

# Audit Highlights



Highlights of performance audit report on the Nevada Gaming Control Board issued on March 12, 2019.

Legislative Auditor report # LA20-04.

## Background

Nevada's gaming industry is regulated through a two-tiered system comprised of the Nevada Gaming Control Board (Board) and the Nevada Gaming Commission (Commission). The Board includes three full-time members appointed by the Governor. Recommendations of the Board in licensing matters are considered and acted upon by a five-member Commission, who are also appointed by the Governor. A 12-member Gaming Policy Committee serves as an advisory group to the Board and Commission.

Together, the Board and Commission govern Nevada's gaming industry through strict regulation of all persons, locations, practices, associations, and related activities. Its mission and purpose is to protect the integrity and stability of the gaming industry through investigations, licensing, and enforcement of laws and regulations; to ensure the collection of gaming taxes and fees; and to maintain public confidence in gaming. In fiscal year 2018, the Board collected over \$866 million in gaming taxes and fees.

The Board is comprised of six divisions with offices in Carson City, Elko, Las Vegas, Laughlin, and Reno. In fiscal year 2018, the Board's primary operating account had \$42.5 million in expenditures and 371 filled positions as of June 30, 2018.

## Purpose of Audit

The purpose of this audit was to determine if the internal controls and related financial practices of gaming licensees prescribed by Nevada Revised Statutes 463.157 to 463.1592 have been efficiently, effectively, and equitably administered; and to evaluate the collection and administrative processes for gaming taxes and certain fees. This audit included a review of the Board's audit process and certain administrative activities during fiscal year 2018 and fiscal year 2017 for some areas.

## Audit Recommendations

This audit report contains one recommendation to improve the efficiency of Board audits.

The Board accepted the one recommendation.

## Recommendation Status

The Board's 60-day plan for corrective action is due on June 5, 2019. In addition, the six-month report on the status of the audit recommendation is due on December 5, 2019.

# Nevada Gaming Control Board

## Summary

The Board's Audit Division (Division) has efficiently, effectively, and equitably administered state laws concerning the financial practices of gaming licensees. The Division sufficiently regulated licensees' compliance with gaming laws and regulations by requiring licensees to have sufficient internal controls, and by effective report monitoring and efficient audits. The Division has maintained its effectiveness in conducting audits and performing other responsibilities. Although the Division effectively monitors licensees and continually meets its long-standing performance goal of auditing licensees at least every 2.5 years, the efficiency of its audit process can improve by implementing electronic audit workpapers.

The Board has an effective process for the collection of gaming taxes and fees. During fiscal year 2018, the Board collected over \$866 million in gaming taxes and fees, while maintaining a collection rate of more than 99%. Additionally, the Board administered transferable tax credits and distributions of gaming taxes and fees in accordance with state laws. The Board's computer system provides key controls in the collection process. The system correctly calculates gaming taxes due, verifies payment amounts are accurate, identifies delinquent licensees, and accurately accounts for each type of gaming tax revenue.

## Key Findings

The Board has adopted regulations to strengthen the internal control systems at Nevada casinos. 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 casinos fulfill internal control and financial reporting requirements. (page 8)

The Audit Division's monitoring of reports ensured licensees submitted required reports. Gaming regulations require licensees submit various types of internal control and financial reports. We reviewed 100 reports submitted by 20 of 144 Group I licensees during fiscal year 2018. Although our testing revealed 4 of the 100 reports were not submitted timely, the Division adequately monitored licensees and promptly requested delinquent reports, which resulted in submission. (page 9)

The Audit Division has maintained its effectiveness in conducting audits and performing other responsibilities. Our review of performance information found the Division maintained valid and reliable information to manage its activities. Information on the Division's operations is essential to providing effective oversight, ensuring efficient use of resources, and for identifying areas needing improvement. (page 10)

Although the Audit Division has provided effective regulatory oversight of its licensees, implementing electronic audit workpapers can improve the efficiency of the Board's audit process. Currently, staff carry several large paper files containing current and prior audit workpapers to each licensee location. Audit supervisors are unable to review staffs' work remotely; therefore, must wait for the auditor to return to review their work. Benefits of electronic audit workpapers include increased accessibility, improved tracking, faster review and reporting, better security, and less paper. Implementing electronic workpapers would allow for greater productivity, efficiency, and collaboration. (page 13)

The Board has strong controls over the collection of gaming taxes and fees. We selected 50 payments, totaling more than \$45.3 million, from percentage fee tax, entertainment tax, quarterly nonrestricted slot tax, quarterly games tax, and annual slot and games tax. These types of taxes made up 98% of total gaming taxes and fees collected in fiscal year 2018. The Division also appropriately distributed gaming taxes and fees to other state agencies and counties, and applied transferable tax credits to amounts due in accordance with state law. In addition to the Board's controls, strict gaming laws and regulations ensure licensees submit appropriate fees or risk losing their gaming license. (page 15)