

STATE OF NEVADA

Performance Audit

Nevada Gaming Control Board
2019



Legislative Auditor
Carson City, Nevada

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)

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This report contains the findings, conclusions, and recommendations from our performance audit of the Nevada Gaming Control Board. This audit was conducted pursuant to 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.

This report includes one recommendation to improve the efficiency of Board audits. We are available to discuss this recommendation or any other items in the report with any legislative committees, individual legislators, or other state officials.

Respectfully submitted,



Rocky Cooper, CPA
Legislative Auditor

March 4, 2019
Carson City, Nevada

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Introduction

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. The Board's Chair is the chief executive officer and oversees the operational and administrative functions of the agency. Recommendations of the Board in licensing matters are considered and acted upon by a five-member Commission, who are also appointed by the Governor. The Commission is the final authority on all gaming matters. A 12-member Gaming Policy Committee also 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's primary operating account had \$42.5 million in expenditures and 371 filled positions as of June 30, 2018.

The Board is comprised of six divisions with offices in Carson City, Elko, Las Vegas, Laughlin, and Reno. The six divisions include:

Administration – The Division provides support for the operations of the Board including human resources management, training, facilities, contracts, purchasing, accounting, budgeting, and records retention. They are also responsible for providing information technology services to the Board.

Audit – The Division audits the records of Group I licensees. Group I licensees, for fiscal year 2018, are those establishments

with annual gross gaming revenues of \$6.45 million or more. This amount is adjusted annually by an amount corresponding to the Consumer Price Index. The Division also evaluates each licensee's system of internal controls for compliance with Board regulations and monitors their continuing financial viability. Additionally, the Division performs compliance reviews of slot machine manufacturers, distributors, and other gaming related businesses.

Enforcement – The Division conducts criminal and regulatory investigations, arbitrates disputes between patrons and licensees, conducts background investigations, and registers all gaming employees who work in Nevada.

Investigations – The Division conducts investigations on all individuals and companies seeking a privileged Nevada gaming license, registration, finding of suitability, or other approval. The Corporate Securities section of this Division monitors, investigates, and analyzes activities of registered, publicly traded corporations and their subsidiaries involved in the Nevada gaming industry.

Tax and License – The Division collects, deposits, and distributes all gaming taxes, fees, penalties, interest, and fines. The Division also performs compliance reviews of Group II licensees and certain manufacturer, distributor, and slot route operators. Additionally, the Division forecasts gaming taxes and fees, and monitors Indian gaming in Nevada.

Technology – The Division examines, tests, and recommends gaming devices for approval or denial by the Board and Commission. The Division also inspects gaming devices at every licensed location to ensure continued integrity, and will assist the Enforcement Division with resolving gaming patron disputes through analysis of device electronics and software.

The Board issues various types of gaming licenses. Exhibit 1 shows the type and number of licenses issued and active as of June 30, 2018.

**Type and Number of Gaming Licenses
As of June 30, 2018**

Exhibit 1

Type of License	Description	Number of Licenses as of 06/30/18
Restricted	Operator of 15 or fewer gaming devices (and no table games) at certain locations within Nevada such as bars, taverns, supper clubs, and convenience stores.	1,961
Nonrestricted	License other than a restricted. Classified into two groups based on gross revenue. ⁽¹⁾	
	<u>Group I:</u> Licensee has gross revenue of \$6,452,000 or more, or operation consists primarily of a race book and/or sports pool that accepts \$72,642,000 or more in wagers during the 12 months ending June 30, 2018.	144
	<u>Group II:</u> Licensee has gross revenue of \$6,452,000 or less, or operation consists primarily of a race book and/or sports pool that accepts less than \$72,642,000 in wagers during the 12 months ending June 30, 2018.	299
Slot Route Operator	License authorizes the holder to place slot machines in a licensed location and share in the profits there from without being on the license issued for the location.	52
Manufacturer / Distributor	Manufacturer license authorizes the holder to manufacture, assemble, or produce any device, equipment, material, or machines used in gambling.	363
	Distributor license authorizes the holder to sell, distribute, or market any gambling device, machine, or equipment.	
Other	Disseminator licenses which authorize the holder to furnish a licensed operator of a race book, sports pool or gambling game with information relating to horse racing or other racing which is used to determine winners of or payoffs on wagers accepted by the operator.	76
Total		2,895

Source: Nevada Revised Statutes and Nevada Gaming Control Board records.

⁽¹⁾ Gross revenue amount adjusted annually by an amount corresponding to the Consumer Price Index.

Licenses are required to pay various monthly, quarterly, and annual taxes. A description of each type of gaming tax is as follows:

- **Percentage Fee Tax (NRS 463.370):** A monthly tax based on a nonrestricted licensee's gross revenue. The first \$50,000 of gross revenue is taxed at 3.5%, plus 4.5% of the next \$84,000 in revenue, plus 6.75% of revenue exceeding \$134,000.
- **Entertainment Tax (NRS 368A.200):** A 9% tax that is assessed on admission charges collected by both nonrestricted and restricted licensees who offer live

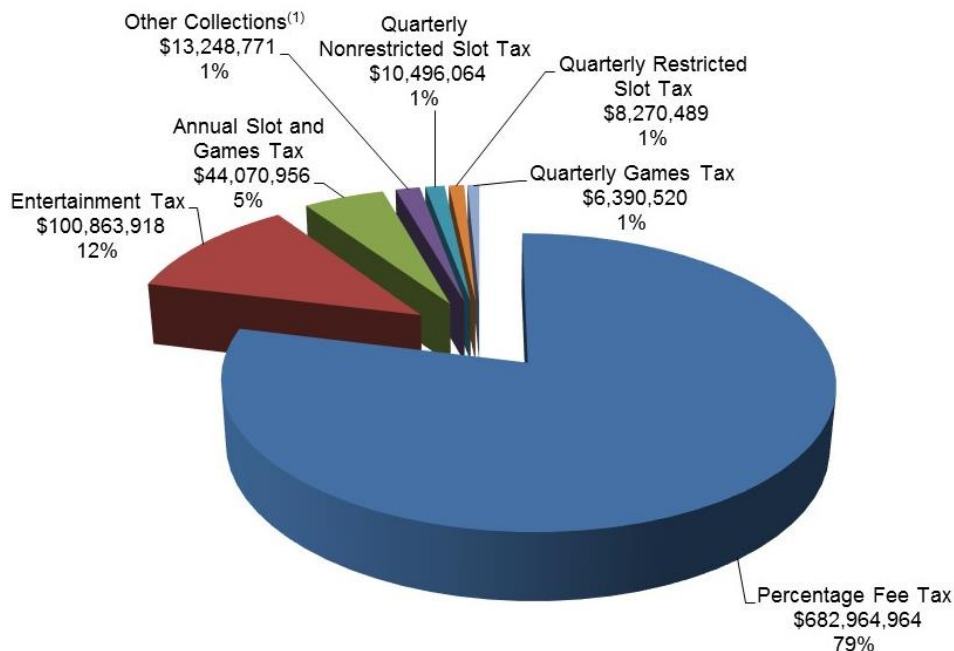
entertainment in a facility with maximum seating capacity of at least 200 or more persons.

- Quarterly Nonrestricted Slot Tax (NRS 463.375): A \$20 per slot machine fee that is operated by a nonrestricted licensee, due each calendar quarter.
- Quarterly Games Tax (NRS 463.383): A quarterly fee based on the number of table games operated by a nonrestricted licensee. The amount due per table game differs if an establishment operates 10 or less table games, as compared to establishments operating more than 10 table games.
- Quarterly Restricted Slot Tax (NRS 463.373): A quarterly fee, per slot machine, where the amount due is determined by the total number of slot machines operated (no more than 15 slot machines are allowed). For 1 to 5 machines, a fee of \$81 per slot machine is assessed; for 6 to 15 machines, a \$405 flat fee plus \$141 per slot machine is assessed.
- Annual Slot and Games Tax (NRS 463.385 & NRS 463.380): An annual tax that must be paid prior to machines and table games being placed into operation during the fiscal year. The amount due at the start of the fiscal year (July 1) is \$250 per slot machine, and is prorated for each month after July that a machine is placed into service. For table games, the amount assessed is determined by the number of table games operated.

In fiscal year 2018, the Board collected over \$866 million in gaming taxes and fees. Exhibit 2 shows the breakdown of these taxes and fees collected in fiscal year 2018.

Gaming Taxes and Fees Collected Fiscal Year 2018

Exhibit 2



Source: Nevada Gaming Control Board records and state accounting system.

Note: Amounts do not include over \$12 million in investigation fees from gaming license applicants, and \$74 million in transferable tax credits applied toward gaming percentage fee taxes.

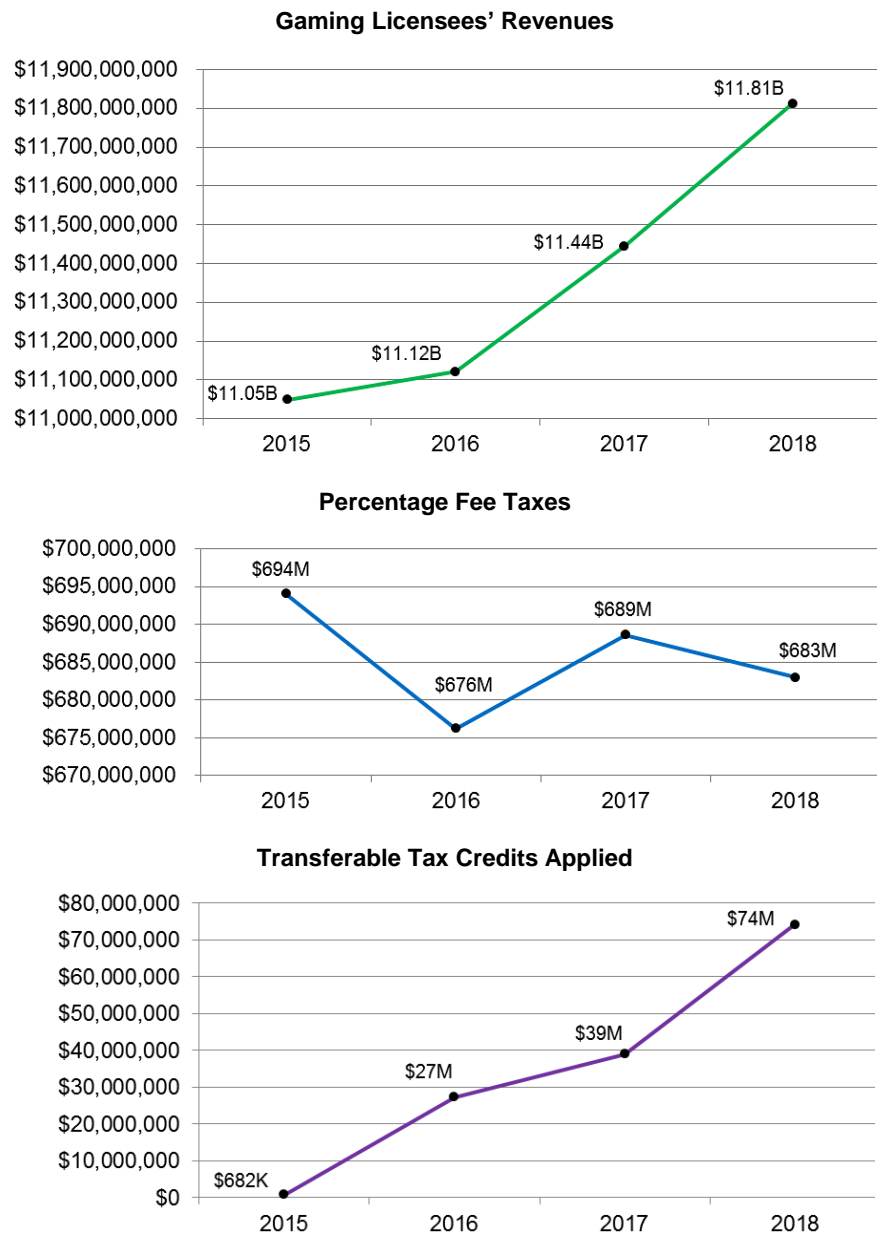
⁽¹⁾ Other collections include penalties, interest, and fines; unredeemed slot machine wagering vouchers; service provider fees; and other non-major gaming revenues.

Transferable Tax Credits

Group I licensees can acquire transferable tax credits from a third party to apply towards their gaming taxes. The 2013 Legislative Session authorized the Governor's Office of Economic Development (GOED) to approve and issue transferable tax credits to film producers. After the 2014 Special Legislative Session, other industries, such as food and vehicle manufacturers, were allowed to apply for transferable tax credits on qualified projects. Transferable tax credits, once approved by the GOED, can be sold to gaming licensees for use towards gaming percentage fee taxes. During fiscal year 2015, transferable tax credits were first applied to licensees' percentage fee taxes. Appendix A shows a listing of transferable tax credits awarded by the GOED since fiscal year 2015 that were applied to gaming percentage fee taxes.

In fiscal year 2018, there was \$74 million in transferable tax credits applied against gaming percentage fee taxes. Exhibit 3 shows gaming licensees' revenues, percentage fee taxes, and transferable tax credits applied from fiscal years 2015 to 2018.

Gaming Licensees' Revenues, Percentage Fee Taxes, and Transferable Tax Credits Applied Fiscal Years 2015 to 2018 **Exhibit 3**



Source: Nevada Gaming Control Board records and state accounting system.

Note: Transferable tax credits began being applied to gaming percentage fee taxes in June 2015.

Scope and Objectives

The scope of our 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. Our audit objectives were to:

- Determine if the internal controls and related financial practices of gaming licensees prescribed by Nevada Revised Statutes (NRS) 463.157 to 463.1592 have been efficiently, effectively, and equitably administered.
- Evaluate the collection and administrative processes for gaming taxes and certain fees.

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 218G.010 to 218G.350. 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 or her 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 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.¹

¹ The complete text of NRS 463.157 to 463.1592 is presented in Appendix B.

Audit Division Has Provided Sufficient Regulatory Oversight

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.

Internal Control Systems Help Ensure Effective Gaming Regulation

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.

NRS 463.157 to 463.1592 require the Commission to adopt regulations governing the internal control and financial reporting practices of licensees. Therefore, the Commission has adopted regulations that require licensees comply with Minimum Internal Control Standards (MICS). Licensees are then responsible for developing and implementing a written system of internal control that meets these standards. Additionally, licensees must engage independent accountants to perform annual financial audits and report on compliance with MICS.

To promote uniformity in auditing procedures by independent auditors, the Division has issued various checklists and guidelines. These checklists help ensure consistency and the achievement of a minimum standard of work by other auditors in evaluating the licensees' compliance with MICS. Periodically, the Division will recommend revisions to the MICS due to changes in related regulation, new technology, or the need to clarify Board policy. Any changes are then reflected in updated checklists available on the Board's website. The latest MICS revision took place in November 2017.

Licensees Submitted Regulatory Reports When Required

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.

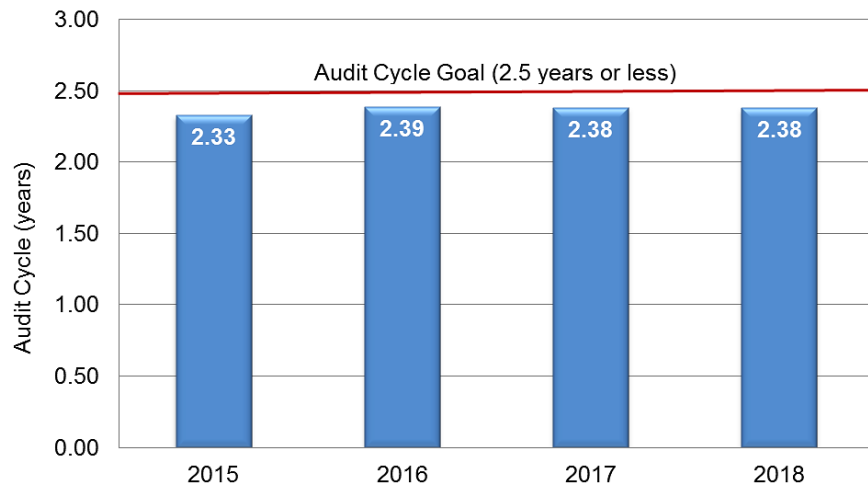
Regulations require licensees to submit semi-annual and annual internal control reports and any amendments to their control system on an annual basis. In addition, licensees are required to submit annual financial reports. Monitoring reports for timely submission is important because reports indicate the licensees' ongoing compliance with gaming laws and regulations in-between Board audits. When these reports are submitted late, noncompliance or weaknesses identified by independent accountants may not be corrected timely. By ensuring compliance with reporting requirements, the Division is able to monitor licensees' adherence to standards and their continued financial viability.

**Audit Division
Has Maintained
Effective
Performance of
Audits and
Related Oversight
Activities**

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.

The primary objectives of gaming audits are to determine if casinos have complied with all applicable gaming laws and regulations, and if gaming revenues and related taxes have been properly reported. The Division analyzes the casinos' internal accounting controls, reviews operating statistics, and tests transactions to gather audit evidence in order to render an audit opinion. The Division uses various methods in gathering audit evidence, including unannounced observations of casino procedures and interviews with casino personnel. When the Division finds revenues have been understated, licensees are assessed additional taxes and interest. During fiscal year 2018, the Division performed 51 audits resulting in over \$737,000 in assessments.

The Division monitors audit performance by calculating an operating audit cycle. Because each audit covers the time period from which the prior audit ended to the current date, the operating audit cycle can also be referred to as the average audit period. The operating audit cycle is the only performance measure for the Division and is presented in budgetary reports. For fiscal year 2018, the Division's operating audit cycle was 2.38 years. Although this is slightly longer than our prior audit in 2011 by 3 months, it is within the Division's long-standing goal of 2.5 years. The Division indicated the longer audit period is the result of audit staff turnover and additional training hours needed for each engagement. Exhibit 4 shows the operating audit cycle from fiscal years 2015 to 2018.

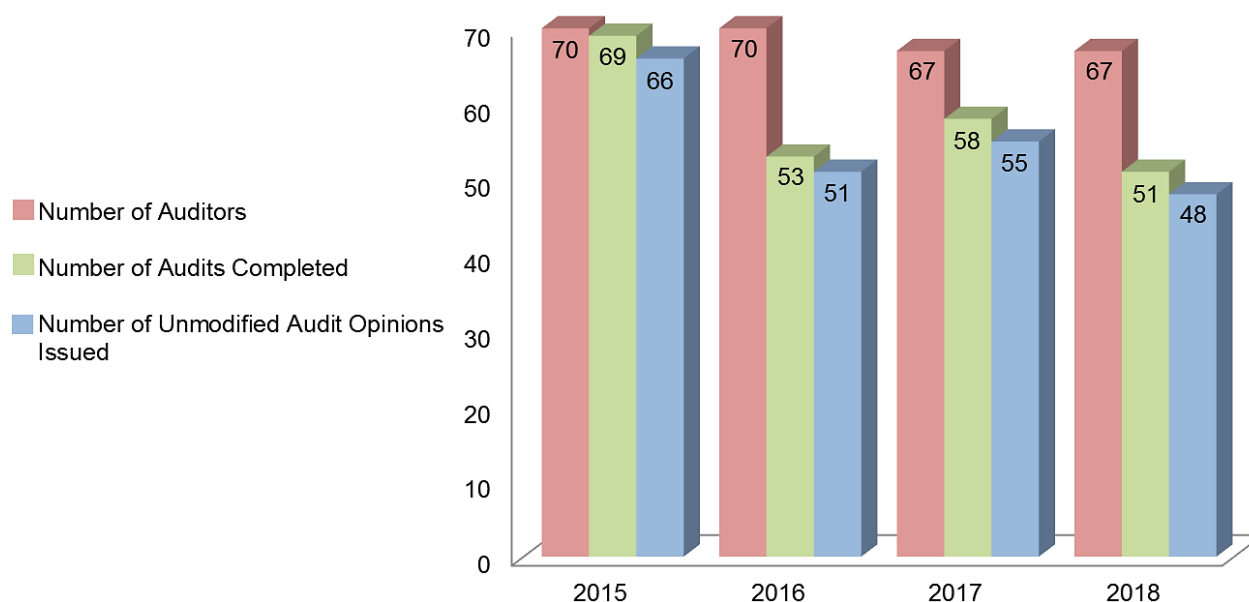
**Operating Audit Cycle
Fiscal Years 2015 to 2018****Exhibit 4**

Source: Nevada Gaming Control Board records.

At the conclusion of an audit, the Division issues a written report to the Board, which includes an audit opinion. If the audit results in no significant regulation violations, the Division will issue an unmodified opinion. Most licensees have maintained satisfactory levels of compliance, because the percentage of unmodified opinions has remained around 95% from fiscal year 2015 to 2018. Exhibit 5 shows the number of auditors, audits, and unmodified audit opinions issued over the last 4 fiscal years.

**Number of Auditors, Audits, and Unmodified Audit Opinions
Fiscal Years 2015 to 2018**

Exhibit 5



Source: Nevada Gaming Control Board records.

We also reviewed the Board’s calculation of its theoretical audit cycle, which is a projected audit cycle used as an internal budgeting tool. The theoretical audit cycle is the number of years it will take to “fully audit” all Group I licensees given available staff hours. This projection is prepared twice a year in January and July. Its purpose is to ensure the Division is adequately staffed to perform its statutory responsibilities. As of July 2018, the theoretical audit cycle was 2.67 years. This means that within approximately 32 months the Division will have started and completed audits of all Group I licensees, assuming no closure audits or special projects must be performed, and the Division remains fully staffed.

Our overall review of the Division’s performance shows that the Division has provided effective regulatory oversight of licensees through its audit process, as shown by the high percentage of audits with unmodified opinions. Additionally, the Division uses valid and reliable information to manage its activities, and consistently meets its performance goal for the operating audit cycle, which indicates staff have been managed efficiently.

Implementing Electronic Audit Workpapers Can Improve Efficiency

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. Implementing electronic workpapers would allow for greater productivity, efficiency, and collaboration.

Based on our research to identify best practices for preparing and maintaining audit workpapers, we determined several benefits can be obtained by transitioning from paper to electronic workpapers. Some of these benefits include:

- Increased accessibility – Improving the auditors' accessibility to workpapers decreases the amount of time to submit for supervisory review, while allowing auditors to work on the same audit, simultaneously, from any location (office or licensee's place of business, or both). The flexibility to access workpapers remotely can also reduce travel costs.
- Improved tracking – Reporting and tracking abilities are improved with electronic workpapers. Management can easily track and monitor each step of the audit process, helping streamline resource requirements and managing the audit timeline.
- Faster review and reporting – Electronic workpapers can speed up the review and reporting process. Supervisors can communicate with staff quicker and more efficiently to clarify workpapers needing additional information. This can significantly reduce the time it takes to finalize the audit report, because pending matters can be quickly addressed through electronic communication.
- Better security – Physical documents are more difficult to secure than electronic documents, as physical documents can be copied, lost, or placed in an unsecure location.

Electronic documents can be secured through encryption and other digital security methods. Since an audit entails the gathering and review of confidential data, it is imperative the security of the licensee's data be maintained.

- Less paper – Electronic workpapers can reduce the cost of paper file storage and office supplies. The auditor will also benefit with less paper to carry making travel easier.

In the Board's Strategic Plan for fiscal years 2018 to 2020, management identified automating its audit process as an opportunity in its internal assessment. The plan states:

Moving towards "paperless auditing" remains a priority. The Audit Division...will improve efficiencies by automating their audit processes, to include having all audit findings be retained on electronic media for future reference/use.

Even though this was indicated as a priority, the Board has not requested specific funding for electronic workpaper software. Management indicated audit workpaper software is too expensive for its budget, and the Board is currently undergoing a large and costly information technology (IT) project to move from its old legacy system to a modern IT system. However, management acknowledged that electronic audit workpapers would be beneficial and could improve the Audit Division's audit cycle.

Recommendation

1. Perform a needs assessment and a cost-benefit analysis of electronic workpaper software solutions.

Collection and Administrative Processes Over Gaming Taxes and Fees Are Effective

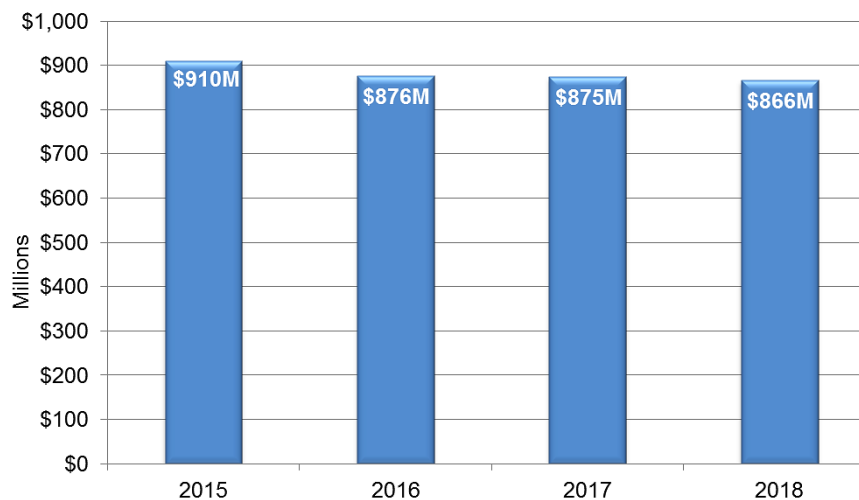
The Board has an effective process for the collection of gaming taxes and fees. During fiscal year 2018, the Board collected over \$866 million in gaming taxes and fees, while maintaining a collection rate of more than 99%. Additionally, the Board administered transferable tax credits and distributions 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.

The Board has strong controls over the collection of gaming taxes and fees. Our testing of 50 payments, totaling more than \$45.3 million, found the Board's controls provide reasonable assurance that gaming taxes and fees are collected and properly processed. In addition to the Board's controls, strict gaming laws and regulations ensure licensees submit appropriate fees or risk losing their gaming license.

The Board's Tax and License Division (Division) collects and processes all gaming taxes and fees. During fiscal year 2018, the Division collected over \$866 million in gaming taxes and fees. Exhibit 6 shows gaming taxes and fees collected from fiscal years 2015 to 2018.

**Gaming Taxes and Fees Collected (in Millions)
Fiscal Years 2015 to 2018**

Exhibit 6



Source: Nevada Gaming Control Board records.

Note: Dollar amounts are rounded to the nearest million.

During our audit, we found gaming tax and fee payments were accurately calculated, in accordance with applicable statutes, and deposited timely. Our testing included 50 payments 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.

Computer system controls are critical to the collection process. Our review confirmed the system verifies payment amounts are accurate, properly identifies delinquent licensees, accurately calculates penalties, and provides an accurate accounting of gaming tax revenues. The Board has maintained a collection rate of more than 99% due to effective processes and the ability to revoke or suspend licensees who are more than 30 days delinquent.

Our testing also found the Board's refunding process for gaming employee registration fees to be generally efficient. Additionally, we found the processes surrounding the receipting and recording of technology laboratory fee payments to be effective.

Appendix A

Transferable Tax Credits Applied to Gaming Taxes June 2015 to November 2018

The Governor's Office of Economic Development issued transferable tax credits to the following companies from June 2015 to November 2018. The companies then sold the tax credits to gaming entities to apply toward their gaming tax liability. State law allows gaming entities to use transferable tax credits toward gaming percentage fee taxes.

Tax Credit Issue Date	Tax Credit Type	Company Issued Tax Credit	Tax Credit Purchased by	Amount Applied to Gaming Taxes
06/09/15	2	SC Saints Productions, LLC	Gaming Entity #1	\$ 871,339
09/16/15	2	Lake Mead Productions	Gaming Entity #2	186,484
10/09/15	2	Columbia Pictures Industries, Inc.	Gaming Entity #3	3,230,371
03/10/16	3	Tesla Motors, Inc.	Gaming Entity #4	9,617,941
05/16/16	3	Tesla Motors, Inc.	Gaming Entity #4	10,843,613
05/17/16	2	HFP, Corp.	Gaming Entity #2	567,172
06/30/16	2	Scientific Games Productions, LLC	Gaming Entity #1	3,193,172
09/01/16	3	Tesla Motors, Inc.	Gaming Entity #4	6,048,630
12/05/16	3	Tesla Motors, Inc.	Gaming Entity #4	8,011,173
12/05/16	2	Frank and Lola Movie, LLC	Gaming Entity #1	147,915
03/13/17	3	Tesla Motors, Inc.	Gaming Entity #4	11,567,061
04/28/17	2	LPF One DTIG, LLC	Gaming Entity #1	259,235
05/17/17	2	Scientific Games Productions, LLC	Gaming Entity #1	1,055,226
06/05/17	3	Tesla Motors, Inc.	Gaming Entity #4	11,223,655
06/29/17	1	Hyperloop One	Gaming Entity #1	255,000
09/15/17	3	Tesla Motors, Inc.	Gaming Entity #4	19,651,543
11/15/17	3	Tesla Motors, Inc.	Gaming Entity #4	37,063,522
12/13/17	1	Mary's Gone Crackers, Inc.	Gaming Entity #5	100,000
03/15/18	3	Tesla Motors, Inc.	Gaming Entity #4	17,116,757
07/11/18	3	Tesla Motors, Inc.	Gaming Entity #4	35,795,647
11/08/18	3	Tesla Motors, Inc.	Gaming Entity #4	6,147,957
Total				\$182,953,413

Types of Transferable Tax Credits	Amount Applied by Type
Type 1 - Transferable Business Tax Credits Issued (NRS 231.1555)	\$ 355,000
Type 2 - Transferable Film Tax Credits Issued (NRS 360.758 to NRS 360.7598)	9,510,914
Type 3 - Transferable Capital Investment Tax Credits Issued (NRS 360.900 to NRS 360.980)	173,087,499
Total	\$182,953,413

Source: Nevada Governor's Office of Economic Development and Nevada Gaming Control Board records.

Note: The appendix shows the amount of transferable tax credits applied to gaming taxes from June 2015 to November 2018. June 2015 is when transferable tax credits began being applied to gaming taxes, and November 2018 is the last 2018 transferable tax credit awarded and applied to gaming taxes.

Appendix B

Nevada Revised Statutes 463.157 to 463.1592

REGULATIONS OF COMMISSION

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 must 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. The regulations or any standards adopted pursuant to such regulations must, if the stock of the nonrestricted licensee is publicly traded, preclude internal audits by the same independent accountant hired to provide audits, compiled statements or reviews of the financial statements required by NRS 463.159. 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.

(Added to NRS by 1967, 1277; A 2003, 20th Special Session, 273)

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.

(Added to NRS by 1967, 1277)

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 States Department of Labor for the preceding year. On or before December 15 of each year, the Board 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.

(Added to NRS by 1967, 1277; A 1971, 673; 1985, 2137; 1991, 2255; 1997, 3500; 2013, 2107, 3310)

NRS 463.1592 Regulations concerning financial practices of licensees: Organization of audit function of Nevada 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.

(Added to NRS by 1967, 1277)

Appendix C

Audit Methodology

To gain an understanding of the Nevada Gaming Control Board (Board), we interviewed staff and reviewed state laws, gaming regulations, and policies and procedures significant to the Board's audit and collection activities. We reviewed minutes of the Nevada Gaming Control Board, Nevada Gaming Commission, and legislative committees, in addition to financial information, prior audit reports, budgets, and other information describing the Board's activities. We also obtained internal control reviews for each Board division's policies and procedures. We then identified the Audit Division's key performance measures and performed an analytical review of these measures.

Our scope of work on internal controls included the Board's policies, procedures, and activities in place to ensure: (1) licensees submitted required financial and regulatory reports; (2) the reliability of its performance measures; (3) gaming taxes and fees, including transferable tax credits and technology laboratory fees, were accurately calculated, processed, and recorded; and (4) gaming employee registration fee refunds were processed in compliance with Board Directives.

To determine if the control and related practices prescribed by NRS 463.157 to 463.1592 have been efficiently, effectively, and equitably administered, we verified regulations were developed pursuant to these statutes. We randomly selected 20 Group I licensees and tested 100 internal control and financial reports for compliance with certain regulations applicable to our objective. We verified written reports of compliance with minimum internal control standards were submitted timely to the Board. We also verified financial statements were submitted as required. We then confirmed an audit of the licensee was performed, a final report was submitted to the Board, and any assessed fees or credits were followed up on by the Tax and License Division. In addition,

we obtained the Board's 2018 schedule for internal control reviews to verify reviews were performed in accordance with Board Directives.

We then evaluated the reliability of the Audit Division's key performance measures. This included reviewing all 51 fiscal year 2018 audit reports to verify the number of audits performed, number of unmodified opinions, total assessments, and operating audit cycle. To verify the accuracy of audit hours reported in the Board's time reporting system, we randomly selected 10 audits, reviewed the supporting documentation, and tested for mathematical accuracy. Using these 10 audits, we also verified the average days of fieldwork reported in the operating audit cycle. To verify licensees' gross gaming and gaming tax revenues, we reviewed the Tax and License Division's supporting documentation and traced amounts to the state accounting system. To evaluate the methodology used to calculate the theoretical audit cycle, we reviewed the Audit Division's supporting documentation, tested for mathematical accuracy, and compared the number of auditors to the Board's organizational chart. To determine best practices for preparing and maintaining audit workpapers, we surveyed other states with gaming regulatory bodies and researched benefits found by using electronic audit workpapers.

To evaluate the collection and administrative processes for gaming taxes, we judgmentally selected 50 gaming tax transactions from Group I licensees. These licensees make up over 96% of gross gaming revenue. Our sample for testing percentage fee tax returns was determined by selecting 10 licensees with the highest gross revenues in fiscal year 2018, and using their top 2 months, for a total of 20 percentage fee tax returns. The other 30 transactions in our sample were chosen from 15 randomly selected Group I licensees (10 from the South and 5 from the North), and included an even distribution throughout fiscal year 2018 for the next three highest tax sources: entertainment tax, quarterly nonrestricted slot and games tax, and annual slot and games tax. We reviewed the mathematical accuracy of the tax forms, and verified payment amounts were in accordance with applicable statutes. We then verified payments

were deposited timely and were properly recorded in the Board's computer system and state accounting system. Next, we reviewed five accounts receivable transactions for compliance with policies and procedures, and determined if accounts receivables were properly reported to the State Controller. In addition, for the annual slot machine excise tax, we verified amounts were recorded as statutorily required.

We then verified the Board's computer system accurately calculated amounts recorded to each gaming tax category. This included selecting 5 journal vouchers with the highest dollar amounts out of our sample of 50 gaming tax transactions. We traced journal voucher amounts to supporting documents, and verified the Board's system accurately calculated amounts recorded to each gaming tax category and that revenues were correctly posted in the state accounting system.

To evaluate the Board's administrative processes over Transferable Tax Credits (TTCs), we obtained a listing of total TTCs applied to percentage fee taxes since 2015. We sorted the listing by fiscal year and judgmentally selected 20 of 70 transactions evenly distributed throughout fiscal year 2018, ensuring at least one transaction from each of the 3 unique companies awarded TTCs. The 20 transactions totaled over \$17 million in credits applied, out of \$74 million total credits applied during fiscal year 2018. For the 20 transactions, we obtained the TTC certificate issued to the company by the Governor's Office of Economic Development (GOED), the company's declaration of TTC, and letter stating which licensee the credit was being transferred to. We then traced the amounts applied per the Board's database to the declaration of TTC letter to verify the correct amount was applied on the licensee's tax form. We also verified the credit was valid prior to being used by the licensee. Additionally, we requested documentation showing the Board was notified by the GOED of the approved credit prior to it being applied by the licensee, in accordance with statute.

To evaluate the efficiency of the Board's refunding process for gaming employee registration fees, we held discussions with management and staff, inquired of Board policies regarding

refunds, and performed a walkthrough of the refunding process. We also obtained a listing of all refunds and chargebacks processed during fiscal year 2018, and obtained data on applicant submissions, withdrawals, and credit card payments. We obtained supporting documentation for all 61 refunds and chargebacks processed in fiscal year 2018, and calculated the number of days between the original online payment and when the refund was issued by the Board.

Finally, to determine the efficiency of the Board's receipting and recording of technology laboratory fee payments, we obtained reports from the Technology Division's database and from the Board's main database for the first and last months of fiscal years 2017 and 2018. Next, we tested all 74 laboratory transactions for these 4 months, looking for any differences between postings in the Technology Division's database, the Board's main database, the outside bank account, and the state accounting system. We also ensured all amounts were captured in the correct fiscal year in the state accounting system.

For our testing of gaming taxes and transferable tax credits, we used nonstatistical audit sampling, which was the most appropriate and cost effective method for concluding on our audit objectives. Based on our professional judgment, review of authoritative sampling guidance, and careful consideration of underlying statistical concepts, we believe that nonstatistical sampling provides sufficient, appropriate audit evidence to support the conclusions in our report. Since our audit sampling included judgmental selection, we did not project our results to the population.

During the audit, we identified minor internal control deficiencies that were not significant to the audit objectives, but warranted the attention of Board officials. On February 20, 2019, we issued a letter to the Board communicating the internal control deficiencies we did not include in this report. Those internal control deficiencies related to the timely deposit and recording of technology laboratory fees and the adequacy of policies and procedures over gaming employee registration fee refunds.

Our audit work was conducted from January to November 2018. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In accordance with NRS 218G.230, we furnished a copy of our preliminary report to the Chair of the Nevada Gaming Control Board. On February 20, 2019, we met with Board officials to discuss the results of the audit and requested a written response to the preliminary report. That response is contained in Appendix D, which begins on page 24.

Contributors to this report included:

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Audit Supervisor

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Appendix D

Response From the Nevada Gaming Control Board



STEVE SISOLAK
Governor

NEVADA GAMING CONTROL BOARD

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SANDRA D. MORGAN, *Chairwoman*
TERRY JOHNSON, *Member*
VACANT, *Member*

March 1, 2019

Via email: cooper@lcb.state.nv.us

Rocky Cooper, CPA
Legislative Auditor
Legislative Counsel Bureau
401 S. Carson Street
Carson City, NV 89701-4747

Dear Mr. Cooper:

As requested, the Nevada Gaming Control Board has reviewed the Legislative Counsel Bureau's (LCB) preliminary audit report, including the recommendation contained therein. The Board accepts the recommendation.

LCB Audit Recommendation – Perform a needs assessment and a cost-benefit analysis of electronic workpaper software solutions.

Board Response – Accept Recommendation

The Board accepts the one recommendation contained in the LCB preliminary audit report and plans to implement it as part of its ongoing Alpha Migration Project (AMP), which involves moving all applications and data from the Board's existing legacy DEC/VMS COBOL-based application to applications using current technologies, along with providing enhanced functionality. With regard to AMP's current timeline, it is anticipated the Audit Division's functionality will be started and completed in the FY21-23 biennium, which will include a cost-benefit analysis and implementation of electronic workpaper software as recommended.

Additionally, as requested, attached is the completed form entitled, "Nevada Gaming Control Board Response to Audit Recommendation."

Lastly, the Board would like to thank the LCB staff for their professionalism during the audit. The Board welcomes and appreciates LCB's review and analysis of its operations. Please do not hesitate to contact us if you have any further questions regarding these matters.

Sincerely,

Sandra Douglass Morgan
Chairwoman

Rocky Cooper, CPA
March 1, 2019
Page 2

Attachment(s)
cc: Terry Johnson, Member
Jaime Black, Chief, Administration Division
Katrina Humlick, Deputy Legislative Auditor, Audit Division, Legislative Counsel Bureau

Nevada Gaming Control Board's Response to Audit Recommendation

<u>Recommendation</u>	<u>Accepted</u>	<u>Rejected</u>
1. Perform a needs assessment and a cost-benefit analysis of electronic workpaper software solutions.	<u> X </u>	<u> </u>
TOTALS	<u> 1 </u>	<u> </u>