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We have completed an audit of the Gaming Control Board. This audit is part of the ongoing program of the Legislative Auditor as authorized by the Legislative Commission. The purpose of legislative audits is to improve state government by providing the Legislature, state officials, and Nevada citizens with independent and reliable information about the operations of state agencies, programs, activities, and functions. The results of our audit, including findings, conclusions, recommendations, and the Board's response, are presented in this report.

We wish to express our appreciation to the management and staff of the Gaming Control Board for their assistance during the audit.

Respectfully presented,

A handwritten signature in black ink, appearing to read "Paul V. Townsend".

Paul V. Townsend, CPA  
Legislative Auditor

May 9, 2003  
Carson City, Nevada

STATE OF NEVADA  
GAMING CONTROL BOARD

AUDIT REPORT

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# **EXECUTIVE SUMMARY**

## **GAMING CONTROL BOARD**

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### **Background**

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The mission of the Gaming Control Board is to govern Nevada's gaming industry through strict regulation of all persons, locations, practices, associations, and related activities. The Board protects the integrity and the stability of the industry and ensures the collection of gaming taxes and fees. The Board is organized into seven divisions with offices in Carson City, Elko, Las Vegas, Laughlin, and Reno. For 2002, the Board had \$30 million in expenditures and a legislatively approved staffing level of 432 full-time equivalents.

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### **Purpose**

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This audit included a review of the Board's audit function and its collection activities for gaming taxes and fees during fiscal year 2002. The purpose of our audit was to determine if the control and related practices prescribed by NRS 463.157 to 463.1592 have been efficiently, effectively, and equitably administered. We also evaluated the Board's collection process for gaming taxes and investigation fees.

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### **Results in Brief**

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The Board's Audit Division has provided strong regulation over the internal control and financial reporting practices of Nevada casinos. In addition, the Division plays a critical role in ensuring licensees properly report revenues and comply with gaming laws and regulations. The Division has maintained its effectiveness in conducting audits and performing other responsibilities. However, it did not ensure licensees submitted all reports when required. Further,

## EXECUTIVE SUMMARY

### GAMING CONTROL BOARD

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periodic reviews of the Division's policies and procedures were not performed as scheduled.

The Board has an effective process for the collection of gaming taxes and fees. During fiscal year 2002, the Board collected over \$700 million and maintained a collection rate of more than 99%. Although gaming taxes and fees were properly collected, recorded, and deposited, improvements can be made to the safeguarding of payments prior to deposit. In addition, policies and procedures for collections need to be updated in several areas.

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## Principal Findings

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- Our review and analysis of performance information found the Audit Division has maintained its effectiveness since our prior audit in 1995. The Division has improved the frequency of auditing licensees by almost 3 months and has managed staffing resources efficiently. In addition, the Division performed about 45% more contacts with licensees between audits to verify prior audit violations were corrected and to ensure compliance with regulations. Furthermore, assessments for unpaid taxes have remained at less than 1% of taxes paid, indicating a high level of compliance by licensees. (page 10)
- Although the Audit Division has provided effective regulation, better monitoring efforts are needed to ensure licensees submit all internal control reports when required. Licensees submitted their financial reports timely; however, two types of internal control reports were not always received by the Audit Division when required. For instance, 4 of 25 licensees did not submit a copy of their accountant's compliance report on minimum internal control standards timely. In addition, 15 of 25 licensees did not submit their semi-annual internal control updates when required. While internal control updates are less important than

## EXECUTIVE SUMMARY

### GAMING CONTROL BOARD

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audited financial statements and accountant's compliance reports, these updates can help identify changes impacting a licensee's internal controls. (page 13)

- A periodic review of the Division's policies and procedures has not been performed in over 2 years. Board directive 02.29.01 requires each division to have an annual review performed by one of the Board's other divisions and submit a written report to the Board. Without a periodic review, the Board has less assurance that procedures established for the Audit Division's activities are being followed and updated when necessary. (page 14)
- The Board's Tax and License Division has strong controls over the collection of gaming taxes and fees. Our testing of 120 payments, totaling \$43.6 million, found gaming taxes and fees were properly collected, recorded, and deposited. The Board's collection process, including computer system controls, ensures licensees pay their taxes. Controls are in place to ensure delinquent licensees are identified, penalties are assessed, and collection efforts are pursued timely. Therefore, the only uncollected taxes are due to licensees declaring bankruptcy. (page 15)
- Although the Board has an effective collection process, improvements can be made to the safeguarding of payments prior to deposit. We identified that large deposits were not adequately safeguarded when taken to the bank in Carson City. It was common for a clerk to take millions of dollars to the bank without security assistance. In addition, employee access to checks received was not adequately restricted at this office. Three employees had a key to the cabinet where the checks were stored, and a fourth key was kept in a room accessible to other employees. These deposits consist mostly of checks, which are less vulnerable than cash; however, better safeguards are needed to reduce the risk of theft or loss. Procedures did not

## **EXECUTIVE SUMMARY**

### **GAMING CONTROL BOARD**

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adequately address security over deposits and the safekeeping of checks. (page 16)

- The Tax and License Division has not reviewed and updated its collection procedures on an ongoing basis. Our tests and observations identified various procedures that were outdated or not followed. In several instances, the employee performing the work was different than identified in the procedures. In addition, procedures did not list correct job titles for positions revised by the Department of Personnel in July 2001. The Board's policies require management to continually update and monitor adherence to internal controls. (page 17)

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## **Recommendations**

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This audit report contains four recommendations to improve the Board's audit function and collection process. These recommendations include monitoring licensees to ensure all required internal control reports are submitted timely, and ensuring periodic reviews of the Audit Division's policies and procedures are performed when scheduled. We also recommend policies and procedures be revised to minimize the number of employees with access to checks and improve security over deposits taken to the bank. Finally, Tax and License Division internal control procedures for collections need to be reviewed and updated. (page 28)

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## **Agency Response**

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This agency, in its response to our report accepted all four recommendations. (page 25)

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# Introduction

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## Background

Nevada's gaming industry is regulated through a two-tiered system comprised of the Gaming Control Board and the Nevada Gaming Commission. The Board is a three-member body appointed by the Governor that serves in a full-time capacity. Recommendations of the Board in licensing matters are considered and acted upon by the five-member Commission, also appointed by the Governor. The Commission is the final authority in gaming matters.

The mission of the Board is to govern Nevada's gaming industry through strict regulation of all persons, locations, practices, associations, and related activities. The Board protects the integrity and stability of the industry and ensures the collection of gaming taxes and fees. For 2002, the Board had \$30 million in expenditures and a legislatively approved staffing level of 432 full-time equivalents.

The Board is organized into seven divisions with offices in Carson City, Elko, Las Vegas, Laughlin, and Reno. Listed below is an overview of each division:

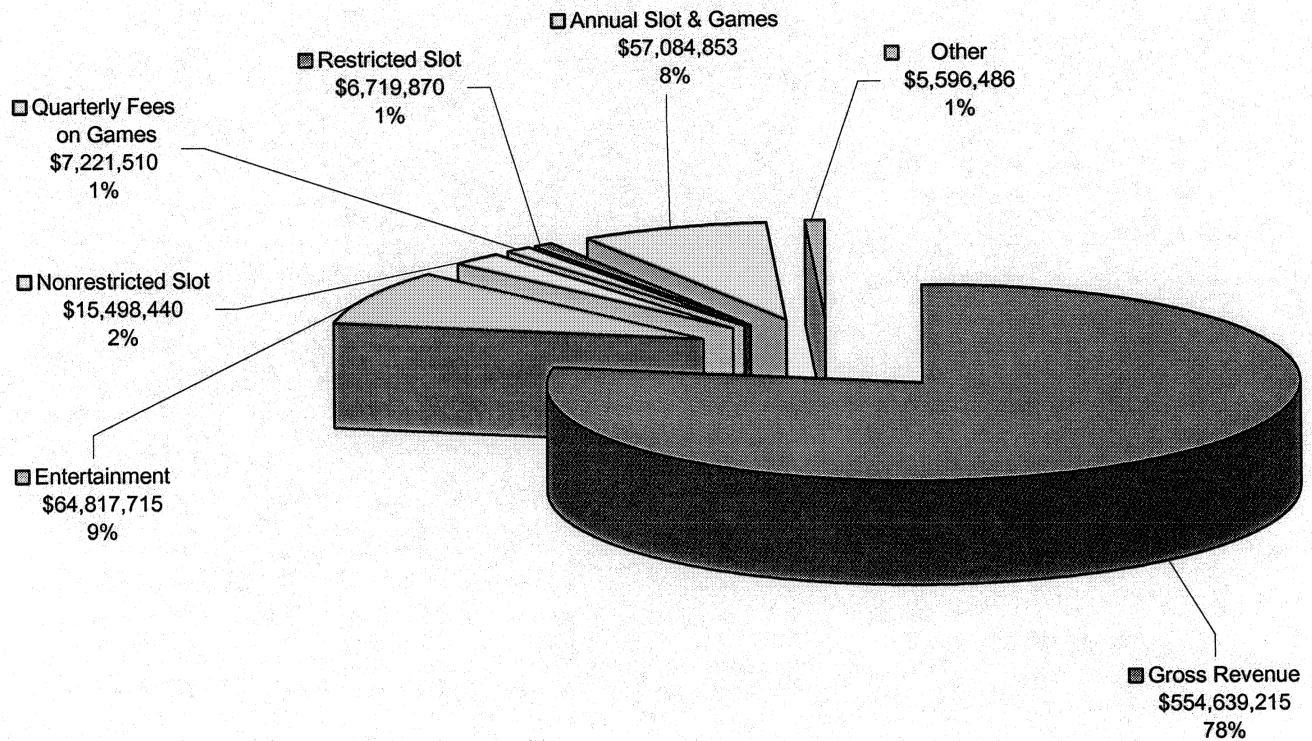
1. **Administration** – provides administrative, technical, and support services to the Board, the Commission, and the other six operating divisions in such areas as human resources, financial services, information services, and management services.
2. **Audit** – audits the records of Group I licensees. For fiscal year 2002, licensees with annual gross gaming revenues of \$3,066,000 or more were subject to an audit. This amount is adjusted annually by an amount corresponding to the Consumer Price Index. The Division also evaluates each licensee's system of internal control, and conducts interim observations to ensure continuing compliance with regulations. Further, enforces Gaming Regulation 6A, which is designed to prevent and detect casino money laundering. Additional responsibilities include compliance reviews of slot machine manufacturers, distributors, and other gaming related businesses.

3. **Corporate Securities** – monitors, investigates, and analyzes activities of registered, publicly traded corporations and their subsidiaries involved in the Nevada gaming industry. Reports to the Board actions that might affect the industry, such as changes in control, public offerings, involvement in foreign gaming, and recapitalization plans.
4. **Electronic Services** – examines, tests, and recommends gaming devices for approval or denial. Also, assists in resolving gaming patron disputes through analysis of device electronics and software.
5. **Enforcement** – conducts criminal and regulatory investigations, arbitrates disputes between patrons and licensees, gathers intelligence on organized criminal groups involved in gaming related activities, and makes recommendations on potential candidates for the “List of Excluded Persons.”
6. **Investigations** – investigates all gaming license and key employee applicants to determine their viability, business integrity, and suitability for licensure or approval.
7. **Tax and License** – collects and deposits all gaming taxes, fees, penalties, interest and fines. Performs compliance reviews of all licensees whose annual gross gaming revenues are below the dollar amount requiring an audit. Forecasts gaming taxes and fees, and monitors Indian gaming in Nevada.

In fiscal year 2002, the Board collected over \$711 million in gaming taxes and fees. Licensees are required to pay various monthly, quarterly, and annual taxes. Exhibit 1 shows the breakdown of gaming taxes and fees collected in fiscal year 2002.



**Gaming Taxes and Fees Collected  
Fiscal Year 2002**



Source: Gaming Control Board and State Accounting System.

Note: Amounts do not include \$7.25 million in investigation fees from gaming license applicants.

**Scope and Objectives**

This audit is part of the ongoing program of the Legislative Auditor as authorized by the Legislative Commission, and was made pursuant to the provisions of NRS 218.737 to 218.893. The Legislative Auditor conducts audits as part of the Legislature's oversight responsibility for public programs. The purpose of legislative audits is to improve state government by providing the Legislature, state officials, and Nevada citizens with independent and reliable information about the operations of state agencies, programs, activities, and functions.

The Legislative Auditor is statutorily required to audit certain activities of the Board. NRS 463.1593 states:

The legislative auditor shall in performing his regular audits of the commission and the board, and in addition whenever so directed by a concurrent resolution of the legislature, ascertain whether the control and related practices prescribed by NRS 463.157 to 463.1592, inclusive, are being efficiently, effectively, and equitably administered.

NRS 463.157 to NRS 463.1592 require the Nevada Gaming Commission to adopt regulations governing the internal control and financial reporting practices of nonrestricted licensees, and provide for the Board's audit function.<sup>1</sup>

This audit included the Gaming Control Board's audit function and collection activities during fiscal year 2002. The objectives of our audit were to:

- Determine if the control and related practices prescribed by NRS 463.157 to 463.1592 have been efficiently, effectively, and equitably administered.
- Evaluate the Board's collection process for gaming taxes and investigation fees.

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<sup>1</sup> The complete text of NRS 463.157 to 463.1592 is presented in Appendix C.

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## **Findings and Recommendations**

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### **Audit Division Has Provided Strong Regulatory Oversight**

The Board's Audit Division has provided strong regulation over the internal control and financial reporting practices of Nevada casinos. In addition, the Division plays a critical role in ensuring licensees properly report revenues and comply with gaming laws and regulations. The Division has maintained its effectiveness in conducting audits and performing other responsibilities. However, it did not ensure licensees submitted all reports when required. Further, periodic reviews of the Division's policies and procedures were not performed as scheduled.

#### **Internal Control Systems Help Ensure Effective Gaming Regulation**

Strong internal controls are important to ensure licensees (1) properly report revenues; (2) comply with gaming laws, regulations, and policies; and (3) provide accurate financial reports. The Audit Division is responsible for ensuring Nevada casinos fulfill their internal control and financial reporting requirements. Over a period of years, the Board has taken steps to strengthen the controls at Nevada casinos.

Pursuant to NRS 463.157 to 463.159, the Nevada Gaming Commission has adopted regulations governing the internal control and financial reporting practices of licensees. Regulations require licensees to develop internal control systems that meet minimum standards. In addition, licensees must engage independent accountants to perform annual audits and report on compliance with minimum internal control standards. The Audit Division uses these internal control and financial reports to monitor licensees' compliance with standards and their continuing financial viability.

The Board has made changes to improve the minimum internal control standards required of Nevada casinos. Internal control standards for casinos were revised in 1997, and the Division began the process of revising these standards again in 2002. Technological advances in on-line slot monitoring systems and cashless wagering are among the items included in the proposed revisions. A final draft of the proposed revisions is scheduled for approval and adoption in 2003.

In addition, regulations require casinos to utilize the services of independent accountants and internal auditors. To promote uniformity of auditing procedures, the Division has issued various checklists and guidelines for Certified Public Accountants (CPA) and internal auditors. These checklists help ensure consistency and the achievement of a minimum standard of work by other auditors.

### **Audit Division Has Maintained Effective Performance**

The Audit Division has maintained its effectiveness in conducting audits and performing other responsibilities. Our review of performance information found the Division maintains valid and reliable information to manage its activities. The Division has used this information to provide effective regulation and ensure efficient use of resources. For example, the audit cycle has improved and staffing resources have been managed efficiently. In addition, other factors such as frequent contact with licensees and proper tax reporting indicate effective performance. The Division's ability to attract and retain highly qualified staff has contributed to this performance.

#### **Audit Cycle Has Improved**

The Division's audit cycle has improved since our prior audit in 1995. In general, the audit cycle is a measure of how often the Division audits licensees. The audit cycle has decreased from 2.83 years in 1995 to 2.60 years in 2002. Therefore, the frequency of auditing licensees has improved by almost 3 months.

For planning purposes, Division management closely monitors a projected audit cycle. This projection is defined as the number of years it will take to fully audit<sup>2</sup> all licensees given the available man-hours. The Division has a long-standing goal of attaining a 2.5-year audit cycle. Although this goal has proved difficult to reach, the projected audit cycle provides management with information about the estimated time to audit all licensees and perform other duties. Constant monitoring of this information has helped the Division assess their resources and workload.

The Board has made changes to improve the Audit Division's efficiency. One significant change occurred in January 2000 when the dollar threshold for conducting

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<sup>2</sup> The Audit Division defines fully audit as the time needed to perform full compliance audits, all required interim work, special audits of satellite sports books, and compliance reviews of gaming manufacturers.

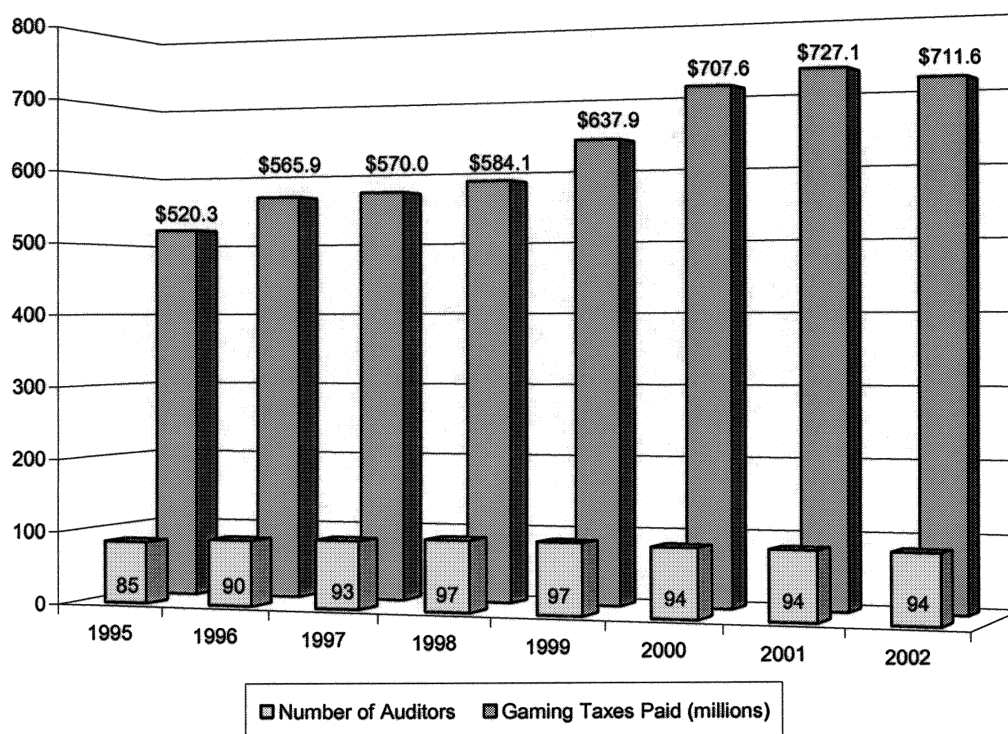
audits was increased. Prior to this date, the Division audited casinos with annual gross gaming revenue of \$1 million or more. Effective January 2000, the Division audits casinos with annual gaming revenues of \$3 million or more. As a result, the number of licensees the Audit Division is responsible for auditing was reduced from 246 to approximately 180. This action enables Division staff to concentrate audit efforts where the risk of unreported revenues is more significant.

Although licensees with gaming revenues between \$1 million and \$3 million are no longer audited, this change should not compromise the Board's effectiveness. The Tax and License Division conducts reviews of all licensees with gaming revenues less than \$3 million. Management indicated the purpose of these reviews is to verify revenues are properly reported, but fewer procedures are performed than with an audit. Because these smaller licensees account for approximately 2% of total gaming revenues, the risk to the State for unreported revenues and non-compliance is small.

#### Relatively Small Increase in Staff Compared to Industry Growth

Although gaming revenues have been flat in recent years, there has been significant growth since 1995. Gross gaming revenues reached \$8.9 billion in fiscal year 2002, a 32% increase from the \$6.8 billion reported in 1995. Consequently, gaming taxes paid by licensees has increased from \$520 million to \$711 million during this period. Despite this growth, the corresponding increase in staff has been nine auditors. The relatively small increase in staff compared to industry growth indicates the Division has managed its staff efficiently. Exhibit 2 shows the number of audit staff compared to gaming taxes paid for fiscal years 1995 to 2002.

**Number of Auditors and Gaming Taxes Paid  
Fiscal Years 1995 to 2002**



Source: Gaming Control Board.

Note: In 2000, the Board transferred three auditor positions to the Tax and License Division.

**Other Factors Indicate Effective Performance**

Other management information reported by the Audit Division indicates it has maintained effective performance. For example, one way to maintain strong regulation is frequent contact with licensees between audits. Audit staff perform procedures between audits to verify prior audit violations are corrected and to ensure compliance with regulations. The number of these procedures has increased from 253, in 1995, to 369 in 2002. Therefore, about 45% more contacts were performed without a significant increase in staff.

Another measure of effective regulation is proper tax reporting by licensees. The primary objectives of the Division's audits are to determine the proper reporting of gaming revenue, and to determine if the casino has complied with all applicable gaming

laws and regulations. When the Division finds revenues have been understated, licensees are assessed additional taxes and interest. Since 1995, assessments for unpaid taxes have remained less than 1% of taxes paid, indicating a high level of compliance by licensees.

In addition, the Division undergoes a quality control review every 3 years by an independent accounting firm. The purpose of the review is to examine the Division's system of quality control over audit activities relative to gaming licensees. The results of reviews in 1998 and 2001 indicated the Division's system of quality control was operating effectively.

The Division's ability to attract and retain highly qualified staff contributes to effective performance. Controlling turnover and increasing qualifications are methods to improve operations. Turnover of audit staff has been reduced from a high of 22 in 2000, to only 5 in 2002. In addition, the percentage of audit staff that were CPA's or had passed the CPA examination increased from 56% to 68% between 1995 and 2002.

#### **Licensees Did Not Always Submit Reports When Required**

Although the Audit Division has provided effective regulation, better monitoring efforts are needed to ensure licensees submit all internal control reports when required. Gaming regulations require licensees to submit various types of financial and internal control reports. Licensees submitted their financial reports timely; however, two types of internal control reports were not always received by the Audit Division when required.

Four of 25 licensees did not submit a copy of their accountant's compliance report on minimum internal control standards timely. Although all 15 compliance reports we selected in southern Nevada were submitted timely, 4 of 10 reports were late in northern Nevada. Two licensees' reports were untimely by more than 160 days. Gaming Regulation 6.090(9) requires licensees to engage an independent accountant to report on compliance with the minimum internal control standards established by the Board. A copy of the accountant's report must be submitted within 150 days after the end of the licensee's business year. When these reports are submitted late, noncompliance or weaknesses identified in the accountant's compliance report may not be corrected timely.

In addition, 15 of 25 licensees did not submit their semi-annual internal control updates when required. Of these, five licensees did not submit either of the reports required during 2002. Ten licensees submitted reports late, including six reports that were untimely by more than 230 days. Gaming Regulation 6.090(11) requires each licensee to report, twice a year, any amendments to their system of internal controls. If no such amendments have been made, the licensee shall submit a statement to that effect. While internal control updates are less important than audited financial statements and accountant's compliance reports, these updates can help identify changes impacting a licensee's internal controls.

### **Reviews of Audit Division Procedures Not Performed as Scheduled**

A periodic review of the Division's policies and procedures has not been performed in over 2 years. Without a periodic review, the Board has less assurance that procedures established for the Audit Division's operations and administrative activities are being followed and updated when necessary.

To establish and maintain a system of controls, the Board adopted Directive 02.29.01. The Directive requires each division to have their controls reviewed by one of the Board's other divisions and submit a written report to the Board. These reviews are to be performed at least annually or more frequently if necessary. Further, the Directive requires a schedule for each review be submitted to the Board Chairman by July 1 of each year.

Periodic reviews of the Audit Division were scheduled to alternate between the Reno and Las Vegas offices each year. However, these reviews were not performed as scheduled. The review of the Reno office was scheduled to occur between January 1 and March 31, 2001. This review was not performed. The review of the Las Vegas office was scheduled between January 1 and March 31, 2002. As of December 31, 2002, a final written report had not been submitted to the Board. The most recent review of the Audit Division was dated September 1, 2000. Therefore, the Board had not received a report in more than 2 years.



## **Recommendations**

1. Monitor licensees to ensure all required internal control reports are submitted timely.
2. Ensure periodic reviews of the Audit Division's policies and procedures are performed when scheduled.

## **Effective Process for Collecting Gaming Taxes**

The Board has an effective process for the collection of gaming taxes and fees. During fiscal year 2002, the Board collected over \$700 million and maintained a collection rate of more than 99%. Although gaming taxes and fees were properly collected, recorded, and deposited, improvements can be made to the safeguarding of payments prior to deposit. In addition, policies and procedures for collections need to be updated in several areas.

### **Controls Over Collection of Gaming Taxes Are Strong**

The Board's Tax and License Division has strong controls over the collection of gaming taxes and fees. Our testing of 120 payments, totaling \$43.6 million, found the Board's controls provide reasonable assurance that gaming taxes and fees are collected. The Board's computer system provides key controls in the collection process. This system verifies payment amounts are accurate, ensures delinquent licensees are identified, and provides an accurate accounting of gaming tax revenues.

Our testing included 100 gaming tax payments, totaling \$42.8 million. We selected payments from gross revenue tax, entertainment tax, nonrestricted slot tax, and quarterly fees on games. These four tax types made up 90% of the gaming taxes collected in 2002. We found payments were accurately calculated, in accordance with applicable statutes, and deposited timely. In addition, payments were properly entered in both the Board's computer system and the state's accounting system.

The Board's process ensures licensees pay their taxes. Controls are in place to ensure delinquent licensees are identified, penalties are assessed, and collection efforts are pursued timely. Delinquent licensees have up to 30 days after the payment deadline to submit their tax form and payment. If not, their license will be suspended or

revoked. Therefore, the only uncollected taxes are due to licensees declaring bankruptcy. As a result, the Board has maintained a collection rate of more than 99%.

We also tested 20 investigation fee payments, totaling \$832,000 and found proper amounts were submitted by applicants. Further, payments were deposited timely and properly recorded in the state's accounting system. All investigation fee payments are received in the Investigations Division and transferred to the Tax and License Division for deposit.

Computer system controls are critical to the Board's collection process. Our review of selected controls verified payment amounts and tax form data cannot be altered by unauthorized personnel. Additionally, our review of controls verified the system properly identifies delinquent licensees and accurately calculates penalties. Further, we verified the system's access control list was complete and up-to-date. These controls help ensure the collection of gaming taxes and prevent unauthorized access to tax data.

#### **Safeguarding of Payments Can Be Improved**

Although the Board has an effective collection process, improvements can be made to the safeguarding of payments prior to deposit. We identified that large deposits were not adequately safeguarded when taken to the bank in Carson City. In addition, employee access to checks received was not adequately restricted at this office. These deposits consist mostly of checks, which are less vulnerable than cash; however, better safeguards are needed to reduce the risk of theft or loss.

#### **Large Deposits Not Adequately Safeguarded**

Large deposits were not adequately safeguarded in the Carson City office. Deposits were made by one of the Division's clerks. It was common for the clerk to take millions of dollars in checks to the bank without security assistance. During 2002, the Carson City office deposited more than \$233 million. Additionally, there were numerous times when the daily deposit was in excess of \$5 million.

Control activities for safeguarding deposits should be based on the risk of loss. Therefore, greater security controls should be in place when the risk is high or the amount of deposit is significant. At other offices, the Board has developed procedures to address security over deposits. In Las Vegas, an armored carrier service delivers

deposits to the bank. In Reno, an armed gaming enforcement agent makes the deposits. However, procedures do not address security over deposits taken to the bank in Carson City.

#### Access to Checks Not Adequately Restricted

Employee access to checks received in Carson City was not adequately restricted. Checks are stored in a collection agent's filing cabinet prior to deposit. However, three employees had a key to this cabinet and a fourth key was kept in a room accessible to other employees. Although the room is secure from the general public, employees could obtain the key and potentially access the cabinet where checks are stored.

Controls should restrict access to only those employees who need the checks to perform their assigned duties. NRS 353A.020 requires agencies develop an internal control system that limits the access to assets of an agency. During our audit, only the collection agent receiving the checks and the clerk making the deposit needed access to the checks to perform their assigned duties.

The Division's procedures do not adequately address the storage of checks and controls over keys. Procedures only state that checks are to be stored in a secure location. In addition, procedures do not restrict access to keys for the cabinets storing checks or minimize the number of employees with keys.

#### Certain Collection Procedures Need To Be Updated

The Tax and License Division has not reviewed and updated its collection procedures on an ongoing basis. Our tests and observations identified various procedures that were outdated or not followed, increasing the risk that internal control objectives will not be achieved. Examples in Las Vegas and Carson City included:

- Las Vegas – Procedures indicate an assistant will prepare the bank deposit, which will then be reviewed by a senior agent. However, the current practice is for the senior agent to prepare the deposit, which is then reviewed by an enforcement agent. In addition, procedures indicate an enforcement agent will make additional deposits if payments are received after Loomis has picked up the day's deposit. Staff indicated the current practice is to deposit this money the next day.

- Carson City – Procedures indicate the administrative assistant will be responsible for the safekeeping of payments prior to deposit. However, payments are kept in the collection agent's filing cabinet. Procedures also require an agent prepare a memo to the Division Chief identifying bad debts that can be written off. Staff indicated this memo is no longer prepared.
- Las Vegas and Carson City - Procedures did not list correct job titles. In July 2001, job titles for several positions were revised by the Department of Personnel. However, changes were not made to accurately identify positions responsible for processing collections.

Board policies require Divisions to maintain effective systems of internal controls. Policies indicate that all levels of management shall involve themselves in assuring the adequacy of controls, continually updating the system, and insuring adherence to it by its employees.

### **Recommendations**

3. Revise policies and procedures to minimize the number of employees with access to checks and improve security over deposits taken to the bank.
4. Review and update Tax and License Division internal control procedures for collections.

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# Appendices

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## Appendix A Audit Methodology

To gain an understanding of the Board's activities, we conducted interviews with management and staff. We reviewed statutes, gaming regulations, and agency directives specific to the Board's audit function and the collection of taxes. We also reviewed minutes of the Gaming Control Board, Gaming Commission, and legislative committees. Additionally, we obtained external peer reviews of the Audit Division and in-house reviews of internal controls for all divisions. We documented and assessed the Board's management controls for collections. Further, we identified key measures reported to the Board about the Audit Division's activities, and we performed an analytical review of these performance measures.

To determine whether the control and related practices prescribed by NRS 463.157 to 463.1592 are being efficiently, effectively, and equitably administered, we verified regulations were developed pursuant to these statutes. Then, we randomly selected 25 Group I licensees and tested compliance with these regulations applicable to our objective. We verified the written report of compliance with the minimum internal control standards and internal control updates were submitted timely to the Board. Also, we verified standard financial statements and audited financial statements were submitted as required. In addition, we reviewed the Board's 3-year plan and confirmed interim procedures were performed as scheduled. We also confirmed an audit was performed and a report was submitted to the Board for all selected licensees. We obtained the Board's 2001 and 2002 schedule for internal control reviews and copies of completed reviews to verify the frequency of reviews for the Audit Division.

Additionally, we assessed the validity and reliability of the key performance measures tracked by the Audit Division. This included reviewing all fiscal year 2002 compliance and Regulation 6A audit reports to verify the number of audits performed, the average audit period, the number of unqualified opinions, total assessments, and

the operating audit cycle. To verify the accuracy of audit hours, we randomly selected 10 audits, reviewed the supporting documentation, and verified the totals were mathematically correct. To verify audit staffing levels and qualifications, we reviewed organizational charts, personnel files, the approved budget, and the State Board of Accountancy's Membership Roster. To verify gross gaming revenue, we reviewed the Tax and License Division's supporting documentation and traced amounts to the state's accounting system. To evaluate the methodology used to calculate the theoretical audit cycle, we reviewed the Audit Division's supporting documentation. We also assessed the reliability of time reporting data processed by the Board's computer system.

To evaluate the Board's collection process for gaming taxes, we judgmentally selected 100 gaming tax transactions from Group I licensees. These licensees make up 98% of gross revenue. Our selection included an even distribution throughout fiscal year 2002 for gross revenue tax, entertainment tax, nonrestricted slot tax, and quarterly fees on games. We reviewed the mathematical accuracy of the tax forms, and verified payment amounts were in accordance with applicable statutes. Next, we verified payments were properly recorded in the Board's computer system. We verified the deposits were timely and properly recorded in the state's accounting system. Additionally, we reviewed five accounts receivable transactions for compliance with policies and procedures. For annual slot machine excise tax, we verified amounts were recorded as statutorily required. We also reviewed collection policies and procedures and evaluated the safeguarding of assets.

We verified the Board's computer system accurately calculates the amounts recorded to each tax category. This included selecting five journal vouchers, tracing amounts to all supporting documents, and verifying the Board's computer system accurately calculated the amounts recorded. In addition, we randomly selected 20 investigation fee payments. We traced payment amounts to the Board's request letter, deposit slip, and other supporting documentation to verify amounts requested were received and deposited.

We also reviewed and evaluated computer system controls significant to the collection process. This included verification that access privileges were properly restricted. We also reviewed the access control list and verified it was complete and

accurate. Also, we confirmed the system properly restricts unauthorized use, identifies delinquent filings and discrepancies, and calculates late fees.

Our audit work was conducted from August 2002 to January 2003 in accordance with generally accepted government auditing standards.

In accordance with NRS 218.821, we furnished a copy of our preliminary report to the Chairman of the Gaming Control Board. On April 28, 2003, we met with agency officials to discuss the results of our audit and requested a written response to the preliminary report. That response is contained in Appendix D that begins on page 25.

Contributors to this report include:

Dennis Klenczar, CPA  
Deputy Legislative Auditor

Tammy A. Dietz, CPA  
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Chief Deputy Legislative Auditor

**Appendix B**  
**Prior Audit Recommendations**

Our prior audit of the Gaming Control Board contained four recommendations. We found the Board has fully implemented three recommendations and one recommendation is no longer applicable.



## Appendix C

### NRS 463.157 to 463.1592

**NRS 463.157 Regulations concerning financial practices of licensees: Minimum procedures for control of internal fiscal affairs of nonrestricted licensees; internal audits.** The commission shall by regulation:

1. Prescribe minimum procedures for adoption by each nonrestricted licensee to exercise effective control over its internal fiscal affairs, which shall include but are not limited to provisions for:

(a) The safeguarding of its assets and revenues, especially the recording of cash and evidences of indebtedness; and

(b) The provision of reliable records, accounts and reports of transactions, operations and events, including reports to the board and the commission.

2. Provide for the adoption and use of internal audits, whether by qualified internal auditors or by accountants holding a permit to practice public accounting, in the case of each nonrestricted licensee whose operation equals or exceeds a specified size. As used in this subsection, "internal audit" means a type of control which operates through the testing and evaluation of other controls and which is also directed toward observing proper compliance with the minimum standards of control prescribed pursuant to subsection 1.

**NRS 463.158 Regulations concerning financial practices of licensees: Periodic financial reports from nonrestricted licensees.** The commission shall by regulation require periodic financial reports from each nonrestricted licensee, and:

1. Specify standard forms for reporting financial condition, results of operations and other relevant financial information.

2. Formulate a uniform code of accounts and accounting classifications to assure consistency, comparability and effective disclosure of financial information.

3. Prescribe the intervals at which such information shall be furnished. For this purpose the commission may classify licensees by size of operation.

**NRS 463.159 Regulations concerning financial practices of licensees: Audits, compilations and reviews of financial statements of nonrestricted licensees; independent accountants.**

1. The commission shall by regulation require audits of the financial statements of all nonrestricted licensees whose annual gross revenue is \$5,000,000 or more.

2. The commission may require audits, compiled statements or reviews of the financial statements of nonrestricted licensees whose annual gross revenue is less than \$5,000,000.

3. The amounts of annual gross revenue provided for in subsections 1 and 2 must be increased or decreased annually in an amount corresponding to the percentage of increase or decrease in the Consumer Price Index (All Items) published by the United State Department of Labor for the preceding year. On or before December 15 of each year, the commission shall determine the amount of the increase or decrease required by this subsection and establish the adjusted amounts of annual gross revenue in effect for the succeeding calendar year. The audits, compilations and reviews provided for in subsections 1 and 2 must be made by independent accountants holding permits to practice public accounting in the State of Nevada.

4. Except as otherwise provided in subsection 5, for every audit required pursuant to this section:

(a) The independent accountants shall submit an audit report which must express an unqualified or qualified opinion or, if appropriate, disclaim an opinion on the statements taken as a whole in accordance with standards for the accounting profession established by rules and regulations of the Nevada state board of accountancy, but the preparation of statements without audit does not constitute compliance.

(b) The examination and audit must disclose whether the accounts, records and control procedures maintained by the licensee are as required by the regulations published by the commission pursuant to NRS 463.156 to 463.1592, inclusive.

5. If the license of a nonrestricted licensee is terminated within 3 months after the end of a period covered by an audit, the licensee may submit compiled statements in lieu of an additional audited statement for the licensee's final period of business.

**NRS 463.1592 Regulations concerning financial practices of licensees: Organization of audit function of state gaming control board; economic research and planning function:** The commission shall by regulation provide for:

1. The organization of the board's audit function in conformity with other accounting and auditing provisions of its regulations and with acceptable and modern auditing practices.

2. The organization and administration of an economic research and planning function by a central body which shall gather, evaluate and disseminate facts regarding the economics of the gaming industry and economic conditions affecting the industry. The regulations shall include provision for the organizational status of this body, its staffing structure, and a budget for its operations.

## Appendix D

### Response From the Gaming Control Board



KENNY C. GUINN  
Governor

STATE OF NEVADA

#### GAMING CONTROL BOARD

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Paul V. Townsend, CPA  
Legislative Counsel Bureau  
Legislative Building  
401 S Carson Street  
Carson City, NV 89701-4174

May 8, 2003

Dear Mr. Townsend:

Listed below is the State Gaming Control Board's response to the Legislative Counsel Bureau's (LCB) 2002 audit. We have accepted all of your recommendations and have made the necessary changes to our operation and internal controls as outlined in your preliminary report.

**Recommendation #1: "Monitor licensees to ensure all required internal control reports are submitted timely."**

**Board Response - Accept Recommendation**

There are two types of reports referred to in the preliminary report. The corrective action for each is addressed separately.

As indicated in the report, LCB auditors examined annual CPA compliance reports for ten Northern Nevada casinos. The auditors noted that four of the reports were not filed timely. The Audit Division reviewed these exceptions and determined that two were less than sixty days delinquent. The remaining two were over sixty days delinquent and the Audit Division will be citing regulation violations for the CPA compliance reports not being filed in a timely manner during the next regularly scheduled audit. Additionally, in one of the latter instances, the CPA report was delinquent in spite of several contacts made by Audit Division personnel regarding the status of the report filing. Although these four exceptions have been resolved, the Audit Division's Reno office will, in the future, utilize a spreadsheet that lists due dates of the various reports mandated by gaming regulations, and will also indicate when the documents are submitted. Licensees that are delinquent in their filings will be contacted, with a record made of the contact. This tracking process should help ensure that reports are filed in a timely manner.

The report also indicates that in 15 of 25 instances, the semi-annual internal control updates were not submitted when required. Regulation 6.090(11) currently requires that not later than the last day of the fourth and tenth calendar months of the licensee's business year, the licensee report amendments to the internal control system not affecting compliance with the Minimum Internal Control Standards. The objective of this regulation was to reduce the number of internal control system amendment filings for relatively immaterial changes, which was accomplished by requiring licensees to hold their immaterial amendments and report them twice a

year, rather than filing the amendments many times throughout the year. If the licensee had no immaterial amendments to file, the regulation required the chief financial officer and chief executive officer/owner to sign a letter in which this representation is made.

The Audit Division did not actively track the submission of these immaterial internal control system amendments and the "no changes" letters signed by the CFO/CEO. The intent was to eventually amend Regulation 6.090(11) to no longer require this burdensome reporting requirement, but an opportunity did not arise over the years to submit this "housekeeping" amendment to the Nevada Gaming Commission.

However, on May 22, 2003, it is anticipated that the Nevada Gaming Commission will be amending Regulation 6.090(11) to no longer require internal control system amendments and "no changes" letters to be submitted twice a year. Additionally, the amended regulation will only require that the licensee update their internal control system annually for any changes not previously reported pursuant to Regulation 6.090(10). As a result, the timely filing of these semi-annual reports should no longer be a concern during future LCB audits.

**Recommendation #2: "Ensure periodic reviews of the Audit Division's policies and procedures are performed when scheduled."**

**Board Response - Accept Recommendation**

To ensure that compliance reviews of the Audit Division required by Gaming Control Board Directive 02.29.01 are performed when scheduled, the Tax and License Division has initiated a tickler file system to remind management of the upcoming assignment. We have also adopted the policy of assigning the review to an agent, in the calendar quarter before the due date of completion. Additionally, a tickler card has been prepared to ensure that the Audit Division's response to our recommendation is received in a timely manner. The Tax and License Division has performed compliance reviews of the Reno and Las Vegas Audit Division offices in April 2003 and December 2002, respectively.

**Recommendation #3: "Revise policies and procedures to minimize the number of employees with access to checks and improve security over deposits taken to the bank."**

**Board Response - Accept Recommendation**

The State Gaming Control Board (Board) has always ensured that access to checks received as payments was limited to personnel directly involved in the payment collection and deposit process. Additionally, all Board staff personnel must pass an extensive background investigation as a condition of working for the agency. In an effort to even further safeguard the checks, we are now using a different file cabinet to store the checks prior to preparation of the bank deposit. There are only three keys to this file cabinet. The two collection agents maintain two of the keys and the Division Chief maintains the third key. In regards to improving security over the deposits taken to the bank, we now require two people to transport all deposits over

LCB Audit Response  
Page 3

\$100,000. We never believed that this was necessary in the past because the deposits are almost always comprised of checks made out to the Gaming Control Board, and the checks are immediately endorsed during our collection process. Our deposits rarely include cash, and in the rare instances when the deposits do contain cash, the total amount of cash is always minimal.

**Recommendation #4: "Review and update Tax and License Division internal control procedures for collections."**

**Board Response - Accept Recommendation**

The Tax and License Division is updating all of their written internal control procedures to more accurately reflect the procedures in effect. It should be noted that the procedures in effect have been deemed adequate by not only your audit staff, but also the Department of Administration's audit staff and our own Audit Division.

We would like to thank the LCB for their professionalism and welcome their analysis of our operations. As always, please do not hesitate to call if you have any further questions regarding these matters.

Regards,



Joe Bertolone, Chief  
Administration Division

cc: Dennis K. Neilander, Chairman  
Greg Gale  
Steve Hixon

## Gaming Control Board Response to Audit Recommendations

<u>Recommendation Number</u>		<u>Accepted</u>	<u>Rejected</u>
1	Monitor licensees to ensure all required internal control reports are submitted timely .....	<u>  X  </u>	<u>      </u>
2	Ensure periodic reviews of the Audit Division's policies and procedures are performed when scheduled .....	<u>  X  </u>	<u>      </u>
3	Revise policies and procedures to minimize the number of employees with access to checks and improve security over deposits taken to the bank .....	<u>  X  </u>	<u>      </u>
4	Review and update Tax and License Division internal control procedures for collections .....	<u>  X  </u>	<u>      </u>
	TOTALS	<u>    4    </u>	<u>    0    </u>