability, and Maintenance of Accountant's Workpapers - Workpapers are the records kept by the independent certified public accountant or independent licensed public accountant of the procedures followed, the tests performed, the information obtained, and the conclusions reached pertinent to the examination of the financial statements of a licensed gambling organization. Workpapers may include work programs, analyses, memoranda, letters of confirmation and representation, management letters, abstracts of organization documents, and schedules or commentaries prepared or obtained by the accountant in the course of the audit and that support the accountant's opinion.

Every licensed gambling organization required to file an audited financial report shall require the accountant, through the licensed gambling organization, to make available for review by the Department of Revenue the workpapers prepared in the conduct of the audit. The licensed gambling organization shall require that the accountant retain the audit workpapers for a period of not less than five years after the period reported upon.

E. Qualifications of Accountant - The Department shall not accept any audit report required by Minn. Stat. § 349.19, subd. 9 unless the audit is performed by an independent certified public accountant or independent licensed public accountant in good standing with the Minnesota State Board of Accountancy and licensed to practice in the State of Minnesota.

F. Termination of the Audit Engagement - If, for any reason, the audit engagement is terminated by either the licensed organization or the independent accountant prior to its completion and filing of the annual financial audit report, the accountant is, within 10 days of termination, required to make a written report to the Department of Revenue detailing the reason or reasons for such termination.

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Director, Appeals and Legal Services

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