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## Internal Audit

## Fundamentals

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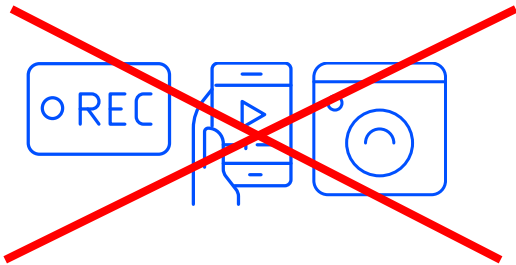
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- For questions, please contact Sophia Thompson at [sophia.thompson@wipfli.com](mailto:sophia.thompson@wipfli.com).

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## Your Presenters



**Joseph Busby**  
Chief Compliance Officer  
Foxwoods Resort Casino

Joseph has 16 years of experience in the gaming industry having worked in both commercial and Tribal gaming in multiple jurisdictions domestically and internationally. He was the Director of Surveillance Operations for multiple casino, racetrack, and card room operations in Alabama, Florida, and Oklahoma. Additionally, he has experience in regulatory compliance; including internal and external audit, anti-money laundering, and risk assessments. He also has a background in law enforcement and public accounting.

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**Theresa Shadick**  
Manager, Audit  
Wipfli LLP

Theresa has over 26 years of experience in tribal facilities in the capacities of vault/soft count supervisor, revenue audit manager, compliance officer, and assistant controller of gaming. Her areas of specialization include National Indian Gaming Commission (NIGC), Minimum Internal Control Standards (MICS), risk assessments, Title 31, and internal audit.

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**POLL #1**

## What is Internal Audit?

- Internal audit is an independent appraisal function established within the casino to examine the adequacy and effectiveness of the casino's internal control system and its overall quality of performance.

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## What is Internal Audit? *(continued)*

Institute of Internal Auditors (IIA) defines Internal Auditing as:

- “An **independent**, objective assurance and consulting activity designed to **add value and improve an organization's operations**. The internal audit activity helps an organization accomplish its objectives by bringing a systematic, disciplined approach to **evaluate and improve** the effectiveness of risk management, control and governance processes.”

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## What is Internal Audit? *(continued)*

Internal audit department will report normally to the following:

- Gaming Commission (very common)
- Gaming Board or Business Committee
- Tribal Council
- Management (independence issue)

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## What is Internal Audit? *(continued)*

Internal audit department will:

- Identify risks (problems)
- Look for efficient ways and best practices
- Coordinate improvement operations within the casino

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**POLL #2**

## Internal Audit Charter

- The internal audit charter is the formal document that describes the objectives and responsibilities of the internal audit department
- Can be part of gaming ordinance

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## Internal Audit Charter *(continued)*

- Casino policies regarding the internal auditing
- Purpose or objective in establishing the department (NIGC MICS)
- Responsibilities of affected management groups with respect to auditing
- Organizational reporting relationships
  - Review material

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## NIGC MICS Internal Audit Requirements

### NIGC MICS 542.42 References: (Tier C)

(a) *Internal audit personnel.* (1) For Tier C gaming operations, a separate internal audit department shall be maintained whose primary function is performing internal audit work and that is independent with respect to the departments subject to audit.

(2) The internal audit personnel shall report directly to the Tribe, Tribal gaming regulatory authority, audit committee, or other entity designated by the Tribe in accordance with the definition of internal audit in §542.2.

### NIGC MICS 543.23 References: (All Tiers)

(2) Internal auditor(s) are independent of gaming operations with respect to the departments subject to audit (auditors internal to the operation, officers of the TGRA, or outside CPA firm may perform this function).

(3) Internal auditor(s) report directly to the Tribe, TGRA, audit committee, or other entity designated by the Tribe.

(4) Documentation such as checklists, programs, reports, etc. is prepared to evidence all internal audit work and follow-up performed as it relates to compliance with TICS, SICS, and these MICS, including all instances of noncompliance

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## NIGC MICS Internal Audit Requirements *(continued)*

### NIGC MICS 542 Required Audits:

- Bingo
- Pull tabs
- Card games
- Keno
- Pari-mutual wagering
- Table Games
- Gaming machines (Player Tracking)
- Cage and credit
- Information Technology
- Complimentary service or items
- Any other internal audits as required by the Tribe, Tribal gaming regulatory authority, audit committee, or other entity designated by the Tribe.

### NIGC MICS 543 Required Audits:

- Bingo
- Pull tabs
- Card games
- Gaming promotions and player tracking procedures
- Keno
- Pari-mutual wagering
- Table Games
- Gaming machines
- Cage, vault, cash and cash equivalent (kiosks)
- Patron deposit accounts and cashless systems procedures
- Lines of Credit
- Drop and Count
- Information Technology
- Complimentary service or items
- Accounting Standards

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## NIGC MICS Internal Audit Requirements *(continued)*

### NIGC MICS 542 Other Requirements:

(e) Material exceptions. All material exceptions resulting from internal audit work shall be investigated and resolved with the results of such being documented and retained for five years.

(f) Role of management. (1) Internal audit findings shall be reported to management.

(2) Management shall be required to respond to internal audit findings stating corrective measures to be taken to avoid recurrence of the audit exception.

(3) Such management responses shall be included in the internal audit report that will be delivered to management, the Tribe, Tribal gaming regulatory authority, audit committee, or other entity designated by the Tribe.

### NIGC MICS 543 Other Requirements:

(6) All material exceptions identified by internal audit work are investigated and resolved and the results are documented.

(7) Internal audit findings are reported to management, responded to by management stating corrective measures to be taken, and included in the report delivered to management, the Tribe, TGRA, audit committee, or other entity designated by the Tribe for corrective action.

(8) Follow-up observations and examinations is performed to verify that corrective action has been taken regarding all instances of non-compliance. The verification is performed within six (6) months following the date of notification of non-compliance.

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## POLL #3

## Other Audits to Consider Based on Risk

### Risk Based Audit Categories

- Policies, procedures, and practices
- General ledger data (financial)
- Surveillance
- Major contracts
- Player Ratings
- PTO Accrual
- Payroll
- Accounts Payable
- NIGC and State Compact Fee Calculations
- Tax Compliance

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## POLL #4





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## Internal Audit Workpapers and Report Writing

### What is a Workpaper?

- Documents/support obtained and summarized to form your report opinion or result
- Work papers represent the main documentary evidence of audit testing, discussions and observations
- Audit work papers can be prepared electronically or manually and can vary in type and format (e.g., narratives, memos, flowcharts, test grids, meeting notes, and audit steps)

### Elements of a Workpaper

- Source
- Purpose
- Procedure
- Result/Conclusion or the exception noted

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## Internal Audit Workpapers and Report Writing *(continued)*

### Elements of a Workpaper *(continued)*

- Source
  - The name and title of the individual providing the documentation should be recorded to facilitate future follow ups questions or audits
  
- Purpose
  - The nature, timing and extent of procedures performed should be included on each work paper for completeness. It is also helpful to include a statement describing the purpose of the particular document with respect to the audit objective

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## Internal Audit Workpapers and Report Writing *(continued)*

### Elements of a Workpaper *(continued)*

- Procedure
  - The actual procedures that were performed on this workpaper. For example, reviewed the drop and count sheet for the signatures of the count team members and the vault cashier verifying the amount
  
- Result/conclusion or exception noted
  - Document the results of the procedures performed. Audit exceptions must be documented and explained clearly on each workpaper

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POLL #5

## Internal Audit Workpapers and Report Writing *(continued)*

### Workpaper Referencing

- Procedure
  - Usually in red at the top right corner of the workpaper.
  - Referencing between workpapers
    - Like addressing a letter or envelope
      - “To” on the right
      - “From” on the left
  
- \*Tick mark legend
  - A concise definition of all tick marks should be included on each audit work paper or at a central location to clearly describe the work performed during the engagement
  - ✓, ✕, ?

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## Internal Audit Workpapers and Report Writing *(continued)*

### Workpaper Organization

- Work papers can be organized in many ways
  - By topic or audit area (recommended)
  - By type of work paper
  - By owner or work paper creator
  - By date

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## Internal Audit Workpapers and Report Writing *(continued)*

### Components of an Internal Audit Report (NIGC MICS)

- Audit objective
- Audit scope and procedures
- Findings and conclusions;
- Recommendation, if applicable and
- Management's response

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## Internal Audit Workpapers and Report Writing *(continued)*

### Audit Objective

- Simply state the objective
- The objective of this audit is to determine compliance with the (NIGC's MICS) for Gaming Machines

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## Internal Audit Workpapers and Report Writing *(continued)*

### Audit Scope and Procedures

- List the procedures performed and scope
  - Completed the NIGC's checklist for gaming machines
  - Four days of supporting documentation were selected on a random basis during the period from October 1, 2017 through September 30, 2018

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## Internal Audit Workpapers and Report Writing *(continued)*

### Findings and Conclusions

- Specific finding or instance of noncompliance
  - Accurate and current theoretical hold worksheets (par sheets) are not maintained for all gaming machines

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## Internal Audit Workpapers and Report Writing *(continued)*

### Recommendation (if applicable)

- What should be done to fix the problem

### Management's Response

- Management agrees or disagrees with the finding
  - *Corrective Action*

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POLL #6

## Internal Audit Tips and Recommendations

- Get a copy of the document, even if there is not a finding
- Document the who, what, when, where, and why for internal purposes, as it will help write the findings as well as the recommendation
- Discuss with management before you start writing the report

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### Internal Audit Tips and Recommendations *(continued)*

- Make sure that you have an exit meeting with management before writing the report
- Discuss possible corrective actions with management
- Get management responses and a timeline to correct the findings

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### Internal Audit Tips and Recommendations *(continued)*

- Know your audience, state in the report
- Have a report template, which can be edited for several audits
- Read the report out loud to yourself to ensure what you have written makes sense
- Have another person review your report before it is finalized

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POLL #7

## Upcoming Seminars

- Title 31/AML Compliance - April 13
- MICS Compliance and Frequent Problems - April 27

Visit [www.wipfli.com/events](http://www.wipfli.com/events)

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POLL #8



**Thank you**

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