

ENTERTAINMENT

VERSION ~~2~~ **3**

EFFECTIVE: ~~July 1, 2004~~ **January 1, 2009**

Draft: 2/6/09

Auditor's Name and Date

Internal Audit Compliance Checklist

**ENTERTAINMENT
WALK-THROUGH PROCEDURES**

Licensee: _____ Review Period: _____

NGC Regulation 6.090(15) ~~and Regulation 13, Section 23~~ requires the internal auditor to use guidelines, checklists and other “criteria established by the chairman” in determining whether a Group I licensee is in compliance with applicable statutes, regulations, and Minimum Internal Control Standards (MICS) regarding the Live Entertainment Tax. The use of this checklist satisfies these requirements.

This checklist can be completed for multiple entertainment areas, if applicable, as long as the responses clearly indicate to which entertainment area the responses apply.

Indicate the entertainment area(s) being reviewed: _____

Date of Inquiry	Person Interviewed	Position

Checklist Completion Notes:

- 1) Unless otherwise instructed, examine a completed document for compliance for those questions referring to records/documentation as indicated and recalculate where appropriate. Indicate (by tickmark) whether the procedures were confirmed via examination/review of documentation, through inquiry of personnel or via observation of procedures. Tickmarks used are to be defined at the bottom of each page.
- 2) All “no” answers require referencing and/or comment, and should be cited as regulation violations, unless the Board Chairman has granted a MICS variation or the question requires a “no” answer for acceptability. **All “N/A” answers require referencing and/or comment, as to the reason the procedure is not applicable.** All exceptions noted should be carried to the internal auditor’s report/summary of findings for timely follow-up.
- 3) “(#)” refers to the Minimum Internal Control Standards for Entertainment, Version 4 **6** or to the applicable regulation/statute.

Scope:

This checklist must be completed once in each fiscal year. **However, as addressed in the Internal Audit Guidelines, a CPA MICS Compliance Checklist – Entertainment may not be completed for areas subject to entertainment with annual live entertainment revenue of less than \$5,000; and may be completed once every two years for areas generating annual live entertainment revenue of less than 3% of total annual reported entertainment revenue.** Taxable entertainment areas include licensee operated and leased venues located on the legal premises. If multiple entertainment areas exist, additional checklists should be completed to adequately document procedures. Walk-throughs should be performed during entertainment status for frequent, routinely scheduled entertainment. Walk-throughs and testing are not necessary for special events and when no live entertainment revenue is reported during the business year. However, step #19 of the “Miscellaneous Regulations – Testing Procedures” needs to be completed to determine whether any areas of the gaming establishment are subject to Live Entertainment Tax. Procedures should include verification that entertainment tax is being charged on sales which occur during breaks.

Verified per representation

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If the Entertainment Internal Audit Checklists have been completed for the fiscal year, it is not necessary to perform entertainment internal audit procedures for any new entertainment area added after checklist completion. Entertainment Internal Audit procedures will be performed for these new areas during the next fiscal year.

MICS Variations and Regulation Waivers:

Obtain copies of MICS variation and regulation waiver requests and GCB correspondence regarding such requests from appropriate property personnel. Review to determine status of evidence of any waivers or alternative requirements imposed by granted variations. Modify and/or perform additional procedures as applicable.

Associated Equipment:

Determine if ~~field trial or final~~ approval has been received for all associated equipment used in the live entertainment department. For all unreported associated equipment, cite violations of **Regulation 14.290**. ~~If any associated equipment is currently on field trial, it is not necessary to perform a walk-through of the procedures in effect utilizing the field trial letter.~~ For "approved" associated equipment, ~~utilizing the final approval letter,~~ perform a walk-through of any ~~special requirements imposed~~ **additional controls** on the use of the associated equipment ~~including any additional controls which were may be~~ included in the written system of internal control.

Date Approval Granted	MICS Number or Regulation	Description of Variation/Waiver Granted or Associated Equipment Approval	Number(s) of Procedure Modified or Added	W/P Ref. (if appl.)

Note: Variations/waivers and associated equipment need only be scheduled once. Refer to the workpaper where the details are scheduled and complete the last two columns of the above grid if walk-through procedures are affected.

Notes:

1. ~~The 2003 Legislature adopted legislation (Senate Bill No. 8 of the 20th Special Session of the Nevada Legislature) that was subsequently signed into law that substantially changed the taxation of entertainment. The statutes/regulations governing the casino entertainment tax were repealed and replaced with statutes/regulations governing the live entertainment tax (LET), which became effective January 1, 2004. In order to assist in understanding the live entertainment tax, the major provisions will be delineated below. "Live entertainment" is defined in NRS 368A.090 and a Note after Section 27 of Regulation 13 delineates the types of entertainment that are interpreted to fall within the definition of "live entertainment" and the types of entertainment that are specifically excluded from said definition. NRS 368A.200(5) contains additional exemptions from the live entertainment tax. Seating capacity is now an issue. The 300 minimum applies to only smaller gaming establishments and nongaming businesses.~~

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~~Facilities with a seating capacity of more than 7,500 are taxable at 5% instead of 10%. Additional criteria must be met for gaming establishments with fewer than 51 slot machines and fewer than 6 games in order for the tax to apply. NRS 368A.200(6) and Regulation 13, Section 17 discuss criteria for determining seating capacity.~~

2. ~~The above legislation required the Board to adopt a regulation to be incorporated into the Nevada Administrative Code (NAC). Although the NGC adopted an identical version of this regulation as Regulation 13, the NAC is the official governing regulation and accordingly is to be the basis for all violations and adjustments (except where the statute is to be used). For convenience, "Regulation 13" has been reflected in these checklists. At the time these checklists were prepared, the regulation has not been codified into the NAC. As such, until codified into the NAC, it is appropriate to refer instead to the Legislative Counsel Bureau (LCB) file number. When summarizing findings, use LCB R223-03, followed by the section number indicated for Regulation 13. For example, cite LCB R223-03, Section 20(5)(b) if taxes were not paid on the full retail value of an item valued at less than \$5 that is included in a package.~~

Note 1: Pursuant to the "taxpayer" definition included at NRS 368A.110, the person or entity who is licensed to conduct gaming at the licensed gaming establishment where live entertainment (see NRS 368A.090) is provided is responsible for the payment of the entertainment tax even if some other person or entity is providing entertainment. Additionally, pursuant to NRS 368A.110(3), when the entertainment is provided at a publicly owned facility or on public land, the gaming licensee that receives payment for live entertainment is responsible for remitting the tax and compliance with these MICS.

Note 2: Pursuant to NRS 368A.160 if a person or entity other than the licensee offers entertainment subject to the entertainment tax on the licensee's premises, the licensee must keep all records required by NRS 463, NAC 368A and Regulation 6. Alternatively, the licensee may require the person or entity that offers the entertainment to keep such records, as long as the records are provided to the Board upon request in a timely manner.

Questions	Yes	No	N/A	Comments, W/P Reference
1. Review prior internal audit reports. Schedule any relevant exceptions cited, including those cited by the GCB or the CPA, or include a copy of the prior audit reports in the workpapers and follow up on any problems noted. Duplication of exceptions when the CPA is referring to exceptions reported in internal audit reports is not necessary.				

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Licensee: _____ Review Period: _____

Questions	Yes	No	N/A	Comments, W/P Reference
2. Complete the CPA MICS Compliance Checklist for Entertainment in accordance with the CPA MICS Compliance Reporting Requirements "Guidelines" and Internal Audit Reporting Requirements "Guidelines".				
3. Complete the "Entertainment Area Evaluation Form" and inquire with accounting/audit personnel to determine that all areas subject to live entertainment tax have been properly reported. Are taxes being collected and paid for all areas subject to live entertainment tax?				
4. If entertainment subject to tax is offered in any facility located in the licensed gaming establishment, and the facility is operated by another person or entity ("four-waller"): a. Is the licensee collecting the tax from the four-waller and remitting the tax based upon the four-waller's records? <u>(Regulation 13, Section 21)</u> <u>[NRS 368A.200(1) and</u> <u>NAC 368A.490(1)]</u>				

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Questions	Yes	No	N/A	Comments, W/P Reference
b. Is the licensee keeping all records pertaining to this entertainment facility as required by Regulation 13, Section 21 NRS 368A.160 , and either keeping the records pertaining to this entertainment facility or requiring the four-waller to keep the required records?				
5. For areas with nonrecurring entertainment (e.g., New Year's Eve parties or other special events), determine that admissions and sales subject to entertainment tax have been reported.				
<p>Entertainment Sales Controls</p> <p>6. Do admission tickets state whether the live entertainment tax is included in the price of the ticket? [NRS 368A.200(4) and NAC 368A.460] If the answer is "no", answer the next question.</p> <p>Note 1: The required language must be substantially in one of the following forms: "includes entertainment tax; inc. ent. tax; includes live ent. tax; or L.E.T. included." (Regulation 13, Section 14) NAC 368A.460</p> <p>Note 2: The required language is not required to be on broker/wholesaler tickets if the patron is required to exchange it for the gaming establishment's own ticket that includes the required language.</p>				

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Licensee: _____ Review Period: _____

Questions	Yes	No	N/A	Comments, W/P Reference
7. If the answer to the previous question is no, is the tax paid based on the face value of the ticket? [NRS 368A.200(4)]				
8. Are gratuities or service charges included in amounts charged on LET sales? If so, determine that entertainment tax was not paid on the amount of gratuity or service charge paid to persons other than the licensee. [NRS 368A.200(2)]				
9. Are processing fees or handling charges included in amounts charged on LET sales? If so, determine that entertainment tax was paid on the amount of the fee or handling charge retained by the licensee. [NRS 368A.200(2)]				
10. If applicable, are merchandise sales reported (regardless of the person or entity selling the merchandise) if the merchandise is located in the area where live entertainment is provided or if the purchase of a ticket or the payment of an admission fee, a cover charge, a minimum fee, or a similar charge is required for a patron to gain access to the merchandise being sold? List locations of merchandise sales. [Regulation 13, Section 13(1) and (2) NRS 368A.200(1)] Note: This also applies to merchandise sales in lounge areas subject to live entertainment tax.				

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WALK-THROUGH PROCEDURES**

Licensee: _____ Review Period: _____

Questions	Yes	No	N/A	Comments, W/P Reference
11. Does the licensee conduct or have they conducted any special events in areas where entertainment is not typically offered (i.e., parking lots, atriums, bowling alleys, etc.) that are subject to entertainment tax? [NRS 368A.200(1)] Inquire with various licensee personnel.				
12. If the answer to the previous question was yes, does the licensee pay tax on these events? Document any such events.				
Package Programs				
13. Are package program breakdowns computed? (Regulation 13, Section 20 <u>NRS 368A.200(1) and NAC 368A.450(5)</u>)				
<u>Procedures Modified or Added</u>				

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Entertainment Area Evaluation Form

Licensee: _____ Review Period: _____

Date and Time of Inquiry	Persons Interviewed	Positions

This form consists of two sections. In the first section, accounting and internal audit personnel are to record their observations of known or likely entertainment areas, such as bars, lounges, restaurants and showrooms. A detailed analysis is required for each such facility. Observations should be timed through a review of entertainment contracts and scheduled to permit an observation of any known entertainment. To properly determine the existence of reportable entertainment where no taxable entertainment has been identified, observations should be scheduled during times when entertainment might reasonably be expected to occur. In accordance with Entertainment MICS #15, observations need not be performed in areas where 100% of the sales are reported as entertainment taxable. The second section is designed to ensure that there is no entertainment being offered in less traditional areas that the accounting department is not aware of. The person completing this checklist needs to explain the steps taken to ensure that no entertainment is currently being offered or has been offered in the past.

Description/Name of the entertainment area:			
Description of the type of entertainment provided:			
Taxable?	If yes, at 10% or 5%?		
Rationale for conclusion on taxability:			
Examine documentation. Correctly paying, or not paying, tax?: <input type="checkbox"/> Y <input type="checkbox"/> N			Observed during ent. <input type="checkbox"/> Y <input type="checkbox"/> N
Indicate the # of registers and their identifiers:			
Taxable Items (check the item(s) that apply): <input type="checkbox"/> Admissions <input type="checkbox"/> Beverages <input type="checkbox"/> Food <input type="checkbox"/> Merchandise <input type="checkbox"/> N/A – not a taxable area			

Description/Name of the entertainment area:			
Description of the type of entertainment provided:			
Taxable?	If yes, at 10% or 5%?		
Rationale for conclusion on taxability:			
Examine documentation. Correctly paying, or not paying, tax?: <input type="checkbox"/> Y <input type="checkbox"/> N			Observed during ent. <input type="checkbox"/> Y <input type="checkbox"/> N
Indicate the # of registers and their identifiers:			
Taxable Items (check the item(s) that apply): <input type="checkbox"/> Admissions <input type="checkbox"/> Beverages <input type="checkbox"/> Food <input type="checkbox"/> Merchandise <input type="checkbox"/> N/A – not a taxable area			

VERSION 13

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Gaming Control Board

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Entertainment Area Evaluation Form

Licensee: _____ Review Period: _____

Note: Duplicate additional pages, if needed.

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Entertainment Area Evaluation Form

Licensee: _____ Review Period: _____

Other Potential Entertainment Areas

<i>Name</i>	<i>General Location</i>	<i>Method of Determining that no Entertainment was/is Offered</i>

Note: Duplicate additional pages, if needed.

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**ENTERTAINMENT
TESTING PROCEDURES**

Licensee: _____ Review Period: _____

NGC Regulation 6.090(15) requires the internal auditor to use guidelines, checklists and other “criteria established by the chairman” in determining whether a Group I licensee is in compliance with applicable statutes, regulations (~~e.g., Regulation 13, Section 23~~), and Minimum Internal Control Standards (MICS). The use of this checklist satisfies these requirements.

Objectives:

To determine if controls for entertainment are adequate to ensure entertainment revenues are accurately stated in financial records and comply with the MICS.

Checklist Completion Notes:

- 1) Each step contains a parenthetical notation at the end of the step to designate the purpose of the step. Steps to ascertain compliance with a regulation or minimum standard will be followed by the appropriate regulation or standard. Steps to test the clerical accuracy of revenue will be followed by “Revenue.” Steps to determine whether assets were protected will be followed by “Asset Protection.”
- 2) The minimum standards quoted on this checklist are from Version ~~4 6~~ of the standards. Licensees must be in compliance with these standards by ~~1/21/04~~ **1/1/09**.
- 3) Document the completion of the procedures listed below. All exceptions noted should be carried to the Audit Report/Summary of Findings for timely follow-up. Indicate the workpaper reference in which the exception has been carried forward to, as applicable, in the “Exception/Comment” column.

Scope:

Unless otherwise indicated, select 1 day per year. If no activity took place in an entertainment area, select an additional test date for that area. Only entertainment areas with frequent, routinely scheduled entertainment need be examined (including showrooms, lounges and leased facilities). Complete an Entertainment Testing Procedures Internal Audit Compliance Checklist for each entertainment area determined to be subject to entertainment tax during the completion of the “Entertainment Area Evaluation Form”. This checklist can be completed for multiple entertainment areas, if applicable, as long as the responses clearly indicate to which entertainment area the responses apply.

Entertainment Area(s): _____ **Test Date:** _____

MICS Variations and Regulation Waivers:

Review the MICS variations and regulation waivers scheduled during the entertainment walkthrough procedures. Modify and/or perform additional procedures as applicable. Note below the number of the procedures modified or added. Only the last two columns need to be completed if the remaining information is scheduled in the “Walkthrough Procedures Checklist”.

Date Approval Granted	MICS Number or Regulation	Description of Variation/Waiver Granted or Associated Equipment Approval	Number(s) of Procedure Modified or Added	W/P Ref. (if appl.)

✓ - Step completed without exception

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Notes:

1. ~~The 2003 Legislature adopted legislation (Senate Bill No. 8 of the 20th Special Session of the Nevada Legislature) that was subsequently signed into law that substantially changed the taxation of entertainment. The statutes/regulations governing the casino entertainment tax were repealed and replaced with statutes/regulations governing the live entertainment tax (LET), which became effective January 1, 2004. In order to assist in understanding the live entertainment tax, the major provisions will be delineated below. "Live entertainment" is defined in NRS 368A.090 and a Note after Section 27 of Regulation 13 delineates the types of entertainment that are interpreted to fall within the definition of "live entertainment" and the types of entertainment that are specifically excluded from said definition. NRS 368A.200(5) contains additional exemptions from the live entertainment tax. Seating capacity is now an issue. The 300 minimum applies to only smaller gaming establishments and nongaming businesses. Facilities with a seating capacity of more than 7,500 are taxable at 5% instead of 10%. Additional criteria must be met for gaming establishments with fewer than 51 slot machines and fewer than 6 games in order for the tax to apply. NRS 368A.200(6) and Regulation 13, Section 17 discuss criteria for determining seating capacity.~~
2. The above legislation required the Board to adopt a regulation to be incorporated into the Nevada Administrative Code (NAC). Although the NGC adopted an identical version of this regulation as Regulation 13, the NAC is the official governing regulation and accordingly is to be the basis for all violations and adjustments (except where the statute is to be used). For convenience, "Regulation 13" has been reflected in these checklists. At the time these checklists were prepared, the regulation has not been codified into the NAC. As such, **until codified into the NAC**, it is appropriate to refer instead to the Legislative Counsel Bureau (LCB) file number. When summarizing findings, use LCB R223-03, followed by the section number indicated for Regulation 13. For example, cite LCB R223-03, Section 20(5)(b) if taxes were not paid on the full retail value of an item valued at less than \$5 that is included in a package.

Entertainment Area: _____ Test Date: _____	Step completed without exception	Exception/Comment
1. Review prior internal audit reports. Schedule any relevant exceptions cited, including those cited by the GCB or the CPA, or include a copy of the prior audit reports in the workpapers and follow-up on any problems noted. Duplication of exceptions when the CPA is referring to exceptions reported in internal audit reports is not necessary.		
2. Examine detail cash register tapes for each shift containing entertainment revenue, verifying that the register was not improperly totaled during the shift, and that entertainment sales were properly being classified as entertainment sales. (Revenue)		

✓ - Step completed without exception

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TESTING PROCEDURES**

Licensee: _____ Review Period: _____

Entertainment Area: _____ Test Date: _____	Step completed without exception	Exception/Comment
3. Foot the individual sales subject to entertainment tax on the computerized detail transaction reports or restricted cash register tapes and trace to the entertainment admission, merchandise, food and beverage sales summaries : Note 1: Not applicable to wholesaler/broker sales. Note 2: If multiple entertainment areas use the same computerized system, only one area needs to be footed.		
a. Food sales during entertainment. (Revenue)		
b. Beverage sales during entertainment. (Revenue)		
c. Show ticket Admission sales. (Revenue)		
d. Merchandise and A all other sales/items. (Revenue)		
4. Foot and cross-foot the entertainment admission, merchandise, food and beverage sales summaries . (Revenue)		
5. Trace the following from the daily entertainment admission, merchandise, food and beverage sales summaries to the daily amount in the monthly entertainment recap report :		
a. Food sales during entertainment. (Revenue)		
b. Beverage sales during entertainment. (Revenue)		
c. Show ticket sales. (Revenue)		
d. Merchandise and A all other sales/items. (Revenue)		

✓ - Step completed without exception

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**ENTERTAINMENT
TESTING PROCEDURES**

Licensee: _____ Review Period: _____

Entertainment Area: _____ Test Date: _____	Step completed without exception	Exception/Comment
6. Foot <u>the daily amounts on the monthly entertainment recap report and trace the footed total to the month-to-date amount on the monthly entertainment recap report</u> and cross foot food and beverage summaries and showroom summaries. (Revenue)		
7. Reconcile cash turn-in to cash sales. (Asset Protection)		
8. Verify that package program breakdowns have been performed. Select one package program and verify that the breakdown complies with Regulation 13 <u>NAC 368A.450(5)</u> . Verify that entertainment revenue from package program items is included in entertainment sales in the manner and amount previously determined. (Revenue) Note: Effective January 1, 2004, pursuant to Regulation 13, Section 20(5)(b), any taxable package program item with an average retail value of less than \$5 must be included in taxable revenue at the full retail value. Prior to January 1, 2004, pursuant to Regulation 13.040(3)(d), these items did not have to be included in taxable revenue.		
9. Verify that the entertainment revenue subject to tax has been determined for discount show tickets. Select one type of discounted show ticket and verify that the revenue subject to tax was properly computed. Verify that entertainment revenue from discount show tickets is included in entertainment revenue in the manner and amount previously determined. (Revenue)		

✓ - Step completed without exception

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TESTING PROCEDURES**

Licensee: _____ Review Period: _____

Entertainment Area: _____ Test Date: _____	Step completed without exception	Exception/Comment
<p>10. Determine that all entertainment food and beverage sales are properly calculated (e.g., net of taxes, exclusive of complimentaries and debit/credit card fees). (Revenue)</p> <p>Note 1: If the gaming establishment “comps” show tickets to shows at affiliated properties, the licensee should treat these “comps” in the same manner as in-house complimentaries as long as supporting documentation is maintained pursuant to Entertainment MICS #18(V4) 5(V6).</p> <p>Note 2: If the gaming establishment has third party lessees that provide entertainment complimentaries to patrons where the licensee reimburses the lessee for the entire amount of the complimentary, or any portion thereof, the amount of the reimbursement must be included in taxable revenue.</p>		
<p>11. If the licensee charges a processing fee for credit card and other sales, determine that the taxable sales amount includes any such fees collected. (Revenue)</p>		
<p>12. Trace entertainment food, beverage, ticket and other sales from the appropriate sales summaries to the monthly revenue journal(s). (Revenue)</p>		
<p>13. For the month in which a test day was selected, foot the entertainment sales account(s) in the monthly revenue journal.</p>		
<p>14. Determine the propriety of any adjustments made to the grand total of the monthly entertainment recap report revenue journal/food and beverage spreadsheet (e.g., a reduction for credit card fees actually paid to an outside institution that are not included in the revenue journal/spreadsheet, an increase for unredeemed ticket sales, etc.). (Revenue)</p>		

✓ - Step completed without exception

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Licensee: _____ Review Period: _____

Entertainment Area: _____ Test Date: _____	Step completed without exception	Exception/Comment
15. For the month in which a test day was selected trace the month-to-date entertainment sales per the monthly revenue journal entertainment recap report to the general ledger and monthly NGC tax return. If revenue is reported on an accrual basis as allowed pursuant to MICS #26(V4) 28(V6) , ensure that revenue is properly reported in the month of the event. (Revenue)		
16. Examine the general ledger for any activity that was not included in reported revenue and should have been. (Revenue)		
17. Through examination/comparison of entertainment schedules and computer parameters, determine that all sales subject to entertainment tax have been properly included in the system generated totals. (Revenue)		
18. Verify that the actual hours of entertainment agree to the entertainment contracts. (Revenue) <u>Note: The contract provides a method in determining the hours of entertainment for determining whether sales for the period of entertainment have been properly reported. The hours stated in the contract may not agree with the actual hours of entertainment.</u>		
19. If entertainment revenue is reported based on admission tickets <i>redeemed</i> , determine the propriety of the reconciliation of show admission ticket sales to redeemed tickets, by type of ticket. (Revenue)		
<u>Procedures Modified or Added</u>		

✓ - Step completed without exception