

**112-104-24. Internal audit standards.** (a) Each facility manager's internal control system shall include internal controls for internal audit standards. The internal controls shall be submitted to and approved by the commission according to K.A.R. 112-104-1. The facility manager shall maintain a separate internal audit department whose primary function is to perform internal audit work that shall be independent with respect to the departments subject to audit. The facility manager shall ensure that the standards, conventions, and rules governing audits in the United States are followed for all audits. The internal audit department shall be responsible for the following:

- (1) The review and appraisal of the adherence of the facility manager's systems of internal control to commission regulations and technical standards;
  - (2) performing tests to ensure compliance with internal control procedures;
  - (3) the reporting to the facility manager's management and the commission of instances of noncompliance with the internal control system;
  - (4) the reporting to the facility manager's management and the commission of any weaknesses in the internal control system;
  - (5) the recommendation of procedures to eliminate any weaknesses in the internal control system; and
  - (6) performing tests to ensure compliance with K.A.R. 112-104-6.
- (b) The auditing department shall prepare documents to evidence all internal audit work performed as the work relates to the requirements in this regulation, including all instances of noncompliance with internal control procedures:

(1) The internal audit department shall operate with audit programs that address the requirements of this regulation.

(2) The internal audit department shall accurately document the work performed, the conclusions reached, and the resolution of all exceptions.

(c) All audit reports shall be prepared, maintained, and provided to the commission on a schedule approved by the executive director.

(1) Internal audit personnel shall perform audits of all major gaming areas of the facility manager. The following shall be reviewed at least quarterly:

(A) Wagering, including calculation and payout procedures;

(B) net EGM income;

(C) EGM activity, including the following:

(i) Jackpot payout and EGM or electronic device fill procedures;

(ii) EGM or electronic device drop counts, bill validator counts, and subsequent transfer of funds;

(iii) unannounced testing of count room currency counters or currency interface;

(iv) EGM drop cabinet access;

(v) tracing of source documents to summarized documentation and accounting records;

(vi) reconciliation to restricted copies;

(vii) compliance with erasable programmable read-only memory (EPROM) duplication procedures; and

(viii) compliance with internal control procedures for EGMs or electronic devices that accept currency and issue cash-out tickets and for EGMs that do not accept currency and do not return currency;

(D) cage procedures, including the reconciliation of trial balances to physical instruments on a sample basis. Cage accountability shall be reconciled to the general ledger;

(E) information technology standards specified in K.A.R. 112-104-25;

(F) complimentaries, including procedures whereby complimentaries are issued, authorized, and redeemed;

(G) control of keys that require accountability in a log beginning with the authorization to order, number received, establishment of the beginning key inventory, and control of issuance of keys to the operating departments;

(H) purchasing functions and contractual agreements to determine that the purchases and agreements are not in excess of their fair market value; and

(I) any other internal audits as required by the executive director, audit committee of the board of directors, or other entity designated by the executive director.

(2) The audit reports shall include the following information:

(A) Audit objectives;

(B) audit procedures and scope;

(C) findings and conclusions;

(D) recommendations, if applicable; and

(E) management's response.

(3) In addition to the observation and examinations performed under paragraph (c)(1), follow-up observations and examinations shall be performed to verify that corrective action has been taken regarding all instances of noncompliance cited by internal audit, the independent accountant, and the commission. The verification shall be performed within three months of the issuance of the audit report.

(4) Whenever possible, internal audit observations shall be performed on an unannounced basis.

(5) All exceptions disclosed during audits shall be investigated and resolved, with the results being documented and retained for seven years.

(d) All internal audit findings shall be reported to management, who shall be required to respond to internal audit findings stating corrective measures to be taken to avoid recurrence of the audit exception. The management responses shall be included in the internal audit reports that are delivered to the facility manager's management, the commission, audit committee of the board of directors, or other entity designated by the executive director. (Authorized by and implementing K.S.A. 2007 Supp. 74-8772; effective Sept. 26, 2008.)