STATE OF NORTH DAKOTA
OFFICE OF ATTORNEY GENERAL

INTERNAL CONTROLS & INDEPENDENT AUDITS

CAN YOU PROVE IT?

IT STARTS WITH THE NORTH DAKOTA CONSTITUTION

North Dakota Constitution — Article XI, Section 25

"The legislative assembly shall not authorize any game of chance, lottery, or gift enterprises, under any pretense, or for any purpose whatever."

But the Constitution provides an exception for charitable gaming:

"...bona fide nonprofit veterans', charitable, educational, religious, or fraternal organizations, civic and service clubs, or such other public-spirited organizations..."

With one very important condition:

"...the entire net proceeds of such games of chance are to be devoted to educational, charitable, patriotic, fraternal, religious, or other public-spirited uses."

Charitable gaming is an exception to North Dakota's general prohibition on gambling.

That is why accountability matters.

Internal controls and independent audits help demonstrate that gaming activity is properly conducted, accounted for, and ultimately supports the public-spirited purposes for which charitable gaming is allowed.

WHY CARE ABOUT INTERNAL CONTROLS & INDEPENDENT AUDITS?

Charitable gaming involves public trust and significant amounts of money. Internal controls and independent audits help protect the organization, its gaming employees, and the charitable purpose the gaming activity is intended to support.

- **Protect the organization's money** — Ensure gaming funds are properly handled and accounted for.
- **Protect the people involved** — Clear procedures reduce mistakes and misunderstandings.
- **Catch problems early** — Identify errors or unusual activity before they grow.
- **Create accountability** — Document who handled, reviewed, and verified activity.
- **Support accurate reporting** — Maintain reliable financial and gaming records.
- **Protect the charitable purpose** — Ensure gaming proceeds support their intended purpose.

AGENDA: FROM REQUIREMENT TO PROOF



UNDERSTAND

How Administrative Rules and your Internal Control Manual work together.



RECOGNIZE

What independent verification should look like.



APPLY

The concepts to summaries, drop boxes, deposits, inventory, and cash banks.



PROVE

The required procedures occurred.

RULES + INTERNAL CONTROLS

THEY DO DIFFERENT JOBS – AND YOU NEED BOTH.

RULES

WHAT is required

Administrative requirements establish the standards your organization must meet.

INTERNAL CONTROLS

HOW you will do it

Your approved manual describes the procedures **your organization uses** to meet those requirements.

WHAT + HOW = A CONTROL YOU CAN ACTUALLY FOLLOW

YOUR INTERNAL CONTROL SYSTEM

N.D. ADMIN. CODE § 99-01.3-03-01

The governing board must establish a written system of internal control that includes both accounting and administrative controls.

ACCOUNTING CONTROLS

Protect & verify the activity

- ✓ Transactions are authorized
- ✓ Gaming activity is properly recorded
- ✓ Access to cash, games & assets is authorized
- ✓ Records are compared to actual assets and differences are resolved

ADMINSTRATIVE CONTROLS

Define who does what

- ✓ Describe how employee functions work together
- ✓ Establish the division of responsibilities

YOUR MANUAL SHOULD SHOW WHO DOES IT, HOW IT IS RECORDED, AND HOW IT IS VERIFIED.

YOUR MANUAL SHOULD MATCH REALITY

The Problem:

You need an Internal Control Manual for licensing and aren't sure where to start. You download the Sample Manual, change the cover to your organization's name, and submit it just in time to renew on June 30. However, the manual identifies positions and duties that don't exist within your organization and includes no procedures for your e-tab activity.

The Question:

Does this manual describe how your organization actually operates?

- ✓ Who actually performs these duties?
- ✓ Do the written procedures match what staff actually do?
- ✓ Does the manual cover every game and process you conduct?

If the answer is "no,"
the manual needs to be updated.

A procedure on paper is not a control unless the organization actually follows it.

YOUR MANUAL SHOULD MATCH REALITY

The Problem:

Your manual assigns the bookkeeper responsibility for:

- Recording receipts and disbursements
- Auditing and verifying all closed games and daily activity
- Signatory authority on the gaming and trust accounts

However, your actual practice has changed.

Because of rule changes, the bookkeeper no longer has signatory authority. The Gaming Manager now performs that responsibility.

The Question:

Your written controls and actual practice no longer match.

What needs to change?

The procedure?	The practice?	Both?

If your practice changes, your approved internal controls cannot simply be ignored.

A PROCEDURE ON PAPER IS NOT A CONTROL UNLESS THE ORGANIZATION ACTUALLY FOLLOWS IT.

THE INDEPENDENT AUDITOR'S ROLE

INDEPENDENT ≠ JUST ANOTHER SIGNATURE

REVIEW



Look at the records and the required procedure.

VERIFY



Use independent evidence — don't simply accept what someone says happened.

COMPARE



Check records against deposits, cash, inventory, or other source documentation.

DOCUMENT



Show what was reviewed, what matched, and what did not.

IF SOMETHING DOESN'T MATCH: STOP, INVESTIGATE, DOCUMENT, AND RESOLVE.

SEPARATION OF DUTIES

THE PERSON DOING THE WORK SHOULD NOT ALSO BE THE PERSON VERIFYING THE WORK.

THE WORK



The Gaming Manager, runner, or other employee may:

- Conduct gaming activity
- Complete daily worksheets and records
- Redeem and account for games
- Count redeemed and unsold tickets
- Handle cash
- Prepare and make deposits

THE INDEPENDENT CHECK



The independent auditor should separately:

- Verify daily activity
- Verify redeemed and unsold games
- Hand count when required
- Verify deposits against the records
- Compare source documents to the worksheets
- Investigate and document any differences

YOU CANNOT INDEPENDENTLY VERIFY WORK YOU PERFORMED YOURSELF.

DROP BOX PROCEDURES

Purpose of the Drop Box: To securely collect cash received during Twenty-One operations and establish a documented process for counting, verifying, and reconciling the money to gaming records.

The Questions:

- Who removes and opens the drop box?
- Who is present for the count?
- How is the cash count documented?
- How is the cash compared to gaming records?
- How are discrepancies documented and resolved?
- Independent Auditor Check: Verify that the required people and steps were involved, the count was documented, records agree with the cash, and any difference was addressed.



Cash handling controls should create a clear trail from access to count to gaming records.

DROP BOX CASH COUNT PROCEDURES

N.D.A.C. § 99-01.3-08-14

- ✓ Must be opened by a two person count team who are independent of each other.
- ✓ The drop box **may not** be accessible or counted by one individual.
- ✓ Count team members **may** be:
  - An independent person and a gaming employee.
  - Two representatives of a financial institution, accounting firm, security agency, or security company.
  - Two nongaming employees.
  - Two gaming employees, provided that one of the gaming employees does not conduct games **at that site**.

DROP BOX CASH COUNT PROCEDURES, CONT.

N.D.A.C. § 99-01.3-08-14

- ✓ A drop box that has been used must be removed from the table by the end of the day's activity.
- ✓ If the cash is not counted immediately, the drop box must be stored in a safe storage place.
- ✓ The cash must be removed from the drop box before the drop box can be used for another day's activity.
- ✓ The key to the lock securing the contents of a drop box must be controlled by one count team member **who may not have access to the drop box** unless both count team members are present.
  - One member will have the key or combination to the safe storage place where the drop box is store

    And
  - The second member will have the key to open the drop box.

DROP BOX CASH COUNT PROCEDURES, CONT.

N.D.A.C. § 99-01.3-08-14

- ✓ Each individual of the count team must independently count the drop box cash in the presence of the other individual,
  - One employee may not count other cash banks while the second employee counts the drop box.
- ✓ Resolve any difference between the counts, and
- ✓ Document the count by initialing and dating the record.

BANK DEPOSIT VERIFICATION

FOLLOW THE MONEY ALL THE WAY TO THE BANK



- ✓ **Review Gaming Records:** Examine interim visit reports and/or daily reports to identify the deposit amounts recorded based on the gaming activity.
- ✓ **Compare Deposit Slips:** Verify that the amounts on completed deposit slips match the amounts documented in the gaming records.
- ✓ **Verify Timely Deposits:** Confirm that deposits were made within the required deadlines.
- ✓ **Reconcile Bank Statements:** Obtain a printed bank statement each month and independently verify that deposits recorded on the game type summaries match the deposits shown on the bank statement. Record and attest on the required paperwork.
- ✓ **Investigate Discrepancies:** Identify and follow up on any missing deposits, differences in amounts, or deposits made outside the required timeframes. Inform your Gaming Manager and/or Top Official/Board.

ANNUAL RECONCILIATIONS

N.D.A.C. § 99-01.3-03-09

1

Conduct a Physical Inventory

At least annually, physically count all gaming inventory, including games in play, unopened games, and remaining inventory.

2

Compare Records to Actual Inventory

Verify that the physical count matches the organization's inventory records.

3

Reconcile Differences

Account for inventory received, sold, transferred, returned, or destroyed.

4

Investigate Discrepancies

Identify and resolve missing games, incorrect counts, or unexplained differences.

5

Document the Reconciliation

Maintain dated records of the physical count, discrepancies, corrections, and final reconciliation.

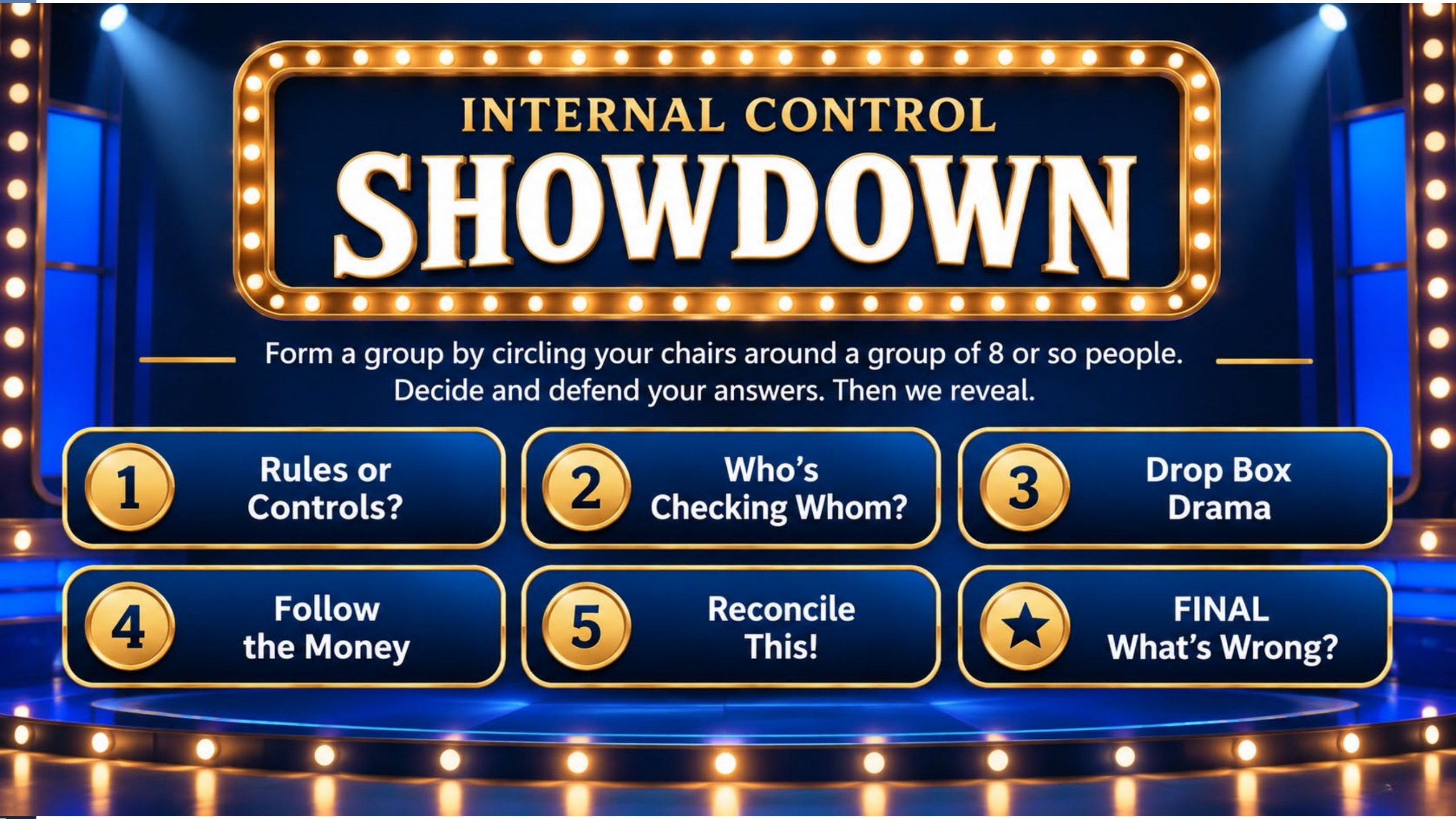
Independent Auditor's Role

The Independent Auditor is often an excellent choice to conduct the annual physical inventory because they are separate from daily gaming operations.

Rule states the count must be done by a person who does not have sole access to the deals, games, paper bingo cards, rolls or tickets, cash banks, or chips.

KEY TAKEAWAY

Every game must be accounted for—not just on paper, but through physical verification.


INTERNAL CONTROL
SHOWDOWN
Form a group by circling your chairs around a group of 8 or so people.
Decide and defend your answers. Then we reveal.
1
Rules or Controls?
2
Who's Checking Whom?
3
Drop Box Drama
4
Follow the Money
5
Reconcile This!
★
FINAL What's Wrong?

INTERNAL CONTROL SHOWDOWN

ROUND 1 — RULES OR INTERNAL CONTROLS?

QUESTION 1

An organization's Internal Control Manual requires two employees to verify and document cash counts during interim site visits for electronic pull tabs.

The Gaming Manager decides that having one employee complete the count would be more efficient, since the Administrative Rules do not require a two-person count team for electronic pull tabs.

Can the Gaming Manager switch to a one-person count without updating the organization's Internal Control Manual, since the Administrative Rules do not require two people?

TABLE TALK • 30–45 SECONDS

ANSWER:

Even when the Administrative Rules allow flexibility, the organization must follow the procedures established in its Internal Control Manual. The Gaming Manager cannot simply disregard those procedures because the rules are less restrictive.

KEY TAKEAWAY

While this may not result in an immediate enforcement action, North Dakota Administrative Rules require the governing board to establish a written system of internal controls. If an organization is not following its own established procedures, the inconsistency could be identified as a finding during an audit.

Remember: The Administrative Rules establish the requirements, and the Internal Control Manual documents how the organization will meet them. Having written procedures is not enough—the organization must actually follow them.

ROUND 2 — WHO'S CHECKING WHOM?

QUESTION 2

A small charitable gaming **organization** has a Gaming Manager who also serves as the Independent Auditor.

The organization employs a Runner who conducts interim site visits and brings the deposits and paperwork to the Gaming Manager for review. The Gaming Manager audits the records, verifies the information, and takes the deposits to the bank.

When the Runner needs a check to repay a bar loan, the Gaming Manager writes the check. The Gaming Manager also stores gaming inventory in a locked room at the office and unlocks it when the Runner needs inventory, but the Gaming Manager does not go into the room.



Is there a conflict with the Independent Auditor's responsibilities? If so, how many can your group identify?

TABLE TALK • 30–45 SECONDS

ANSWER:

Yes, there are multiple conflicts with the Independent Auditor's responsibilities. The Gaming Manager is performing and reviewing financial tasks, handling deposits, writing checks, and controlling access to gaming inventory, which compromises the independence of the audit.

KEY TAKEAWAY

The Independent Auditor must be independent of all gaming, financial, and inventory duties. The same person cannot perform the work and then audit or review that work. There must be a clear separation of duties to ensure an objective and independent audit.

INTERNAL CONTROL

SHOWDOWN

ROUND 3 — DROP BOX PROCEDURES

QUESTION 3

A dealer who does not work Thursdays or Fridays returns Saturday morning to assist the runner with the drop box count.

- The dealer opens the safe, as she knows this combination.
- The runner uses a separate combination to access the key inside the safe that unlocks the drop box.
- One person opens the drop box, removes the cash, and prepares the counting machine while the other runs the electronic pull tab IPR reports.
- Once both are ready, they independently count the cash in each other's presence using the counting machine.
- Both agree on the total and initial the records.

?

Is this procedure correct?
If not, what needs to change?

ANSWER:

Two important requirements are not being followed.

1 Separation of Duties

- At least one count team member must not conduct games at that site.
- The dealer's absence on Thursday and Friday does not eliminate the restriction.

2 Drop Box Security

- Both count team members must remain present once the drop box is opened.
- Neither person should leave to complete other duties while cash is accessible.

KEY TAKEAWAY

Having two people independently count and initial the records is not enough. The organization must also maintain proper separation of duties and continuous accountability for the cash.

INDEPENDENT AUDITOR CHECK:

Verify count team eligibility, controlled access, both individuals' presence throughout the count with initials, and properly completed count records.

INTERNAL CONTROL SHOWDOWN

ROUND 4 – FOLLOW THE MONEY

QUESTION 4

When doing the monthly audit of deposits, you trace the Interim Period Site Summary Deposit, to the Deposit Slip recorded by the Runner, to what shows up in the bank. What do I need to do to reconcile based on the 3 documents on this slide?

1. RUNNER DEPOSIT SLIP

Site: **The Bar**	Date of Activity: **10/1/22**
Twenty-One	
Bingo	
Pull Tabs Name:	
Pull Tabs Name:	
Electronic Pull Tabs Manufacturer: **ABC Games**	**$2,409.50**
Pull Tab Device Name:	
Other Name:	
Other Name: Gaming Stamp:	
AA **Total**	**$2,409.50**

2. BANK STATEMENT

FIRST STATE BANK
OF NORTH DAKOTA

Business Checking Statement
October 1, 2022 - October 31, 2022
Page 1 of 1

The Bar
123 Main Street
Bismarck, ND 58501

ACCOUNT SUMMARY

Beginning Balance (10/01/22)	$	12,630.41
Total Deposits	$	12,042.50
Total Withdrawals	$	8,215.32
Ending Balance (10/31/22)	**$**	**16,457.59**

TRANSACTIONS

Date	Description	Deposits	Withdrawals	Balance
10/01/22	Deposit - ABC Games (Electronic Pull Tabs)	$ 2,309.50		$ 14,939.91
10/04/22	Deposit - ABC Games (Electronic Pull Tabs)	$ 885.00		$ 15,824.91
10/08/22	Deposit - ABC Games (Electronic Pull Tabs)	$ 1,127.75		$ 16,952.66
10/12/22	Deposit - ABC Games (Electronic Pull Tabs)	$ 964.50		$ 17,917.16
10/16/22	Deposit - ABC Games (Electronic Pull Tabs)	$ 1,302.25		$ 19,219.41
10/20/22	Deposit - ABC Games (Electronic Pull Tabs)	$ 742.00		$ 19,961.41
10/24/22	Deposit - ABC Games (Electronic Pull Tabs)	$ 1,015.75		$ 20,977.16
10/28/22	Deposit - ABC Games (Electronic Pull Tabs)	$ 1,216.75		$ 22,193.91
10/31/22	Deposit - ABC Games (Electronic Pull Tabs)	$ 2,479.00		$ 24,672.91

3. INTERIM PERIOD SITE SUMMARY

ames

Adjusted Gross Proceeds
(4) **2,408.25**

ce Activity Report
ictivity report as required
e printed and retained

Cash Profit, Cash Long (Short), & Bank Deposit		
A. Total Currency In Devices (Actual) (Line 1)		4,091.00
B. Total $ Value Credit Ticket Vouchers In Device (Actual) (Line 2)	+	2,246.00
C. Total (A + B)	=	6,337.00
D. Total $ Value of All Credit Ticket Vouchers (Actual) (Line 2 + 3)	—	3,927.50
E. Total Credits Paid - Credit Redemption Register	—	0.00
F. Cash Long(Short) - From Organization Employee Cash Bank Only	+/-	0.00
G. Cash Profit (Loss) (C - D - E +/- F)		2,409.50
H. Adjusted Gross Proceeds (Line 4)	—	2,408.25
I. Cash Long (Short) (G - H)		1.25
J. Bank Deposit		2,409.50

Audited By and Date
LG 10/8/22

- INTERNAL CONTROL -

SHOWDOWN

ROUND 4 — FOLLOW THE MONEY

ANSWER



Answer –

Follow the money. If $2,409.50 was recorded on the deposit slip and Interim Period Site Summary, why is it $100 less on the monthly bank statement?

How can we track this to verify after the fact?

What internal controls could we put in place to prevent this in the future?

KEY TAKEAWAYS

- Compare all three documents to ensure deposit amounts match.
- Investigate and resolve any differences, and document the outcome.
- Strengthen internal controls, such as independent verification, dual signatures, and regular review of bank statements.

- INTERNAL CONTROL -

SHOWDOWN

QUESTION 5 — RECONCILE THIS!

QUESTION 5

Scenario

During the annual reconciliation of cash banks, the Independent Auditor pulls out the Ideal Cash Bank Master Record (SFN-52534) forms for both the Twenty-One bank and the Electronic Pull Tab bank.

- The Electronic Pull Tab bank is supposed to be $5,000, but it only has $2,500 in it.
- The Twenty-One bank has $2,500 in it plus a note that $500 was loaned to the Pull Tab bank.
- The Auditor calls the Gaming Manager to discuss.
- The Twenty-One bank is documented as reconciled, since there is an I.O.U. showing the loan, and upon visiting with the Gaming Manager, two months ago the bank was taken down by $2,500 for e-tabs due to the installation of kiosks, so she writes the reason.
- She considers these two banks reconciled and moves on to the inventory reconciliation.



Is this correct?

Did the Auditor properly reconcile these cash banks, or is there an issue?

RECONCILIATION OF IDEAL CASH BANKS

NORTH DAKOTA OFFICE OF ATTORNEY GENERAL
GAMING DIVISION
SFN 52532 (6-2022)

Organization	Site	Page
Charity, Inc.	The Bar	1 of 1
Reconciliation Completed By	**Job Title**	**Date**
Linda Green	Auditor	10/2/2022

	Twenty-One		
Game Type	Twenty-One		
Game Identifier/Name of Game	Twenty-One		
Current Cash Amount of Bank (per count)	$ 2,500	$	$
Plus:			
IOU-When Game is Source Of Cash	500		
Cash Loss From Previous Day(s) Activity			
Other Increases (explain)			
Less:			
IOU-When Game is Destination of Cash			
Cash Profit Not Yet Deposited			
Other Decreases (explain)			
Total Current Cash Bank Amount	$ 3,000		
Ideal Cash Bank Amount (per master record)	3,000		
Difference (explanation required)	0		
Explanations:	OK		
Initials	LG		

IDEAL CASH BANK MASTER RECORD

NORTH DAKOTA OFFICE OF ATTORNEY GENERAL
GAMING DIVISION
SFN 52534 (6-2022)

Organization	Site
Charity, Inc.	The Bar
Game Type	**Cash Bank Reference Number**
Twenty-One	3

Date	Check Number	Game Identifier/ Name of Game	Source/ Destination	Increase/ (Decrease)	Ideal Cash Bank Amount	Initials
4/1/22	1238	Twenty-One	Gaming Account	$ 4,000	$ 4,000	LG
6/30/22		" "	" "	(1,000)	3,000	LG

ANSWER: NO

- She needs to find documentation that shows the bank was taken down.
- If someone forgot to update it on the master record, this happens.
- We should expect to see a deposit made back to the bank with the reason being decrease of e-tab bank, and even a vote during a board meeting to decrease the bank as they voted for a kiosk.
- If she cannot reconcile this with documentation, it needs to be brought to the board and it is unauditable.

KEY TAKEAWAY

Cash banks must be properly documented and supported with records when amounts are increased or decreased. Changes to cash banks should be reflected on the Ideal Cash Bank Master Record, supported by a deposit to the bank with a clear reason, and documented in board meeting minutes.

INDEPENDENT AUDITOR CHECK:

Verify that any increase or decrease to a cash bank is supported by documentation, including board approval, a deposit or transfer, and updates to the master record.

– INTERNAL CONTROL –

SHOWDOWN

FINAL ROUND — WHAT'S WRONG WITH THIS PICTURE?

Scenario: A Busy Weekend at the Gaming Site



It's Halloween weekend, and all three of the organization's sites are busy. The Gaming Manager is bouncing between locations, getting calls and text messages throughout the evening.

At the first site, the twenty-one table is full and the bartender, who is a part-time employee of the charity, steps away from the bar to help. The machine ran out of hard cards, so he quickly fills it with more cards from the storage area. While there, he notices the QR code for the gaming rules has fallen down and tapes it back up. He jokes with the dealer, asking if she has completed her twenty-one training yet. She rolls her eyes and says everyone in the organization is up to date and it was the longest six hours of her life.

Meanwhile, at the second site, a runner collects cash and prepares the deposit. Another employee signs the paperwork without reviewing it so the runner can get it to the bank before closing. The Gaming Manager later tells the Auditor that a raffle prize winner was paid in cash, but she can't locate the prize receipt. She also mentions that a trusted employee took gaming inventory home overnight and will bring it to the third site tomorrow.

When the Auditor reviews the records, several electronic pull tab vouchers were paid but never initialed or dated, and a bingo session's cash receipts do not match the records. The Gaming Manager explains it was just a busy night and assures her everything is fine. The organization does maintain separate gaming and general accounts, and the board receives monthly financial reports. An employee also borrowed $200 from the gaming cash bank to make change at another site and returned it the following week.

FINAL CHALLENGE

Identify 8 internal-control concerns and 4 correct practices.

CLOSING — FINAL TAKEAWAYS

Don’t just check the box. Verify it.

Have strong Internal Controls approved and written by your board directly for gaming and use the Independent Auditor correctly.



ASK YOURSELF:

- Does it follow the administrative rules?
- Does it follow your Internal Control Manual?
- Do the records support it?
- Did you independently verify it?
- Can you prove it?



THANK YOU



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