

STATE OF NEVADA  
LEGISLATIVE COUNSEL BUREAU

LEGISLATIVE BUILDING  
401 S. CARSON STREET  
CARSON CITY, NEVADA 89701-4747  
Fax No.: (775) 684-6600



LEGISLATIVE COMMISSION (775) 684-6800  
RANDOLPH J. TOWNSEND, *Senator, Chairman*  
Lorne J. Malkiewich, *Director, Secretary*

INTERIM FINANCE COMMITTEE (775) 684-6821  
MORSE ARBERRY, JR., *Assemblyman, Chairman*  
Mark W. Stevens, *Fiscal Analyst*  
Gary L. Ghiggeri, *Fiscal Analyst*

LORNE J. MALKIEWICH, *Director*  
(775) 684-6800

PAUL V. TOWNSEND, *Legislative Auditor* (775) 684-6815  
ROBERT E. ERICKSON, *Research Director* (775) 684-6825  
BRENDA J. ERDOES, *Legislative Counsel* (775) 684-6830

Legislative Commission  
Legislative Building  
Carson City, Nevada

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

We wish to express our appreciation to the management and staff of the Nevada Athletic Commission for their assistance during the audit.

Respectfully presented,

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

Paul V. Townsend, CPA  
Legislative Auditor

September 15, 2003  
Carson City, Nevada

STATE OF NEVADA  
DEPARTMENT OF BUSINESS AND INDUSTRY  
NEVADA ATHLETIC COMMISSION

AUDIT REPORT

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# **EXECUTIVE SUMMARY**

## **DEPARTMENT OF BUSINESS AND INDUSTRY NEVADA ATHLETIC COMMISSION**

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### **Background**

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The Nevada Athletic Commission was established in 1941 and became a part of the Department of Business and Industry in 1993. The five-member Commission is appointed by the Governor to regulate all contests or exhibitions of unarmed combat held or given in the State of Nevada. The Commission's primary means of regulation is the licensing of all contestants, promoters, managers, seconds, trainers and ring officials who hold or participate in any professional contest or exhibition.

The Commission maintains an office in Las Vegas where it employs an executive director and three staff members. In fiscal year 2002, the Commission regulated 154 events, issued 2,317 licenses, and collected about \$1,830,000 in permit and license fees which were deposited directly to the General Fund. During the same time, the Commission expended approximately \$428,000.

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### **Purpose**

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The purpose of this audit was to evaluate the Commission's financial and administrative practices, including whether activities were carried out in accordance with applicable laws, regulations, and policies. Our audit included a review of the Commission's financial and administrative activities for the fiscal year ended June 30, 2002, and activities through February 2003 for certain issues.

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### **Results in Brief**

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The Nevada Athletic Commission needs to improve its financial and administrative practices. By clarifying

## EXECUTIVE SUMMARY

### DEPARTMENT OF BUSINESS AND INDUSTRY NEVADA ATHLETIC COMMISSION

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regulations and improving agency revenue collection procedures, the Commission can help ensure promoters' event fees are computed correctly, collected in accordance with statutory requirements, and supported by required documentation. The Commission also needs to ensure all charges to its outside bank account are appropriate. During fiscal year 2002, expenditures totaling about \$2,000 that should have been charged to the Commission's budget account were charged to the bank account. Furthermore, procedures have not been established to ensure unclaimed cash deposits are properly disposed of and that performance measures are reliable.

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## Principal Findings

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- When determining event fees, regulations allow promoters to exclude complimentary tickets totaling up to 4% of the seating capacity. However, regulations and agency procedures do not provide sufficient guidance on how the exemption should be applied. As a result, complimentary ticket exemptions were not always computed equitably and correctly. For example, the Commission allocated the exemption to the most expensive seats, thus reducing the amount paid for an event. In one instance, we estimate the promoter would have paid almost \$1,400 in additional fees if a more equitable method was used. (page 7)
- Commission personnel, instead of the promoter, prepare the event fee filing report and send the report to the promoter for verification and payment. Although these fees must be paid within 10 days of the event, this process results in an average reporting and payment period of 18 days. Furthermore, this process results in the inefficient use of staff resources. (page 7)

## EXECUTIVE SUMMARY

### DEPARTMENT OF BUSINESS AND INDUSTRY NEVADA ATHLETIC COMMISSION

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- Promoters that sell or lease their broadcasting rights are required to file a copy of the contract with the Commission and pay a percentage of the total amount received, up to a maximum fee of \$50,000. However, the Commission did not have copies of the sales contracts from four promoters that remitted fees totaling \$4,700. Without contracts on file, the Commission cannot confirm the accuracy of these fees. (page 9)
- The Commission improperly used its outside bank account to deposit unauthorized revenue to pay employee overtime and inspector fees totaling \$2,100. These expenditures should have been recorded in the Commission's budget account—not the outside bank account. As a result, these receipts and expenditures were never recorded in the Commission's budget account. (page 10)
- The Commission continues to hold cash performance deposits totaling \$30,000 from promoters who are no longer in business or have not been licensed for more than 3 years. State law requires unclaimed property to be turned over to the State Treasurer's Office. (page 10)
- Two of the agency's four fiscal year 2002 performance measures reported in the Executive Budget were unreliable. These measures reported the number of events regulated and licenses issued and were understated by 18% and 40%, respectively. According to agency personnel, they reported the estimated amounts rather than the actual. Unreliable performance measures can misrepresent the actual results of the Commission's operational and financial activities. As a result, key budget and policy decisions could be based on erroneous and incomplete data. (page 11)

**EXECUTIVE SUMMARY**

**DEPARTMENT OF BUSINESS AND INDUSTRY  
NEVADA ATHLETIC COMMISSION**

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**Recommendations**

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This report contains eight recommendations to improve the Commission's financial and administrative practices. Specifically, the Commission needs to clarify regulations and develop policies and procedures to improve the efficiency and effectiveness of the promoters' fee collection process. In addition, the Commission should assess only those fees authorized by law, use the outside bank account for its authorized purpose, transfer unclaimed cash performance deposits to the State Treasurer, and ensure performance measures are reliable. (page 18)

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**Agency Response**

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This agency, in its response to our report, accepted all eight recommendations. (page 16)

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# Introduction

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## Background

The Nevada Athletic Commission was established in 1941 and became a part of the Department of Business and Industry on October 1, 1993. The Commission is a five-member body appointed by the Governor to regulate all contests or exhibitions of unarmed combat held or given in the State of Nevada. Generally, unarmed combat includes boxing, wrestling, and martial arts.

The Commission's primary means of regulation is the issuance of:

- licenses to hold contests or exhibitions where an admission fee is charged, and
- licenses to all contestants, promoters, managers, seconds, trainers, and ring officials who participate in any professional contest or exhibition.

The Commission maintains an office in Las Vegas where it employs an executive director and three staff. In fiscal year 2002, the Commission regulated 154 events, issued 2,317 licenses, and collected about \$1,830,000 in permit and license fees which were deposited directly to the General Fund. During the same time, the Commission expended approximately \$428,000. Exhibit 1 shows a 5-year analysis of the Commission's revenue collections and expenditures.

**Nevada Athletic Commission  
Analysis of Revenue and Expenditures  
Fiscal Years 1998 Through 2002**

	<b>FY 1998</b>	<b>FY 1999</b>	<b>FY 2000</b>	<b>FY 2001</b>	<b>FY 2002</b>	<b>Totals</b>
<b>Revenue:</b>						
Fees/Licenses	\$ 983,358	\$ 1,600,478	\$ 2,819,325	\$ 2,853,655	\$ 1,829,638	\$ 10,086,454
Ticket Surcharge <sup>(1)</sup>	52,108	87,187	93,884	126,608	61,454	421,241
<b>Total Revenue</b>	<b>\$ 1,035,466</b>	<b>\$ 1,687,665</b>	<b>\$ 2,913,209</b>	<b>\$ 2,980,263</b>	<b>\$ 1,891,092</b>	<b>\$ 10,507,695</b>
<b>Expenditures:</b>						
Operating <sup>(2)</sup>	\$ 274,169	\$ 291,868	\$ 297,760	\$ 299,959	\$ 328,951	\$ 1,492,707
Amateur Boxing Grants <sup>(1)</sup>	45,622	62,845	99,417	89,211	98,731	\$ 395,826
<b>Total Expenditures</b>	<b>\$ 319,791</b>	<b>\$ 354,713</b>	<b>\$ 397,177</b>	<b>\$ 389,170</b>	<b>\$ 427,682</b>	<b>\$ 1,888,533</b>
<b>Excess Revenue</b>						
<b>Over Expenditures</b>	<b>\$ 715,675</b>	<b>\$ 1,332,952</b>	<b>\$ 2,516,032</b>	<b>\$ 2,591,093</b>	<b>\$ 1,463,410</b>	<b>\$ 8,619,162</b>

Source: State accounting system.

(1) Ticket surcharges provide funds for amateur boxing grants.

(2) Operating costs are funded by General Fund appropriations.

## Scope and Objective

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

This audit included a review of the Nevada Athletic Commission's financial and administrative activities for the fiscal year ended June 30, 2002, and activities through February 2003 for certain issues. The objective of our audit was to evaluate the Commission's financial and administrative practices, including whether activities were carried out in accordance with applicable laws, regulations, and policies.



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## **Findings and Recommendations**

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The Nevada Athletic Commission needs to improve its financial and administrative practices. By clarifying regulations and improving agency revenue collection procedures, the Commission can help ensure promoters' event fees are computed correctly, collected in accordance with statutory requirements, and supported by required documentation. The Commission also needs to ensure all charges to its outside bank account are appropriate. During fiscal year 2002, expenditures totaling about \$2,000 that should have been charged to the Commission's budget account were charged to the bank account. Furthermore, procedures have not been established to ensure unclaimed cash deposits are properly disposed of and that performance measures are reliable.

### **Fee Reporting Process Can Be Improved**

The lack of adequate guidance in the Commission's regulations and procedures has created a complex process for computing and collecting promoters' event fees. As a result, these fees were not always computed correctly. In addition, the complexity has resulted in Commission staff, instead of the promoter, preparing the license fee filing reports. Besides being an inefficient use of staff time, this process prohibits most promoters from paying their fees in the time required by law. Finally, the Commission did not always have sufficient documentation supporting promoters' fees for the sale of broadcasting rights. Without proper documentation, the Commission has limited assurance all fees have been collected.

#### **Fees Not Always Computed Correctly and Paid Timely**

Promoters of unarmed combat contests and exhibitions are required to pay a 4% fee on the total face value of the tickets issued for each event. Regulations allow a promoter to exclude certain complimentary tickets totaling up to 4% of the seating capacity when determining the fee. However, the complimentary ticket exemption was not always computed correctly. As a result, some promoters paid more than required.

Furthermore, the Commission's process for calculating and collecting these fees almost doubles the time required by statute. The longer a promoter has to pay, the higher the risk of nonpayment.

Using ticket sale information provided by a promoter, Commission personnel determine the fees due by preparing an event fee filing report and then billing the promoter for the amount due. However, regulations do not provide sufficient guidance on how the complimentary ticket exemption should be applied. In addition, the Commission has not established policies and procedures to help ensure complimentary tickets are deducted in a consistent and equitable manner. As a result, we noted the following:

- Promoters did not submit all information the Commission needed to consistently determine licensing fees. In 6 of the 15 events we examined, promoters reported the number of tickets issued—not the venue's seating capacity. As a result, these promoters paid more than required. According to Commission personnel, promoters have been informed the exemption is based on the seating capacity. However, the Commission has not developed a standard reporting form to help ensure promoters receive the authorized exemption.
- The methodology used to determine the complimentary ticket exemption has a direct effect on the amount of fees collected. However, regulations do not provide sufficient guidance on how to allocate the exemption to the various ticket prices charged for each event. Consequently, Commission staff allocate the exemption to the most expensive seats, thus reducing the promoter's event fees. However, if the exemption was applied across all price levels, a promoter would pay additional fees. For instance, we noted one event where the promoter would have paid almost \$1,400 more based on this method.
- Two promoters that paid a total of \$2,100 did not receive a deduction for complimentary tickets because documentation supporting the number of tickets was determined to be insufficient. As a result, they paid a total of \$200 more than required. However, two other promoters were allowed a deduction despite submitting the same level of detail.

Although these weaknesses did not result in significant over and under collections of fees, promoters' event fees should be computed equitably. Therefore,

policies and procedures and a standard complimentary ticket reporting form should be established to provide clear and consistent guidance.

Because the Commission prepares the event fee filing report and bills promoters for the amount due, it has developed an inefficient process. First, the Commission cannot prepare the report until the promoter submits the number and value of the tickets sold and issued as complimentary. After the report is prepared, it is mailed to the promoter for verification and payment. This process results in an average reporting and payment period of 18 days after the event occurred. However, NRS 467.109 requires a promoter to pay the fee and remit the verified report within 10 days of the event. Furthermore, this process results in the inefficient use of staff resources. By assuming the promoter's reporting responsibility, staff has increased their workload and created significant accounts receivable balances since they prepare a billing for each event. For example, the June 30, 2002, receivable balance was \$187,000.

#### **Records Not Always Available to Support Fees Paid**

The Commission did not always have adequate records to support the amount of event fees due from certain promoters. A promoter that sells or leases the broadcasting rights to an event is required to pay the Commission a percentage of the total amount received, up to a maximum fee of \$50,000. In addition, the promoter must file a copy of the sales or lease contract with the Commission at least 72 hours before the contest or exhibition. However, the Commission has not established procedures to ensure all promoters comply with the filing requirement. As a result, the Commission did not have contracts from four promoters that sold their broadcasting rights and paid fees totaling \$4,700. Without contracts on file, the Commission cannot confirm the event fees for the sale of broadcast rights have been computed correctly.

#### **Recommendations**

1. Revise regulations to clarify and simplify the calculation of complimentary tickets exempted from event fees.
2. Develop written procedures and a standard reporting form to help ensure complimentary ticket regulations are applied equitably and consistently.
3. Discontinue preparing promoters' license fee reports.

4. Establish procedures to help ensure contracts for the sale or lease of broadcasting rights are filed with the Commission.

### **Improper Use of Outside Bank Account**

The Commission improperly used its outside bank account to deposit unauthorized revenue and to pay employee overtime and inspector fees. The outside bank account was authorized to remove the appearance of conflict of interest between promoters and licensed officials. The Commission deposits payments from the promoters into the account and disburses the payments to these licensed officials. Licensed officials consist of referees, judges, timekeepers, and ringside physicians. Inspectors and employees are not licensed officials and are funded through the Commission's General Fund appropriation.

According to agency personnel, the volume of fiscal year 2002 regulated events resulted in a projected shortfall in the Commission's budget. Therefore, the Commission obtained a \$6,900 allocation from the Interim Finance Committee Contingency Fund in April 2002. Furthermore, the agency assessed certain promoters \$2,100 for inspector fees and staff overtime, despite lacking statutory authority to do so. These unauthorized assessments were deposited in the outside bank account. As a result, \$2,100 in assessment revenue and expenditures were never recorded in the Commission's budget account. In addition, charging certain promoters for inspector fees and staff overtime is inequitable since these expenditures are to be paid with General Fund appropriations.

### **Recommendations**

5. Assess only those fees authorized by law.
6. Use the outside bank account for its authorized purpose.

### **Unclaimed Cash Deposits**

Prior to receiving a license to hold an unarmed combat event in which admission fees are charged, the applicant must file a performance bond in an amount fixed by the Commission, but not less than \$10,000. In lieu of a bond, the applicant can provide

cash that must be deposited in the Commission's agency account. Although our testing revealed licensed promoters had filed the appropriate bond, the Commission continues to hold cash deposits totaling \$30,000 from promoters that have not been licensed for more than 3 years.

NRS Chapter 120A requires all intangible personal property held by a state governmental entity that has remained unclaimed for more than 3 years be delivered to the Abandoned Property Trust Fund that is administered by the State Treasurer. If the holder of the property knows the whereabouts of the owner, the holder must communicate with the owner and take necessary steps to prevent abandonment from being presumed. According to Commission staff, two of the bonds are from promoters that are no longer in business and the third is from a promoter that has not responded to attempts to return it. Therefore, the Commission should transfer the cash deposits in accordance with NRS Chapter 120A.

**Recommendation**

- 7. Transfer unclaimed cash performance deposits to the State Treasurer as required by law.

**Unreliable Performance Measures**

The Commission has not established procedures for developing performance measures. Consequently, two of the agency's four fiscal year 2002 performance measures reported in the Executive Budget for fiscal years 2004 and 2005 were unreliable. Exhibit 2 shows the differences between the unreliable performance measures reported in the Executive Budget and our review of agency records.

**Exhibit 2**

**Nevada Athletic Commission  
Unreliable Fiscal Year 2002 Performance Measures**

<b>Performance Measure</b>	<b>Reported in Executive Budget</b>	<b>Per Auditor Review</b>	<b>Percentage Under Reported</b>
Number of fight cards/bouts for each type of event regulated.	131 / 281	154 / 449	(18%) / (60%)
Number of licenses issued for all events.	1,653	2,317	(40%)

Source: Executive Budget for fiscal years 2004 and 2005 and agency records.

According to agency personnel, the numbers reported were estimates rather than actual. However, state policy requires that performance measures be reliable and supported with adequate documentation. Unreliable performance measures can misrepresent the actual results of the Commission's operational and financial activities. As a result, key budget and policy decisions could be based on erroneous and incomplete data.

**Recommendation**

8. Develop procedures to ensure performance measures are reliable.

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# Appendices

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## Appendix A Audit Methodology

To gain an understanding of the Nevada Athletic Commission, we interviewed agency staff and reviewed statutes, regulations, and policies and procedures significant to the Commission's financial and administrative practices. We also reviewed financial reports, budgets and minutes of legislative committees and Athletic Commission meetings. Furthermore, we documented and assessed the adequacy of the agency's internal controls as of February 2003.

To accomplish our audit objective, we randomly selected and tested 20 deposit transactions to determine if revenue was assessed, collected, and deposited in accordance with statutory and regulatory requirements. In addition, we selected a total of 12 deposits from fiscal years 2001, 2002, and 2003 to verify that the transactions were recorded in the proper fiscal year. To determine if the agency's accounts receivable records were accurate and collection efforts were effective, we randomly selected a total of 10 invoices and traced them to supporting documentation and the corresponding deposits to applicable accounts receivable records.

For non-payroll expenditures, we randomly selected and tested 20 expenditure transactions to ensure they were properly supported, accounted for, and complied with applicable laws, regulations, and policies. To verify expenditures were recorded to the proper fiscal year, we tested a total of 12 transactions from fiscal years 2001, 2002, and 2003. In addition, we tested five contracts for required approvals and compliance with laws, regulations, and contract terms.

To verify that the Commission complied with applicable personnel and payroll laws, regulations, and policies, we randomly selected four pay periods. We reviewed payroll records for all employees and Commission members to determine that the Commission followed regulations governing the use of overtime and compensatory time

and that payroll expenditures were accurately recorded. We also verified that all classified employees had work performance standards and received evaluations.

To determine if the Commission's outside bank account was properly authorized and controlled, we examined the State Board of Finance minutes and the year-end reconciliation. We also randomly selected 10 invoices for officials' fees and traced the receipts to bank deposits and the subsequent disbursements to the appropriate officials. To verify the accuracy of surety bonds and other security deposit records, we traced a total of 20 security documents to and from the Commission's license records. We also determined all equipment was properly reported in the State's inventory records. Finally, we verified the reliability of the Commission's performance measures reported in the Executive Budget by reviewing the performance data obtained from agency records.

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

In accordance with NRS 218.821, we furnished a copy of our preliminary report to the Director of the Department of Business and Industry and the Executive Director of the Athletic Commission. On August 27, 2003, 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 16.

Contributors to this report include:

Gary Kulikowski, CPA  
Deputy Legislative Auditor

Michael O. Spell, CPA  
Audit Supervisor

Stephen M. Wood, CPA  
Chief Deputy Legislative Auditor



## **Appendix B**

### **Prior Audit Recommendations**

Our 1995 audit of the Nevada Athletic Commission contained three recommendations. Two of the three were within the scope of the current audit. As part of our audit, we assessed the implementation of these recommendations and determined that both have been partially implemented. These recommendations relate to developing written policies and procedures to ensure compliance with applicable laws and regulations and Commission's policies. We have modified and repeated these recommendations in this audit report.

## Appendix C

### Response From the Nevada Athletic Commission



KENNY C. GUINN  
*Governor*

STATE OF NEVADA  
DEPARTMENT OF BUSINESS AND INDUSTRY  
**ATHLETIC COMMISSION**

MARC RATNER  
*Executive Director*

Chairman: Dr. Luther Mack • Members: Tony Alamo, M.D., Skip Avansino, John R. Bailey, Edwin "Flip" Homansky, M.D.

September 3, 2003

Legislative Counsel Bureau  
401 W. Carson Street  
Carson City NV 89701

Attn: Paul Townsend, CPA  
Legislative Auditor

RE: Preliminary audit report response

Pursuant to NRS 218.821 attached herewith is our written statement of explanation to the audit report and the page entitled "Nevada Athletic Commission Response to Audit Recommendations.

It was a pleasure to meet with you and your staff to discuss the preliminary audit report.

Sincerely,

A handwritten signature in black ink, appearing to read "M. Ratner".

Marc Ratner  
Executive Director

Cc: All Commissioners  
Keith Kizer, Chief Deputy Attorney General  
Sydney Wickliffe, Director Dept. of Business & Industry

1. Revise regulations to clarify and simplify the calculation of complimentary tickets exempted from gross receipts: The Commission will address the regulation that is currently in effect at a hearing in October and will try to change the wording to make the regulation easier to enforce and interpret.
2. Develop written procedures and a standard reporting form to help ensure complimentary ticket regulations are applied equitably and consistently. Once the regulation has been changed or clarified we will look at a procedure to apply the exemption equally and consistently.
3. Discontinue preparing promoter's license fee reports. This is in regards to the fee that is paid to the commission based on the gate reconciliation after the event on the sale of tickets. We will try to develop a template based on the regulations that will allow the promoter or venue to file the report and pay the fee at the same time. However the reason it was done this way to make the process quicker, to audit the box off reconciliation prior to the submission of the fees. This still may be the best way to accomplish this task and we may revert to it if the new procedure is not practical.
4. Establish procedures to help ensure contracts for the sale or lease of broadcasting rights are filed with the Commission. The agency will try to set up a procedure to ensure that the contract or a letter regarding the broadcast rights is given to us at the time of the television payment fee.
5. Assess only those fees authorized by law. The Commission will no longer assess fees regarding the payment of fees to inspectors to work events to promoters.
6. Use the outside bank account for its authorized purpose. No fees for payments to inspectors will be put in this account or any other moneys except official's fees.
7. Transfer unclaimed cash performance deposits to the State Treasurer as required by law. Staff is in the process of working with one of the owners to redeem the deposit on file and the balance will be transferred to unclaimed property.
8. Develop procedures to ensure performance measures are reliable. Staff will work to develop more meaningful performance measures and to verify the final numbers prior to using them in future budget preparation or reports. Staff will work to develop a program to tally numbers with more accuracy.

**Nevada Athletic Commission  
Response to Audit Recommendations**

<u>Recommendation Number</u>		<u>Accepted</u>	<u>Rejected</u>
1	Revise regulations to clarify and simplify the calculation of complimentary tickets exempted from event fees ....	<u>  X  </u>	<u>      </u>
2	Develop written procedures and a standard reporting form to help ensure complimentary ticket regulations are applied equitably and consistently .....	<u>  X  </u>	<u>      </u>
** 3	Discontinue preparing promoters' license fee reports .....	<u>  X  </u>	<u>      </u>
4	Establish procedures to help ensure contracts for the sale or lease of broadcasting rights are filed with the Commission .....	<u>  X  </u>	<u>      </u>
5	Assess only those fees authorized by law.....	<u>  X  </u>	<u>      </u>
6	Use the outside bank account for its authorized purpose .	<u>  X  </u>	<u>      </u>
7	Transfer unclaimed cash performance deposits to the State Treasurer as required by law .....	<u>  X  </u>	<u>      </u>
8	Develop procedures to ensure performance measures are reliable .....	<u>  X  </u>	<u>      </u>
	TOTALS	<u>    8    </u>	<u>    0    </u>

\*\* May revert to original procedure if new procedure is not practical or efficient.