

STATE OF NEVADA

Audit Report Gaming Control Board

2011



Legislative Auditor
Carson City, Nevada

Audit Highlights



Highlights of Legislative Auditor report on the Gaming Control Board issued on March 8, 2011. Report # LA12-01.

Background

Nevada's gaming industry is regulated through a two tiered system comprised of the Gaming Control Board (Board) and the Nevada Gaming Commission (Commission). The Board is a three-member body appointed by the Governor serving in a full-time capacity. Recommendations of the Board in licensing matters are considered and acted upon by the five-member Commission who are appointed by the Governor. An eleven-member Gaming Policy Committee also serves as an advisory group to the Board and Commission. 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. In fiscal year 2010, the Board collected over \$829 million in gaming taxes and fees.

The Board is comprised of seven divisions: Administration, Audit, Corporate Securities, Enforcement, Investigations, Tax and License, and Technology. In fiscal year 2010, the Board had \$42 million in expenditures and 434 filled positions as of June 2010.

Purpose of Audit

The purpose of this 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, and if collection and administrative controls over certain assets were adequate. This audit included a review of the Board's audit and certain administrative activities during fiscal year 2010, and the preceding fiscal year for some areas.

Audit Recommendations

This audit report contains five recommendations to improve administrative controls. These recommendations take necessary steps to properly secure assets and administer outside bank accounts. Furthermore, the Board should develop accounts receivable procedures to ensure accurate and consistent reporting.

The Board accepted the five recommendations.

Recommendation Status

The Board's 60-day plan for corrective action is due on June 1, 2011. In addition, the six-month report on the status of audit recommendations is due on December 1, 2011.

Gaming Control Board

Summary

The Gaming Control Board's activities and processes were effective in ensuring licensee audits were performed and gaming taxes collected, but some improvements to certain administrative controls can be made. The Board's Audit Division sufficiently regulated licensees compliance with gaming laws and regulations by effective report monitoring and efficient audits. In addition, the Board's Tax and License Division demonstrated an effective process for collecting gaming taxes and fees, which resulted in 99% of gaming taxes being collected during fiscal year 2010. Strong regulatory oversight is necessary to protect the integrity and the stability of Nevada's gaming industry and to ensure the accurate collection of gaming taxes and fees, which are an essential source of state revenue.

Enhancements to certain administrative controls will help ensure assets are safeguarded and transactions and reports are proper. Investigation payments received in the Board's Carson City office should be stored more securely prior to deposit. Further, improvements are needed over outside bank accounts to ensure deposits are made timely, accounts are properly administered, and inactive accounts are closed. Finally, accounts receivable reporting can be more consistent.

Key Findings

The Audit Division has efficiently, effectively, and equitably administered state laws concerning the financial practices of licensees. The Board has adopted regulations and monitored compliance with regulations to strengthen licensees internal control systems. We tested 20 Group I licensees and found the Division has ensured required reports were submitted timely and appropriate action for late filers was taken.

Our review of performance information found the Division maintains valid and reliable information to manage its activities. Furthermore, the Audit Division has maintained its effectiveness in conducting licensee audits, demonstrated by a high percentage of audits with no significant regulatory violations.

The Board has an effective process for the collection of gaming taxes and fees. Our testing of 80 payments, totaling \$44.1 million, found the Board's controls provide reasonable assurance that gaming taxes and fees are collected and processed accordingly. 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.

Improvements can be made to the safeguarding of investigation payments received at the Board's Carson City office. Payments received during our audit were stored in an unlocked filing drawer in the office's reception area. Although the office is secure from the general public, all employees can access the drawer where checks are stored. The office receives checks worth thousands of dollars regularly, so adequate safeguarding of these items is important.

The Board's Administration Division did not always deposit reimbursements timely into its investigative travel account. NRS 353.250 requires agencies to make deposits by Thursday of each week for all money received during the previous week. We reviewed ten deposits totaling \$177,000 made into the Board's various bank accounts and found six deposits containing \$33,000 in checks that were deposited between 1 and 6 days late.

The Board has established an outside bank account to help carry out its activities. The processes used for this account were not the same as those provided for in statute. Even though the Board's current process provides adequate control over the account, actual processes and those specified in statute should be the same.

The Board has an outside bank account that is no longer necessary and has not been used for several years. The Board operated this account for certain investigative activities that are now performed by the federal government. The account has a \$40,000 balance, even though no activity has occurred since April 2007.

The Board's Tax and License Division did not consistently report accounts receivable. As of June 30, 2010, the Division reported \$97,000 in receivables to the State Controller and \$1,892,000 to the Legislative Counsel Bureau. Submitting consistent receivable reports will provide users of this information an accurate accounting of debts owed to the State.

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This report contains the findings, conclusions, and recommendations from our completed audit of the 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 five recommendations to improve administrative controls over deposits, outside bank accounts, and accounts receivable reporting. We are available to discuss these recommendations or any other items in the report with any legislative committees, individual legislators, or other State officials.

Respectfully submitted,

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

Paul V. Townsend, CPA
Legislative Auditor

February 24, 2011
Carson City, Nevada

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Introduction

Background

Nevada's gaming industry is regulated through a two tiered system comprised of the Gaming Control Board (Board) and the Nevada Gaming Commission (Commission). The Board is a three-member body appointed by the Governor serving in a full-time capacity. The Chairman of the Board 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 the five-member Commission, who are also appointed by the Governor. The Commission is the final authority in all gaming matters. An eleven-member Gaming Policy Committee also serves as an advisory group to the Board and Commission.

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. In fiscal year 2010, the Board had \$42 million in expenditures and 434 filled positions as of June 2010.

The Board is comprised of seven divisions and maintains offices in Carson City, Elko, Las Vegas, Laughlin, and Reno. The seven divisions are:

Administration – The Division provides financial, personnel, and administrative services to the Board, Commission, and the other six divisions.

Audit – The Division audits the records of Group I licensees. Group 1 licensees for fiscal year 2010 are those establishments with annual gross gaming revenues of \$5,639,000 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 control, and conducts interim

observations to ensure continuing compliance with regulations. Additionally, the Division reviews and approves computerized gaming systems, and regulates live racing broadcasts and off-track pari-mutuel wagering.

Corporate Securities – The Division conducts pre-licensing investigations of publicly traded corporations and their subsidiaries to determine suitability for registration with the Commission. The Division also conducts post-licensing investigations and reports to the Board any action requiring approval, such as changes in control, public offerings, recapitalizations, reorganizations, mergers, and acquisitions. In addition, the Division monitors gaming activities of licensees conducting gaming operations outside of Nevada (foreign gaming).

Enforcement – The Division 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.” The Division also conducts background investigations on gaming employee applicants; and inspects and approves new games, surveillance systems, chips and tokens, and charitable lotteries and bingo.

Investigations – The Division investigates all gaming license and key employee applicants to determine their viability, business integrity, and suitability for licensure or approval.

Tax and License - The Division issues gaming licenses, and collects and deposits all gaming taxes, fees, penalties, interest and fines. The Division also performs compliance reviews of those licensees not overseen by the Audit Division. 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. The Division also inspects gaming devices to ensure continued integrity, and assists in resolving gaming patron disputes through analysis of device

electronics and software. In addition, the Division manages and maintains the agency's computer hardware, software, and technology needs.

The Board issues various types of gaming licenses. Exhibit 1 shows the number and type of licenses issued and active as of June 30, 2010.

Number and Type of Gaming Licenses As of June 30, 2010

Exhibit 1

Type of License	Description	Number of Licenses as of 6/30/10
Restricted	License permits the operation of slot machines (15 maximum) only in an establishment wherein the operation of machines is incidental to the licensee's primary business.	2,032
Nonrestricted	License other than a restricted. Classified into two groups based on gross revenue. ¹ <u>Group 1:</u> Licensee has gross revenue of \$5,639,000 or more, or operation consists primarily of a race book and/or sports pool that accepts \$63,476,000 or more in wagers during the 12 months ending June 30, 2010.	151
	<u>Group 2:</u> Licensee has gross revenue less than \$5,639,000, or operation consists primarily of a race book and/or sports pool that accepts less than \$63,476,000 in wagers during the 12 months ending June 30, 2010.	283
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.	58
Manufacturer / Distributor	Manufacturer license authorizes the holder to manufacture, assemble or produce any device, equipment, material or machines used in gambling. Distributor license authorizes the holder to sell, distribute or market any gambling device, machine or equipment.	297
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.	6
Total		2,827

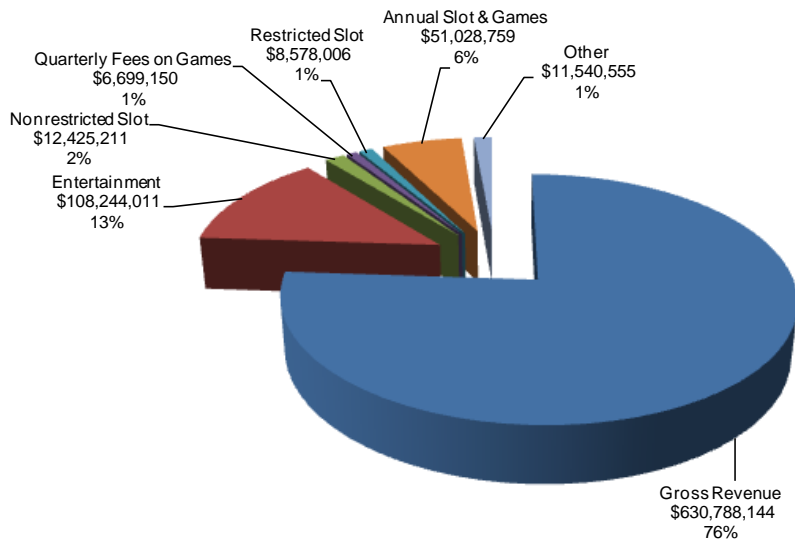
Source: Nevada Revised Statutes and Gaming Control Board records.

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. In fiscal year 2010, the Board collected over \$829 million in gaming taxes and fees. Exhibit 2 shows the breakdown of gaming taxes and fees collected in fiscal year 2010.

Gaming Taxes and Fees Collected Fiscal Year 2010

Exhibit 2



Source: Gaming Control Board and State Accounting System.

Note: Amounts do not include \$12.9 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 provision 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 NRS 463.1592 require the Nevada Gaming Commission to adopt regulations governing the internal control

and financial reporting practices of nonrestricted licensees, and provides for the Board's audit function.¹

This audit included a review of the Gaming Control Board's audit and certain administrative activities during fiscal year 2010, and fiscal year 2009 for some areas. 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.
- Determine if collection and administrative controls over certain assets are adequate.

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

Board Processes Provide Effective Licensee Oversight

The Board's audit and collection processes provide effective regulatory oversight of licensees. The Board's Audit Division (Division) sufficiently regulated licensees compliance with gaming laws and regulations by requiring licensees have sufficient internal controls, and through effective report monitoring and efficient audits. In addition, the Board's Tax and License Division demonstrated an effective process for collecting gaming taxes and fees, which resulted in a collection rate of more than 99%. Strong regulatory oversight is necessary to protect the integrity and the stability of Nevada's gaming industry and to ensure the accurate collection of gaming taxes and fees, which are an essential source of state revenue.

Audit Division Sufficiently Regulated Licensees

The Board's Audit Division has efficiently, effectively, and equitably administered state laws concerning the financial practices of licensees. The Board has adopted regulations and monitored compliance with regulations to strengthen licensees internal control systems. The Audit Division has ensured licensees submit required reports timely and has taken appropriate action regarding late filers. The Division's performance related to conducting licensee audits has remained fairly constant over several years. Efficient and effective regulation is necessary to protect the integrity and stability of Nevada's gaming industry.

Basis for Regulation Is Internal Controls

Over a period of years, the Board has taken steps to strengthen internal control systems at Nevada casinos. Strong internal controls are important to ensuring 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 requires the Commission to adopt regulations governing the internal control and financial reporting practices of licensees. Thus, 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 complies with these standards. In addition, licensees engage independent accountants to review and report on compliance with MICS.

To promote uniformity of 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 MICS due to changes in related regulation, new technology, or the need to clarify policy. Any changes are then reflected in updated checklists available on the Board's website. The latest MICS revision took place in January 2009.

Licensees Submitted Reports When Required

The Audit Division's monitoring of reports ensured licensees submitted reports when required. Gaming regulations require licensees submit various types of internal control and financial reports. Our review of these reports found that licensees submitted most reports on time.

We tested 20 Group I licensees and found required reports were submitted in accordance with established gaming regulations. Regulations require licensees to submit annual and semi-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. For the 20 licensees selected, a total of 117 reports were submitted during fiscal year 2010. Our testing revealed 4 of the 117 reports were not submitted timely; however, the Division adequately monitored licensees and

promptly requested delinquent reports which resulted in submission.

Monitoring of reports and requiring 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 licensees comply with reporting requirements, the Division is able to monitor licensees adherence to standards and their continued financial viability.

Division Has Maintained Effective Performance

The Audit Division ensures licensees adhere to gaming laws and regulations by performing routine audits of licensees. Our review of performance information found the Division maintains valid and reliable information to manage its activities and has maintained its effectiveness in conducting licensee audits. Information on the Division's operations is essential to providing effective oversight, ensuring efficient use of resources, and identifying areas for improvement.

The primary objective of gaming audits is to determine if casinos have complied with all applicable gaming laws and regulations, and gaming revenue and related taxes have been properly reported. The Division analyzes the casinos internal accounting controls, reviews operating statistics, and tests transactions to gather sufficient audit evidence to render an audit opinion. The Division uses various means in gathering audit evidence including covert and surprise 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 2010, the Audit Division performed 73 audits resulting in over \$630,000 in assessments.

The Division monitors audit performance by calculating an operating audit cycle. The Division's audit cycle has improved since our prior audit in 2003. 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 an average audit period. From 2003 to 2006, the Division's average audit period covered 2.97 years. For the period 2007 to 2010, the average audit period shortened to 2.41 years. The Division represents the shortened audit period is the result of the retention of experienced audit staff. The Division's long-standing goal is an average audit period of 2.5 years.

At the conclusion of an audit, the Division issues a written report to the Board, which includes the audit opinion. If the audit results in no significant regulation violations, the Division will issue an unqualified opinion. Most licensees have maintained satisfactory levels of compliance, because the percentage of unqualified opinions have been greater than 90% for the last 4 years. Exhibit 3 shows the percentage of unqualified opinions issued from fiscal years 2007 to 2010.

**Percentage of Unqualified Opinions
Fiscal Years 2007 to 2010**

Exhibit 3

Fiscal Year	Number of Audits	Number of Unqualified Opinions	Percentage of Unqualified Opinions
2007	87	82	94.3%
2008	66	64	97.0%
2009	89	85	95.5%
2010	73	68	93.2%

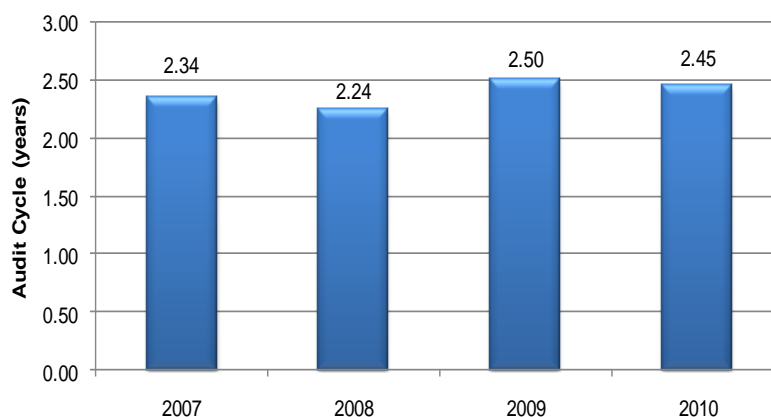
Source: Auditor analysis of data provided by the Gaming Control Board.

During the last two years, the percentage of unqualified opinions has dropped slightly. The Division indicated that licensees are having to reduce staff due to declining gaming revenues. As a result, existing staff at gaming establishments are given more duties which can affect performance. Therefore, some licensees who received an unqualified opinion in previous audits have encountered regulation violations. Although this is not an issue for all licensees, the Division is actively working with affected licensees to reduce the number of violations.

We also reviewed the Board’s calculation of its theoretical audit cycle, which is a projected audit cycle used in budgetary reports. The theoretical audit cycle is the number of years it will take to “fully audit” all licensees given available man-hours. This projection is prepared twice a year in January and July, and is used as the only Audit Division performance measure. Its purpose is to ensure the Division is adequately staffed to perform its statutory responsibilities. As of July 2010, the theoretical audit cycle was 2.45 years, including furloughs. This means that within approximately 29 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. Unscheduled audits due to casino openings, changeovers or closures have become more frequent in the last few years due to current economic conditions. Exhibit 4 shows the theoretical audit cycle from 2007 to 2010.

**Theoretical Audit Cycle
Fiscal Years 2007 to 2010**

Exhibit 4



Source: Gaming Control Board records.

Note: The July 1 theoretical audit cycle was used for each fiscal year stated, and furloughs were included in the 2009 and 2010 cycles.

Our overall review of the Division’s performance shows that valid and reliable information is maintained to manage its activities. The Division has used this information to provide effective regulation and ensure efficient use of resources. For instance, the Division’s operating audit cycle meets internal performance goals, and staffing resources have been managed efficiently.

Effective Collection of Gaming Taxes

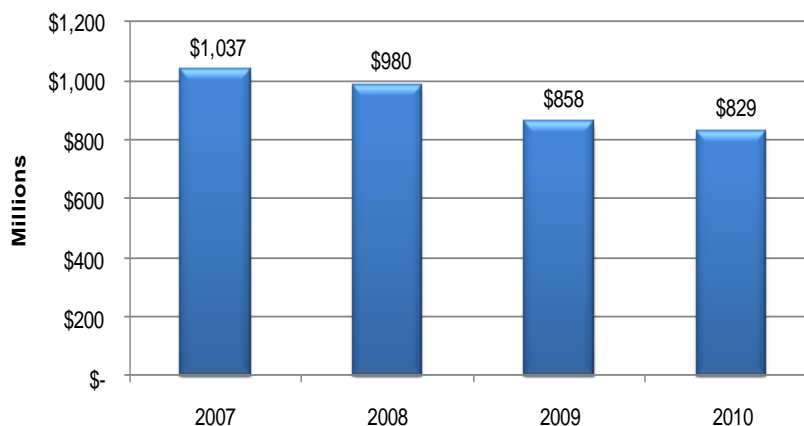
Furthermore, the Division's audit process is providing effective licensee regulation, demonstrated by a high percentage of audits with unqualified opinions.

The Board has an effective process for the collection of gaming taxes and fees. During fiscal year 2010, the Board maintained a collection rate of more than 99%. 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 collects and processes all gaming taxes and fees. During fiscal year 2010, the Division collected over \$829 million in gaming taxes and fees. Exhibit 5 shows gaming taxes and fees collected from 2007 to 2010.

**Gaming Taxes and Fees Collected
Fiscal Years 2007 to 2010**

Exhibit 5



Source: Gaming Control Board records.

Note: Dollar amounts are rounded to the nearest million.

The Board has adequate controls over the collection of gaming taxes and fees. Our testing of 80 payments, totaling \$44.1 million, found the Board's controls provide reasonable assurance that gaming taxes and fees are collected and processed accordingly. We selected payments from gross revenue tax, entertainment tax, nonrestricted slot tax, and quarterly fees on games, which comprised over 91% of the gaming taxes collected in 2010. In addition, our selection included applicant investigation fee

payments. We found payments were proper, in accordance with applicable statutes, and deposited timely.

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.

Certain Administrative Controls Can Be Strengthened

Improvements can be made to strengthen the Board's administrative controls. Investigation payments received in the Board's Carson City office should be adequately stored prior to deposit. Improvements over outside bank accounts are needed to ensure deposits are made timely, accounts are properly administered, and inactive accounts are closed. Furthermore, accounts receivable reporting can be more consistent. Enhanced processes provide assurance assets are safeguarded and reports are consistent and accurate.

Safeguarding of Investigation Payments Can Be Improved

Improvements can be made to the safeguarding of investigation payments received at the Board's Carson City office. Payments received during our audit were stored in an unlocked filing drawer in the office's reception area. Although the office is secure from the general public, all employees can access the drawer where checks are stored. During our audit, we observed checks were accessible when employees were not present. The office receives checks worth thousands of dollars regularly, so adequate safeguarding of these items is important. During fiscal year 2010, the office received and deposited checks totaling over \$600,000.

State accounting policies and procedures recommend safekeeping devices be limited to as few people as possible. In addition, NRS 353A.020 requires access be allowed to only employees who need access to assets to perform their duties. Checks were not restricted because policies and procedures do not adequately address the storage of checks and access controls. Not securely storing checks increases the risk that they could become lost or stolen.

Revisions to Processes Over Bank Accounts Needed

The Board has established four outside bank accounts throughout the state to help carry out its activities. However, improvements are needed to ensure deposits are made timely, accounts are being properly administered, and dormant accounts are closed. Outside bank accounts are at increased risk for misuse, so strong controls are necessary to ensure funds are properly maintained and used.

Some Deposits Untimely

The Board's Administration Division did not always deposit reimbursements timely into its investigative travel account. NRS 353.250 requires agencies to make deposits by Thursday of each week for all money received during the previous week. When deposits are untimely, the risk of loss or theft increases. We reviewed ten deposits totaling \$177,000 made into the Board's various bank accounts and found six deposits containing \$33,000 in checks that were deposited between 1 and 6 days late.

The investigative travel account was created by NRS 463.331 for the purpose of paying all expenses incurred by the Board and Commission for investigation of an applicant for a license. The account is funded with monies received by the State from applicants. Receipts are related to State and employee reimbursements for travel necessary to complete each investigation. Deposits were not timely because of employee turnover and new staff being unaware of the timeframe for which deposits must be made. However, the Board indicated staff have been trained and are cognizant of deposit requirements. The Board is making an effort to ensure all deposits are made in accordance with requirements.

Revisions to Processes Necessary

The Board has established certain bank accounts to carry out its activities. However, changes are needed to ensure these accounts are being used as intended and closed if no longer needed.

The administration of one outside bank account did not comply with state law. NRS 463.330 established a revolving account in the amount of \$10,000 to cover investigative activities relating to

the enforcement of certain gaming regulations. Statutes provide that to fund the account a warrant in the amount of \$10,000 must be requested by the Board Chairman and deposited into the account. After the expenditure of money from the account, the Chairman shall present a claim to the State Board of Examiners for the amount of the expenditure to be replaced in the account.

Our testing showed the Board used a different process regarding the administration of the account. Even though the process utilized by the Board to administer the account included sufficient controls to ensure funds were properly used and controlled, it did not comply with statute. For example, the Board obtained and deposited all funding for each fiscal year, which resulted in the bank balance exceeding \$10,000. Furthermore, claims were not submitted to the Board of Examiners because the reimbursement of expenditures was not necessary since the account was funded in full at the beginning of the year. Additionally, the Board reverted a significant portion of unused funding, because all authorized amounts were not needed. The Board should bring statutes and processes regarding the account into alignment to ensure funds are maintained and administered as anticipated.

In addition, the Board has an outside bank account that is no longer necessary and has not been used for several years. NRS 463.332 established the account for use in undercover investigations relating to alleged or suspected violations of gaming regulations concerning cash transactions of licensees. In 2007, the United States Patriot Act moved the responsibility of monitoring these activities to the federal government, and the regulation related to these investigative activities was repealed. As a result, the need for this account also ceased. However, the balance in the account has remained at \$40,000, even though no activity has occurred since April 2007. Since the account has been dormant for over 3 years, we recommend the Board close the account and transfer funds to the originating account.

**Accounts
Receivable
Reporting Not
Consistent**

The Board's Tax and License Division did not report accounts receivable consistently amongst state agencies. As of June 30, 2010, the Tax and License Division reported \$97,000 in receivables to the State Controller and \$1,892,000 to the

Legislative Counsel Bureau. The difference consisted of adjustments for uncollectible accounts, accounts submitted to the State Controller for collections, and timing differences when internal receivable reports were run. Providing conflicting information can create confusion, result in misinformed decisions, and question the reliability of the reported data.

Receivables were not consistently reported because the Tax and License Division lacks policies and procedures for defining and reporting accounts receivable. State Accounting Policies and Procedures require agencies to develop policies and procedures establishing a definition of accounts receivable based on the type of revenue it collects and the statutory requirements associated with its collection. Submitting consistent receivable reports will provide users of this information an accurate accounting of debts owed to the State.

Recommendations

1. Secure investigation payments prior to deposit.
2. Deposit reimbursements into the investigative travel account in a timely manner.
3. Align Board policies and procedures with state law for the administration of the revolving bank account.
4. Take necessary actions to close the inactive bank account.
5. Develop accounts receivable procedures, including the definition of a Board receivable, to ensure accurate and consistent reporting to other state agencies.

Appendix A

Audit Methodology

To gain an understanding of the Gaming Control 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 Gaming Control Board, 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 external peer reviews of the Audit Division and internal reviews of each division's policies and procedures. We then identified the Audit Division's key performance measures and performed an analytical review of these measures. Furthermore, we documented and assessed the Board's collection and certain administrative controls.

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 compliance with certain regulations applicable to our objective. We verified written reports of compliance with the minimum internal control standards and internal control updates were submitted timely to the Board. We also verified financial statements were submitted as required. We then confirmed an audit was performed, a 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 2009 and 2010 schedule for internal control reviews to verify reviews were performed in accordance with Board Directive.

We then evaluated the reliability of the Audit Division's key performance measures. This included reviewing all fiscal year 2010 audit reports to verify the number of audits performed, average audit period, number of unqualified opinions, total

assessments, and operating audit cycle. To verify the accuracy of audit hours reported in the agency'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 gross gaming and gaming tax revenues, 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, tested for mathematical accuracy, and compared the number of auditors to the Board's organizational chart.

To determine if collection and administrative controls over certain assets were adequate, we judgmentally selected 60 gaming tax transactions from Group I licensees. These licensees make up 96% of gross revenue. Our selection included an even distribution throughout fiscal year 2010 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. We then verified payments were deposited timely and properly recorded in the Board's computer system and state's accounting system. Next, we reviewed five accounts receivable transactions for compliance with policies and procedures, and determined if accounts receivable 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 also reviewed collection processes and evaluated the safeguarding of payments at the Board's Carson City, Las Vegas, and Reno offices.

We then verified the Board's computer system accurately calculated the amounts recorded to each tax category. This included selecting five journal vouchers, tracing amounts to supporting documents, and verifying the 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 properly deposited and recorded.

We also reviewed the Board's outside bank accounts for compliance with state law. We determined whether all outside bank accounts had been properly authorized, accounts were in the name of the State of Nevada, and bank statement reconciliations had been performed and submitted to the Controller's Office. For each account, we also verified the numerical sequence of checks and inspected all voided checks to ensure they had been retained and permanently defaced. In addition, we selected 20 disbursements and 10 receipts proportionally from all accounts and traced to supporting documents to verify amounts were properly authorized and used as intended.

Our audit work was conducted from April to October 2010. 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 Chairman of the Gaming Control Board. On February 15, 2011, we met with agency officials to discuss the results of the audit and requested a written response to the preliminary report. That response is contained in Appendix C which begins on page 21.

Contributors to this report included:

Tammy A. Goetze, CPA
Deputy Legislative Auditor

Shannon Ryan, CPA
Audit Supervisor

Gary J. Kulikowski, CPA
Deputy Legislative Auditor

Appendix B

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 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 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.

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

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.

(Added to NRS by 1967, 1277)

Appendix C

Response From the Gaming Control Board



BRIAN SANDOVAL
Governor

STATE OF NEVADA
GAMING CONTROL BOARD

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MARK A. LIPPARELLI, *Chairman*
A.G. BURNETT, *Member*
SHAWN R. REID, *Member*

February 22, 2011

Carson City
(775) 684-7742
Fax: (775) 687-8221

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

Dear Mr. Townsend:

As you have requested, the Board has reviewed the Legislative Counsel Bureau's ("LCB") preliminary audit report, including your recommendations. We have accepted all of your recommendations and have made the necessary changes to our operations and internal controls as outlined in your preliminary report. One item of note since the completion of the audit, the Corporate Securities Division has been merged into the Investigations Division as a separate section within that division. The effective date of the change was February 14, 2011.

Listed below is the Board's response to LCB's 2010 audit recommendations.

Recommendation #1: "Secure investigation payments prior to deposit."

Board Response – Accept Recommendation

This finding was immediately addressed upon notification by requiring support staff to secure checks in a locked drawer at all times prior to deposit.

Recommendation #2: "Deposit reimbursements into the investigative travel account in a timely manner."

Board Response – Accept Recommendation

As discussed with the auditor, we had a number of deposits not made in a timely manner. Due to the abolishment of one position, and a vacancy in a second position during part of the audit period, we had a simple miscommunication in shifting duties to other staff. We have reviewed the process with staff to ensure future compliance.

LCB Audit Response
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The checks from the Controller's office to the Investigative Travel Fund are now processed via direct deposit. This will save time and avoid future deposit issues as these checks no longer have to be picked up at the Controller's office. The deposits are made electronically and we are sent an e-mail receipt to make the entry to our Board checkbooks.

Recommendation #3: "Align Board policies and procedures with state law for the administration of the revolving bank account."

Board Response – Accept Recommendation

The Board has been following its current process for several decades, although the current process does not match up with the Chairman's Fund statute (NRS 463.330). The auditor's concerns were not with the way we manage the account, but rather the inconsistency with statute. Currently, we issue three \$10,000 checks to the checking account at the first of the fiscal year, so the entire authorized amount goes into the account at the beginning of the fiscal year. Under the statute we would need to request and then spend \$10,000 prior to being able to request additional funds. This method is not optimal as it could interrupt an investigation in progress when the initial \$10,000 is depleted. The Board has submitted a bill draft request to align the statute with current practice so that the entire amount can be put into the Investigative Fund at the beginning of each fiscal year.

Recommendation #4: "Take necessary action to close the inactive bank account."

Board Response – Accept Recommendation

NRS 463.332(1) presently provides the account is a "continuing account" and money does not revert to the General Fund. The Board has submitted a bill draft request to repeal this statute. The account must remain open until such time as the Nevada Legislature repeals the statute authorizing the account. Once that is done, we will close the account and transfer the funds into the State General Fund.

LCB Audit Response
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Recommendation #5: “Develop accounts receivable procedures, including the definition of a Board receivable, to ensure accurate and consistent reporting to other state agencies.”

Board Response – Accept Recommendation

Differences between the accounts receivable amounts submitted to the State Controller’s Office and LCB is the result of timing differences in when the amounts were reported and the reporting requirements for the two state agencies are not comparable.

The Board’s Tax and License Division has developed written accounts receivable procedures to ensure accurate and consistent reporting. These procedures are included within the Tax and License Division Internal Control Procedures, which includes the definition of a Board receivable.

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.

Sincerely,



Mark A. Lipparelli
Chairman

MAL:FS.kc

cc: A.G. Burnett, Member
Shawn R. Reid, Member
Frank Streshley, Chief - Tax and License Division
Mike LaBadie, Chief - Investigations Division
Stacy Woodbury, Chief - Administration Division

Gaming Control Board's Response to Audit Recommendations

<u>Recommendations</u>	<u>Accepted</u>	<u>Rejected</u>
1. Secure investigation payments prior to deposit	<u> X </u>	<u> </u>
2. Deposit reimbursements into the investigative travel account in a timely manner	<u> X </u>	<u> </u>
3. Align Board policies and procedures with state law for the administration of the revolving bank account	<u> X </u>	<u> </u>
4. Take necessary actions to close the inactive bank account	<u> X </u>	<u> </u>
5. Develop accounts receivable procedures, including the definition of a Board receivable, to ensure accurate and consistent reporting to other state agencies	<u> X </u>	<u> </u>
TOTALS	<u> 5 </u>	<u> </u>