

PARI-MUTUEL

VERSION ~~2~~ **3**

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

Draft: 2/6/09

State of Nevada
Gaming Control Board

Auditor's Name and Date

Internal Audit Compliance Checklist

**PARI-MUTUEL
WALK-THROUGH 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, and Minimum Internal Control Standards (MICS). The use of this checklist satisfies these requirements.

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 Pari-mutuel, Version ~~2~~ **6** or to the applicable regulation/statute.

Scope:

This checklist must be completed once in each 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 keno 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.

Verified per representation
Verified per observation/examination

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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 1: 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.

Note 2: It is also necessary to complete the walk-through procedures checklist for the Race & Sports Department for all pari-mutuel books.

Note 3: This checklist addresses pari-mutuel race wagering. For those auditing pari-mutuel sports wagering, design walk-through questions to determine compliance with **Regulation 26B**.

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.				
2. Complete the CPA MICS Compliance Checklist for Pari-Mutuel in accordance with the CPA MICS Compliance Reporting Requirements "Guidelines" and Internal Audit Reporting Requirements "Guidelines".				

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Questions	Yes	No	N/A	Comments, W/P Reference
3. Are house rules governing off-track pari-mutuel wagering transactions conspicuously displayed? Regulation 26A.040(11)				
Betting Ticket and Equipment Standards				
4. Does the book accept intrastate pari-mutuel wagers? Regulation 26A.020(7)				
5. If yes:				
a) Does the book prohibit the acceptance of intrastate pari-mutuel wagers from any book, affiliate of the pari-mutuel book, or a systems operator providing the intrastate common pari-mutuel system? Regulation 26A.040(13)				
b) Does the book prohibit the placing of layoff wagers into an intrastate common pari-mutuel pool? Regulation 26A.040(13)				
c) For intrastate common pari-mutuel pools, does the total percentage of off-track pari-mutuel wagers that is deducted as a commission on wagers not exceed 25 percent? Regulation 26A.150(2)				

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Questions	Yes	No	N/A	Comments, W/P Reference
6. Does the book NOT :				
a) Accept from a better patron , directly or indirectly, less than the full face value of an off-track pari-mutuel wager? Regulation 22.125(1)(a)				
b) Agree to refund or rebate to a better patron any portion or percentage of the full face value of an off-track pari-mutuel wager? Regulation 22.125(1)(b)				
c) Increase the payoff of, or pay a bonus on, a winning off-track pari-mutuel wager? Regulation 22.125(1)(c)				
d) Attempt to provide a benefit to the better patron by offering a wagering proposition or set or move its wagering odds, lines or limits? Regulation 22.125(2)				
e) Set lines or odds, or offer wagering propositions, designed for the purpose of ensuring that a patron will win a wager or series of wagers? Regulation 22.125(4)				
<u>Communications Technology</u>				
7. <u>Has written approval been received from the Board for any communications technology on the premises of the book or a call center? Regulation 26C.140(1)</u>				

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Questions	Yes	No	N/A	Comments, W/P Reference
8. <u>Has written approval of the chairman been obtained to accept wagering communications? Regulation 26C.140(2)</u>				
9. <u>Is communications technology only used as approved for that purpose? Regulation 26C.140(2)</u>				
10. <u>Annually, has the chairman's approval been obtained to continue using the communications technology? Regulation 26C.140(2)</u>				
11. <u>Are all wagering communications electronically recorded and retained for a period of 60 days? Regulation 26C.150(3) and (4); Regulation 26C.160(8)</u>				
12. <u>Before a book accepts wagering communication:</u>				
a) <u>Does the patron provide the required information to establish a wagering account and is a wagering account system used to record and maintain such information? Regulation 26C.160(4)</u>				
b) <u>Does an employee of the book verify the patron's identity and residence by obtaining the patron's driver's license, passport, non-resident alien identification card, other reliable government issue identification or other picture identification credential? Regulation 26C.160(4)(a)(4)</u>				

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Questions	Yes	No	N/A	Comments, W/P Reference
c) <u>Does the race book utilize an independent third party to perform identity, residence, and age verification with regard to the patron establishing the account? Regulation 26C.160(4)(d)</u>				
d) <u>Does the race book confirm that the state or foreign jurisdiction in which the patron resides is a jurisdiction in which pari-mutuel horse race wagering is legal, and that the state or foreign jurisdiction does not otherwise restrict wagering on accounts located outside the borders, prior to the book accepting wagers on such accounts? Regulation 26C.160(4)(e)</u>				
Surveillance 13. Is adequate video surveillance provided over the pari-mutuel area? Regulation 5.160(6) and Surveillance Standard #5				
<u>Procedures Modified or Added</u>				

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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, and Minimum Internal Control Standards (MICS). The use of this checklist satisfies these requirements.

Objectives:

To determine if controls for pari-mutuel wagering are adequate to ensure pari-mutuel wagering 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 ~~2~~ **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. **Indicate Test Date:** _____

MICS Variations and Regulation Waivers:

Review the MICS variations and regulation waivers scheduled during the pari-mutuel wagering 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.)

Note: This checklist addresses pari-mutuel race wagering. For those auditing pari-mutuel sports wagering, design testing procedures to determine compliance with **Regulation 26B**.

✓ - Step completed without exception

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Test Date Selected:	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. For one writer (teller), foot ticket sales on the Transaction Search Report. Do not include " Operator Cancel " tickets canceled transactions (i.e., voids) in the ticket sold computation. (Revenue)		
3. For the same writer selected above, foot the " Operator Cancel " tickets canceled transactions on the Transaction Search Report to determine total canceled sales. (Revenue)		
4. Trace tickets sold and tickets canceled to the Teller Detail Report. (Revenue)		
5. Foot the following and trace to the Session Sales Summary:		
a. Tickets sold and tickets canceled columns on the Teller Detail Report. (Revenue)		
b. Tickets refunded on the Refunded Tickets Report. (Revenue) Note: The Refunded Tickets Report will include tickets written on a previous day which will not be included in the current day's Session Sales Summary.		
6. For one track per test day, foot the Session Sales Summary tickets sold, canceled and refunded and trace net sales to the Reconciliation Report. (Revenue)		
7. For one performance of a meet at one track, recompute the commission for three races within the selected performance as follows:		
a. Obtain the rounding direction for that particular meet and performance from the system operator. (Revenue)		

✓ - Step completed without exception

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b. Apply the appropriate percentage, by race and pool (win, place, show, etc. or exotic wagers), to the applicable net sales figure on the Session Sales Summary. (Revenue)		
c. Total the individual commission amounts for the race and compare to the commission totals on the Reconciliation Report. (Revenue)		
8. For each performance selected in the previous step, foot all columns and compare to the totals by track on the Reconciliation Report and then foot all track performance totals and compare to the All Meets totals. (Revenue)		
9. Trace the net sales, commissions and breakage amounts from the Reconciliation Report to the revenue journal. (Revenue)		
10. Foot the daily commission and breakage amount in revenue journal. (Revenue)		
9. For one track, trace the net sales, commissions and breakage amounts from the Daily Reconciliation Report to the month-end Reconciliation Report. (Revenue)		
10. Foot each meet's totals in the month-end Reconciliation Report and agree to the All Meets totals. (Revenue)		
11. <u>For the test date selected, trace the net sales, commissions and breakage amounts from the month-end Reconciliation Report to the Gross Revenue Recap Report. (Revenue)</u>		
12. Trace the monthly commission and breakage amounts from the revenue journal Gross Revenue Recap Report to the general ledger. (Revenue)		
13. Trace the net sales figure on the Reconciliation Report to the system operator's weekly Track Fee Report. (Revenue)		
14. Recompute the system operator's weekly Track Fee Report for accuracy. (Revenue)		

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Test Date Selected:	Step Completed Without Exception	Exception/Comment
<p>15. Trace the total weekly track fees to the <u>Track Fee Report, Gross Revenue Recap Report and</u> general ledger. (Revenue)</p> <p>Note: The track fee report referred to in this procedure is addressed in Pari-Mutuel MICS #30.</p>		
<p>16. Review the licensee's procedures regarding refunds/additional payments of track fees and any unpaid winning tickets/vouchers purged from the system operator. Reconcile these amounts to the Pari Mutuel Race Revenue Journal <u>Gross Revenue Recap Report</u> or other appropriate accounting document to verify proper recording of revenue. (Revenue)</p>		
<p>17. <u>Foot and cross foot the Gross Revenue Recap Report to ensure month-to-date gross revenue is properly calculated and reported as follows: total commission on wagers, plus positive breakage, plus track fee refunds, plus purged tickets, plus uncashed vouchers over 60 days old, less negative breakage, less weekly track fees and additional track fee payments.</u> (Revenue)</p> <p>Note: The authoritative basis for pari-mutuel revenue is stated in Regulation 26A.020(5) and NRS 464.005(1). The unpaid vouchers over 60 days old are required to be brought back into revenue pursuant to the Regulation 12.100 approval letters allowing the use of vouchers and as addressed in "Note 2" on page 1 of the Pari-Mutuel MICS.</p>		
<p>18. <u>For the month in the previous procedure, trace the month-to-date gross revenue amount per the Gross Revenue Recap Report to the monthly NGC tax return.</u> (Revenue)</p>		
<p>19. Trace the total deposit or funds owed per the Reconciliation Report to the licensee's bank statement. (Asset Protection)</p>		
<p>20. Trace teller (writer/cashier) cash turn-in to the Teller Balance Report and ensure that two employees signed the cash turn-in. [Asset Protection/MICS #15 18b <u>V2 V6</u>]</p>		

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21. Review the Exception History Report for propriety of transactions and unusual entries. (Asset Protection)		
22. Review the licensee's procedures regarding refunds/additional payments of track fees and any unpaid winning tickets/vouchers purged from the system operator. Reconcile these amounts to the Pari Mutuel Race Revenue Journal or other appropriate accounting document to verify proper recording of revenue. (Revenue)		
23. Review the support to the NGC tax reports (e.g., accounting records, spread sheets or general ledger accounts) to ensure that revenue is properly calculated and reported as follows: total commission on wagers, plus positive breakage, plus track fee refunds, plus purged tickets, plus uncashed vouchers over 60 days old, less negative breakage, less weekly track fees and additional track fee payments. (Revenue) Note: The authoritative basis for pari-mutuel revenue is stated in Regulation 26A.020(5) and NRS 464.005(1) . The unpaid vouchers over 60 days old are required to be brought back into revenue pursuant to the Regulation 12.100 approval letters allowing the use of vouchers.		
22. Review the Gross Revenue Recap Report and any other support to the NGC tax reports to ensure that promotional allowances have no impact on reported revenue. (Revenue) NRS 464.045(3)		
23. For the monthly NGC tax return reviewed in the previous step, use the appropriate supporting documentation to verify other components of pari-mutuel on the NGC tax return (excluding no. of units).		
24. Foot the winning tickets and trace the total to the Transaction Report and the Teller Detail Report. (Revenue)		
25. For the test day, select 10 winning tickets and perform the following:		
a. Match the customer copy of the ticket to the Transaction Search Report. (Asset Protection)		

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b. Recalculate and verify proper payout. (Asset Protection)		
c. Trace the ticket and payout amount to the Cashed Ticket Report. (Asset Protection)		
d. Trace the winner of the event to the Race Prices Report Results Summary . (Asset Protection)		
e. Examine the ticket to determine whether it is branded with a paid designation and the amount of the payment and date, or whether the writer/cashier wrote or stamped the date and a paid designation on the ticket. [MICS #9 10 (V2 V6)]		
f. Trace the winner to an independent source (a race wire recap provided by a licensed disseminator may be used) to verify the winner and pay amount. (Asset Protection) Source used: _____		
g. Trace the computer generated date and time on the ticket to the independent source (a race wire recap provided by a licensed disseminator may be used) to determine if past-posting occurred. (Asset Protection) Source used: _____		
26. Select a sample of 5 canceled (void) tickets and perform the following:		
a. Trace the ticket to the Void Exception History Report . (Asset Protection)		
b. Verify that the ticket was not voided after the start of the event. (Asset Protection)		

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c. Examine the ticket to ensure that it has a void designation, either branded by the computer or written/stamped on the ticket, and that it is signed by a writer/cashier and a supervisor. [MICS #6a & b(V2 V6)]		
d. For not-in-computer voids, ensure that no adjustment was made to revenue. [MICS #6c(V2 V6)]		
27. For one performance of a meet at one track, foot the Cashed Ticket Report for the current day's pays and previous winners' pays (outs) for the current day and trace to the Daily Recap Report. (Revenue)		
28. For the test day selected, trace the total of the Purged Detail Ticket Report to the Daily Recap Report to verify that purged tickets are included in revenue. (Revenue)		
29. <u>For the test day selected, trace the total of the Purged Detail Voucher Report to the Daily Recap Report to verify that purged vouchers are included in revenue. (Revenue)</u>		
30. Foot the previous day's Future Back-In Ticket Detail Tickets Report and trace the total to the "Total Sales From Prev. Ses." column on the Session Sales Summary. (Revenue) Note: Future wagers are usually accepted only for the following races: the Kentucky Derby (run in early May), the Preakness (run in late May), the Belmont Stakes (run in June) and the Breeder's Cup (run in November). The futures report will only contain revenue just prior to the above races being run.		
31. Review the Futures Tickets Detail Report for proper accounting and tax reporting of future wagers. (Revenue)		
<u>Off-Track Pari-Mutuel Horse Race Account Wagering</u> <u>Note: The term "wagering account" as defined in Regulation 26C means an electronic ledger wherein transactions relative to pari-mutuel horse race wagers are recorded.</u>		

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32. <u>For the test day, ensure that patrons placing wagers that day had sufficient funds deposited to cover the wagering communication wager at the time of the wager; or that the licensee had established the patrons as credit patrons in compliance with the Cage and Credit MICS. (Asset Protection)</u>		
33. <u>Examine 10 wagering accounts to ensure the following information required by Regulation 26C.160 is properly recorded:</u> Indicate the wagering accounts examined.		
a. <u>The patron's name, permanent home address (not a post office box), and home telephone number. [Regulation 26C.160(4)(a)(1)]</u>		
b. <u>The patron's mailing address. If the mailing address is not a post office box number and is a residence or place of business of the patron, the telephone number of the residence or place of business. [Regulation 26C.160(4)(a)(2)]</u>		
c. <u>The patron's date of birth, gender, and a description and number of the identity credential provided and the social security number, for United States residents only. [Regulation 26C.140(4)(a)(3)]</u>		
d. <u>The method used to verify the patron's identity and place of residence. This should include a description and document number of the identity credential used. [Regulation 26C.160(4)(a)(4)]</u>		
e. <u>Statements signed by the patron:</u>		
1) <u>Attesting to the accuracy of the information. [Regulation 26C.160(4)(b)(1)]</u>		

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2) <u>Acknowledging receipt of a copy of the book's rules and procedures for wagering communications. [Regulation 26C.160(4)(b)(2)]</u>		
3) <u>Acknowledging understanding that wagers may be placed only when located within a state or foreign jurisdiction in which the patron resides or in a jurisdiction in which pari-mutuel horse race wagering is legal, and that the state or foreign jurisdiction does not otherwise restrict wagering on accounts located outside its borders. [Regulation 26C.160(4)(b)(3)]</u>		
4) <u>Consenting to monitoring and recording by the Board of any wagering communications. [Regulation 26C.160(4)(b)(4)]</u>		
f. <u>The date the account was opened. [Regulation 26C.160(4)(c)(1)]</u>		
g. <u>The patron's wagering account number. [Regulation 26C.160(4)(c)(2)]</u>		
h. <u>The patron's approved credit limit or the amount of the initial wagering account deposit. [Regulation 26C.160(4)(c)(3)]</u>		
i. <u>A record is maintained of an independent third party's verification of the identity, residence, and age of the patron establishing the wagering account. [Regulation 26C.160(4)(d)]</u>		
j. <u>A record is maintained confirming that the state or foreign jurisdiction in which the patron resides is in a jurisdiction in which pari-mutuel horse race wagering is legal, and that the state or foreign jurisdiction does not otherwise restrict wagering on accounts located outside its borders. [Regulation 26C.160(4)(e)]</u>		

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34. <u>Determine that, for these wagering accounts, the book records the secure personal identification assigned to the patron, and the date/time and amount of each deposit; withdrawal; wager placed and accepted including the wagering transaction number; payout on winning wager; charge for horse racing-related services or merchandise; service or other transaction-related charge authorized by the patron; and adjustment to the account. [Regulation 26C.160(7)(a - g)]</u>		
35. <u>For all accounts selected in the previous step for which the patron is not a resident of Nevada, examine the telephone activity to ensure that Regulation 26C.160(6) has been complied with (i.e., no wagers were accepted subsequent to 96 hours following the opening of the account unless the patron had the account renewed for an additional 96 hour period).</u>		
<u>Procedures Modified or Added</u>		

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