



BINGO AND LUCKY 7 GUIDANCE INTERNAL CONTROL PROCEDURES

PURPOSE

The New Hampshire Lottery Commission (NHLHC) has developed this document as a guide to help licensed charities comply with the internal control requirements of Lot 7000 (Bingo rules) and Lot 7100 (Lucky 7 rules).

We recognize that a licensee's internal control needs may differ from those described in this guide, and that it may be necessary to deviate from these standards to better meet its needs or circumstances.

INTRODUCTION TO INTERNAL CONTROLS

Many charitable organizations experience asset losses related to theft, embezzlement, or other diversions of assets. This is particularly true for charitable gaming where large sums of cash pass through many different hands before it is recorded, providing many opportunities for cash to be skimmed. Implementing internal controls will aid in the prevention and detection of such fraudulent activities.

Although not all such losses can be prevented, an organization can reduce their likelihood by putting procedures in place that can control the authorization, accountability, and safekeeping of the gaming operations' major assets. These procedures include physical safeguards, paper controls, and people controls.

- Physical safeguards are designed to limit access to areas where cash and other assets are kept, and include the use of locks and video surveillance;
- Paper controls leave a trail of documentary evidence that can be audited; and
- People controls are activities that require two or more people to be involved in a transaction and a segregation of duties.

By putting controls in place, an organization can help minimize the risk of errors, decrease the opportunity for fraudulent activity, and increase the chance of detecting errors within the cash collection cycle. Management should also investigate and resolve discrepancies noted from reviews, reconciliations, and other internal analysis of accounting transactions on a timely basis.

SEGREGATION OF DUTIES

To maintain sound internal controls, a charitable organization should never let an outside party, including an accountant, gaming consultant, or distributor manage the gaming operations. Nor should an organization delegate too much authority to one person within or outside of the organization without oversight.

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Segregation of duties is designed to reduce the opportunity to allow any person to be in a position both to perpetrate and to conceal errors or irregularities (fraud) in the normal course of his/her duties. Effective internal controls limit any single person from having control over two or more phases of a financial transaction or operation.

Segregation of duties involves assigning different people the responsibilities of:

1. **Authorizing:** The process of reviewing and approving transactions, such as verifying daily balancing reports, approving purchase orders and time sheets;
2. **Record keeping:** The process of creating and maintaining records of revenues, expenditures, and inventories, such as preparing cash receipts or billings, purchase requisitions, and maintaining inventory records;
3. **Custody:** Having access to or control over any physical assets, including cash, checks equipment, supplies, or materials; and
4. **Reconciliations:** The process of verifying the processed transactions to ensure that they are valid, properly authorized and recorded timely, and following up on any discrepancies identified. Examples of this control mechanism include conducting physical inventory counts, comparing fund collected to accounts receivable postings, comparing cash collection to deposits, reconciling department revenues and expenditures to management reports.

The concept behind segregation of duties is that to misappropriate cash, several individuals would have to collude, rather than one individual acting alone.

For example, the duties of authorization (signing a check or releasing a wire transfer), custody (having access to the blank check stock or the ability to establish a wire transfer), and recordkeeping (ability to record the transaction in the accounting system) should be separated so that one individual cannot complete a transaction from start to finish. An individual independent of all the above steps should receive and review all bank statement and cancelled checks (independent oversight).

ACCOUNTABILITY

Organizations need to take steps to ensure that all cash transactions have been authorized, accounted for, and documented. Ensuring accountability among employees and volunteers also helps to reduce the risk of lost or stolen cash receipts and incorrect recording of transactions.

Ideally, a cash register or multiple-copy receipt book should be used in the collection of cash. If this is not an option, then procedures should be put in place to require 2 people to accept, record, and monitor the collection and a third person to arrange for its deposit. Cash transactions should be recorded into a journal or log to enable account reconciliation. It is important that any cash revenues be deposited in the organization's bank account as soon as possible, and that management verifies that the amount deposited matches the amount collected.

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SAFEGUARDING ASSETS

An organization can protect its cash on hand by placing them in a locked cabinet, draw or safe and limiting access. This area should be monitored to ensure only the right personnel have access to handling cash or other valuable assets. For example, petty cash and/or blank checks should be stored in a locked drawer with only a few individuals having the combination or key.

Using a safe to keep cash stored securely until deposited is a good internal control; posting the combination or hanging the safe key on a hook above the safe is not. Controls that can be put in place to keep cash safe until deposit include:

- Make sure employees use pens and lights to detect fake bills and be wary of individuals trying to pass off counterfeit bills to the charity.
- Use a safe to keep cash secure. Heavy (not easily carried) safes, and safes that are bolted to the floor are offer the best protection.
- Keep the safe locked at all times—do not leave the safe open or unattended.
- Change the combination, password, or PIN frequently, especially when there is employee turnover.
- Never post the safe combination, password, or PIN, or hang the key near the safe.

Organizations must maintain a Bingo/Lucky7 account that is separate from all other revenues of the organization. All gambling-related expenses, including taxes, must be paid directly from the Bingo/Lucky 7 account.

Pre-signing blank checks are not permitted. The use of a signature stamp, although efficient, may also be problematic in that the organization must have separate controls to ensure that the stamp is not readily available for inappropriate use. For electronic transactions, the bank statement must show the date, amount, payee name, and either the payee account number or the transaction number.

All disbursements, whether made by check, posi-pay, or an e-pay system, should be approved by someone other than the person who physically made the payment. The approver should confirm that the payment is supported by the appropriate check request, invoice and/or purchase order, that the same invoice is not paid more than once, and that the stated amount of goods or services were truly received by the organization. The organization's list of vendors should be reviewed for reasonableness, duplication, and "ghost vendors" on a regular basis.

Cash expenditures should be avoided to the extent possible. Consistent with the proper segregation of duties, a single person should not be responsible for the collection, deposit, and reconciliation of cash receipts or other sources of income. If it is necessary to make payments in cash, those payments should be fully documented through advance approval, signed receipts by persons receiving cash, and expense vouchers or other documentation showing that the cash was used appropriately.

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RECONCILIATIONS:

It is important to reconcile all bank accounts monthly to ensure all transactions are being recorded accurately and completely. In addition to bank reconciliations, the organization should also reconcile their programmatic systems to their accounting systems and perform periodic counts of cash on hand.

Bank statements should be reconciled monthly by someone who does not issue or sign checks on behalf of the organization. In addition, copies of checks, wire transfer information, and other information relating to deposits and withdrawals should be maintained along with the monthly statement. Checks and other expenditures should be examined to verify that the payments are consistent with the organization's activities, and that the expenditures were appropriate.

The bank reconciliation should also include a review of the check images that are returned with the bank statement for unusual transactions. Any unusual items should be investigated and evaluated when necessary.

MONITORING:

A review process is crucial to ensure controls are in place and running effectively. Management should review and monitor regularly and investigate any unusual activity. This process will help determine if a control is not working properly or needs to be changed or updated.

Similarly, deposit activity should also be reviewed to ensure that it corresponds to expected revenues. For example, if the organization held a fundraising event that generated cash, the reviewer should look to see that there are cash deposits that correspond to the event. If the organization banks online, it should still be sure it is regularly downloading or printing and storing its bank statements, deposit slips, check images, and similar documents.

INTERNAL CONTROL REQUIREMENTS:

The Bingo and Lucky 7 rules required the development, implementation, and adherence to written internal control policies and procedures address a minimum of the following:

1. Segregation of duties such that no one person or groups within the organization has complete control over a business process or multiple steps within that process;
2. Controlling the access to bingo papers, lucky 7 ticket and related equipment;
3. Managing inventory bingo papers and lucky 7 ticket inventory by maintaining a perpetual inventory control log, conducting a monthly physical inventory, and investigating any discrepancies between the two.
4. Secure ticket sales by verifying and documenting ticket sales and voids, and restricting access to the sales records;
5. Recording, tracking and reconciling prize payouts; and
6. Securing operating funds by recording and accounting for all funds used to operate the gaming operation, and limiting access to the gaming account.

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WRITING INTERNAL CONTROLS:

Internal controls must include a detailed description of the policies and procedures in effect, and include:

- The individual(s) involved;
- The procedures performed by the individual(s);
- When the procedure is performed;
- How the procedure is performed; and
- Where the procedure is performed.

The following prompts are provided to assist with the development of the organization's written internal controls:

1. Describe the process for periodically reviewing and updating the written internal controls? When does this occur and who is responsible for writing/reviewing the controls?
2. How are the internal control policies and processes communicated to volunteers and staff?
3. Describe each role in the Bingo and L7 operation and the reporting structure (to whom each role reports).
4. What controls are in place to ensure cash is kept secure, access is limited to authorized personnel and to dual control are in place?
5. Describe the processes for recording, collecting, and documenting daily paperwork. Who prepares the paperwork? Who reviews the paperwork? What forms are used for this process?
6. Describe how the organization prevents unauthorized individuals from accessing Bingo/Lucky 7 inventory and equipment, including bingo paper, L7 tickets, POS systems, bingo balls and caller equipment.
7. Describe how the organization stores and issues keys to sensitive areas such as equipment storage rooms/closets and other high-risk areas.
8. Describe how the organization maintains dual control throughout the bingo/L7 operation. How does the organization ensure duties, functions and responsibilities are appropriately segregated such that no one person is able to perpetrate fraud or conceal errors or irregularities?
9. How are Bingo papers, Lucky 7 tickets and related equipment secured? Who has access to the locations where items are stored? What barriers are in place to prevent others from accessing the equipment?

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10. Describe how the organization manages Bingo paper and Lucky 7 ticket inventory. Who manages the perpetual inventory log and what information is recorded? How often is a physical inventory conducted, and who performs this task? How are the inventories reconciled and what is the threshold at which discrepancies are investigated and resolved?
11. How does the organization ensure that, when a ball is drawn, the ball is visible to players throughout the gaming area?
12. Describe the processes followed for the sale of bingo paper and L7 tickets. What forms are utilized? What pieces of information are documented on forms?
13. How are cash banks, bingo paper and L7 tickets allocated to the cashiers? Who counts, verifies, and reconciles the cash at the end of the selling period? How are cash banks (including L7 runners) reconciled at the end of the selling period? Who consolidates the paperwork? Is cash counted only under dual control?
14. Describe the process when a variance is identified (i.e., steps followed, key dollar thresholds, etc.).
15. Who prepares the bank deposit?
16. Describe the process for calculating, paying, and recording prize payouts.
17. Describe the organization's policy on the purchase of bingo paper and Lucky 7 tickets by volunteers or staff what assist in the gaming operation?
18. Describe how the organization track Lucky 7 progressive games?
19. How does the organization ensure that the cashier area is secure? Are only authorized personnel allowed in the area? If the cashier steps away from the area, how does he/she secure his/her cash drawer? Who reviews the Bingo/Lucky 7 calculations?
20. Describe how free plays and discounts are tracked. Are free play coupons/vouchers serialized and tracked on a manual or electronic system? How are undistributed coupons/vouchers secured to prevent unauthorized access? Who reconciles free play coupons/vouchers and how often are they reconciled?
21. Are systems password protected (e.g., POS) to prevent unauthorized access?
22. If the room offers a carryover coverall or other progressive, is a separate bank account maintained and reconciled at least monthly?
23. How does the organization record Bingo/Lucky 7 transactions that are used to prepare the Monthly Financial Reporting (MFR)?
24. Does the organization retain all cancelled checks for payment of expenses and prizes for at least 2 years?
25. If the facility where the games are operated has a surveillance system, how does the organization utilize this system? How long is video surveillance retained?