



Audit Highlights

Highlights of Legislative Auditor report on the Gaming Control Board, issued on May 14, 2003. Report #LA04-04.

Background

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.

Purpose of Audit

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.

Audit Recommendations

This 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 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, internal control procedures for collections need to be reviewed and updated.

The Gaming Control Board accepted all four recommendations.

Status of Recommendations

The Division's 60-day plan for corrective action is due on August 8, 2003. In addition, the six-month report on the status of audit recommendations is due on February 9, 2004.

Gaming Control Board

Results in Brief

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.

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.

Principal Findings

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.

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

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.

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.

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 adequately address security over deposits and the safekeeping of checks.