



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial Audit

Minnesota Racing Commission
Four Fiscal Years Ended June 30, 1999



Financial Audit Division

The Office of the Legislative Auditor (OLA) is a professional, nonpartisan office in the legislative branch of Minnesota State government. Its principal responsibility is to audit and evaluate the agencies and programs of state government (the State Auditor audits local governments).

OLA's Financial Audit Division annually audits the state's financial statements and, on a rotating schedule, audits agencies in the executive and judicial branches of state government, three metropolitan agencies, and several "semi-state" organizations. The division also investigates allegations that state resources have been used inappropriately.

The division has a staff of approximately fifty auditors, most of whom are CPAs. The division conducts audits in accordance with standards established by the American Institute of Certified Public Accountants and the Comptroller General of the United States.

Consistent with OLA's mission, the Financial Audit Division works to:

- Promote Accountability,
- Strengthen Legislative Oversight, and
- Support Good Financial Management.

Through its Program Evaluation Division, OLA conducts several evaluations each year and one best practices review.

OLA is under the direction of the Legislative Auditor, who is appointed for a six-year term by the Legislative Audit Commission (LAC). The LAC is a bipartisan commission of Representatives and Senators. It annually selects topics for the Program Evaluation Division, but is generally not involved in scheduling financial audits.

All findings, conclusions, and recommendations in reports issued by the Office of the Legislative Auditor are solely the responsibility of the office and may not reflect the views of the LAC, its individual members, or other members of the Minnesota Legislature.

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If you have comments about our work, or you want to suggest an audit, investigation, evaluation, or best practices review, please contact us at 651-296-4708 or by e-mail at auditor@state.mn.us



Report Summary

Financial Audit

Minnesota Racing Commission Four Fiscal Years Ended June 30, 1999

Generally, the Minnesota Racing Commission properly safeguarded assets, accurately recorded receipts and expenditures in the state's accounting system, and is in compliance with applicable finance-related provisions.

Agency Background:

The Minnesota Racing Commission, established pursuant to Minn. Stat. Chapter 240, regulates horse racing in Minnesota by enforcing laws and rules, issuing licenses, supervising the conduct of wagering, collecting, and distributing taxes imposed upon racetrack receipts, and conducting investigations and inquires.

The commission consists of nine members. The Governor appoints the members, who serve a six-year term. The Governor also appoints an executive director to serve as the chief administrative officer, directing the commission's professional staff. Richard Krueger has served as executive director since 1989.

The commission received annual state appropriations of approximately \$370,000 during the audit period. The commission deposits its receipts into the state treasury.

Financial Audit Reports address internal control weaknesses and noncompliance issues found during our audits of state departments and agencies. The scope of our work at the Minnesota Racing Commission included payroll and other administrative expenditures, collection of racing taxes and licensing fees, and the commission's administration of the Minnesota Breeders' Fund. The department's response to our recommendations is included in the report.

Minnesota Racing Commission

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Audit Participation

The following members of the Office of the Legislative Auditor prepared this report:

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Cecile Ferkul, CPA, CISA	Audit Manager
Connie Stein	Auditor-in-Charge
Tory Monson	Intern

Exit Conference

We discussed the finding and recommendation with the following staff of the Minnesota Racing Commission at an exit conference held on April 21, 2000:

Richard Krueger	Executive Director
James Filkins, Ph.D.	Commissioner
Pam Webber	Office Manager
Colleen Hurlbert	Pari-Mutuel License Coordinator



OFFICE OF THE LEGISLATIVE AUDITOR
State of Minnesota • James Nobles, Legislative Auditor

Representative Dan McElroy, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Ms. Cynthia Piper, Chair
Minnesota Racing Commission

Members of the Minnesota Racing Commission

Mr. Richard Krueger, Executive Director
Minnesota Racing Commission

We have audited the Minnesota Racing Commission for the period July 1, 1995, through June 30, 1999, as further explained in Chapter 1. Our audit scope included a review of payroll and other administrative expenses. We also reviewed racing taxes, unclaimed winning bets, license fees, and reimbursement receipts. In addition, we examined the financial activities of the Minnesota Breeders' Fund.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we obtain an understanding of internal controls relevant to the audit. The standards also require that we design the audit to provide reasonable assurance that the commission complied with provisions of laws, regulations, contracts, and grants that are significant to the audit.

This report is intended for the information of the Legislative Audit Commission and the management of the Minnesota Racing Commission. This restriction is not intended to limit the distribution of this report, which was released as a public document on May 4, 2000.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: March 15, 2000

Report Signed On: April 27, 2000

Minnesota Racing Commission

Chapter 1. Introduction

The Minnesota State Legislature established the Racing Commission in 1983. The commission operates pursuant to Minn. Stat. Section 240. Its primary responsibilities are to regulate horse racing in Minnesota by enforcing laws and rules, issuing licenses, supervising the conduct of wagering, collecting, and distributing taxes imposed upon racetrack receipts, and conducting investigations and inquiries.

The commission is comprised of nine members appointed by the Governor and confirmed by the Senate for a six-year term. The Governor also appoints an executive director to serve as the chief administrative officer. Richard Krueger has served as executive director since 1989.

The commission receives an annual appropriation to pay for payroll, contract services, and other general office expenditures. In addition, the commission receives reimbursement from Canterbury Park for the costs of providing services such as assistant veterinarians and racing stewards. Table 1-1 provides a summary of the commission's financial activity for the four fiscal years ended June 30, 1999. We discuss the commission's operating costs and the Canterbury Park reimbursement in Chapter 2.

In fiscal year 1999, the Minnesota Legislature approved the card club at Canterbury Park. Canterbury will open a 50-table card room in April 2000. The receipts from the card room will increase purses for live racing at Canterbury Park.

Minnesota Racing Commission

**Table 1-1
Summary of Financial Activity**

	Fiscal Year			
	1996	1997	1998	1999
Sources:				
General Fund Appropriations	\$370,000	\$370,000	\$371,000	\$379,000
Appropriation Cancellations	0	(68,035)	0	(3,343)
Salary Supplement Appropriation ⁽¹⁾	6,414	11,643	0	0
Balance Forward from Prior Fiscal Year	1,670	40,025	1,474	13,839
Reimbursements from Canterbury Park ⁽²⁾	<u>184,568</u>	<u>162,856</u>	<u>178,377</u>	<u>195,390</u>
Total Sources	<u>\$562,652</u>	<u>\$516,489</u>	<u>\$550,851</u>	<u>\$584,886</u>
Uses:				
Payroll	\$246,530	\$227,041	\$258,347	\$266,195
Assistant Veterinarians, Racing Stewards and Lab Fees ⁽²⁾	155,644	167,207	173,729	187,419
Contract Services	25,907	31,571	35,664	44,585
Travel and Per Diems	17,432	23,330	20,761	22,925
Other Operating Expenditures	<u>77,114</u>	<u>65,866</u>	<u>48,511</u>	<u>49,669</u>
Total Uses	<u>\$522,627</u>	<u>\$515,015</u>	<u>\$537,012</u>	<u>\$570,793</u>
Balance Forward to Next Fiscal Year	<u>\$ 40,025</u>	<u>\$ 1,474</u>	<u>\$ 13,839</u>	<u>\$ 14,093</u>

Note (1): The commission received a salary supplement from the Department of Finance in fiscal years 1996 and 1997. In fiscal years 1998 and 1999, the salary supplement was included in its General Fund appropriation.

Note (2): Canterbury Park reimburses the Minnesota Racing Commission for the costs of providing assistant veterinarians, racing stewards, and lab fees.

Source: Minnesota Accounting and Procurement System (MAPS).

General Fund Receipts

One of the functions the commission performs is to collect and deposit the taxes imposed on the racetrack and license fees for racetrack employees. The commission deposited these taxes and fees into the state's General Fund. They are not available to the commission for their operations. Chapter 3 provides more information about the receipts.

Minnesota Breeders' Fund

The commission also administered the Minnesota Breeders' Fund. The Legislature created this fund to provide an incentive to Minnesota horse breeders and owners. The fund received a percentage of the tax on wagering. The commission used the monies to provide research grants and to increase purses for races won by Minnesota owned or bred horses. Chapter 4 provides more information about the Minnesota Breeders' Fund.

Chapter 2. Payroll and Administrative Expenditures

Chapter Conclusions

The commission processed payroll in accordance with applicable bargaining unit agreements and properly recorded payroll transactions in the payroll and personnel accounting system. Payments for contractual services were reasonable, properly recorded in the state's accounting system, and were in compliance with applicable finance-related legal provisions. Also, we found that travel and per diems were reasonable, properly approved for appropriate commission activities, and within the bargaining agreement limits.

Payroll

The commission's main operating cost is payroll. The commission currently employs four full-time staff who are paid bi-weekly through the state's payroll system. The commission averaged payroll costs of about \$257,000 each year. Table 1-1, in Chapter 1, provides a summary of these expenditures for the four years ended June 30, 1999.

Our audit scope included payroll disbursements made to commission employees for the four years ended June 30, 1999. Our audit objectives for payroll focused on the following questions:

- Were commission payroll expenditures processed in accordance with applicable bargaining unit agreements?
- Did the commission verify that authorized payroll expenditures were accurately recorded in the state's accounting system?

Audit Methodology and Conclusions

We interviewed agency staff to gain an understanding of the controls in place over payroll. We analyzed payroll expenditures and tested detailed transactions.

Commission employees were paid at the proper amounts according to the applicable bargaining unit agreements and the payroll transactions were properly recorded on the state's accounting system. Severance payments were correct and paid to eligible employees.

Minnesota Racing Commission

Contract Services

The commission contracts for its computer services. The commission also contracts with assistant veterinarians, racing stewards, and testing laboratories to provide services to Canterbury Park during the live racing season. By having the commission contract for these services, rather than the racetrack, the public is assured that races are conducted and judged fairly and that the horses are healthy and meet racing standards and limitations. Canterbury Park reimbursed the commission for these costs, which averaged about \$171,000 annually.

We focused our review of these contract services, and the subsequent reimbursement, on the following objectives:

- Did the commission's contracting process comply with state contracting policies?
- Did the commission bill Canterbury Park for the cost of providing contracted services, and collect and deposit the reimbursements in accordance with state policies?
- Did the commission adequately safeguard and properly record the receipts in the state's accounting system?

Audit Methodology and Conclusions

We interviewed commission staff to gain an understanding of the controls in place over the procedures for contracting and for the processing of payments. We also conducted analytical reviews and selected sample expenditure transactions for additional testing.

The commission contracted in accordance with state policies and billed, collected, and deposited the appropriate amount of reimbursements. The commission adequately safeguarded and properly deposited the receipts in the state treasury.

Travel and Per Diem Expenditures

Our audit also included a review of the commission's travel and per diem expenditures. The commission provides members and staff with reimbursements for travel costs incurred while performing commission related activities. Commission members are also eligible for a daily per diem of \$55. Travel and per diems averaged \$21,000 a year during the audit period. We addressed the following objectives in our review of travel and per diems:

- Were travel and per diem expenditures properly approved and paid for appropriate commission activities?
- Were travel and per diem expenditures reasonable and within the bargaining agreement limits?

Minnesota Racing Commission

Audit Methodology and Conclusions

We gained an understanding of the controls over travel and per diem expenditures through interviews with commission staff. We also conducted analytical reviews and selected sample expenditure transactions for additional testing.

The commission's travel and per diem expenditures were properly approved and paid for appropriate commission activities. These expenditures were reasonable and were within the bargaining agreement limits.

Minnesota Racing Commission

Chapter 3. General Fund Receipts

Chapter Conclusions

The commission collected and deposited the appropriate amount of tax, license fees, unclaimed winning bets, and other miscellaneous fines, forfeits, and reimbursements as set forth in statute during the audit period. The commission adequately safeguarded and properly recorded the receipts in the state's accounting system, although it did not adequately separate duties over the receipt process.

Table 3-1
Summary of General Fund Revenue

	Fiscal Year			
	1996	1997	1998	1999
Racing Taxes	\$ 794,822	\$ 54,599	\$ 63,990	\$122,487
Unclaimed Winning Bets	257,088	(700)	0	548
License Fees	109,585	97,337	104,383	100,584
Fines	11,600	6,350	6,398	6,480
Forfeits	105	75	210	90
Reimbursements	<u>23,378</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Revenue	<u>\$1,196,578</u>	<u>\$157,661</u>	<u>\$174,981</u>	<u>\$230,189</u>

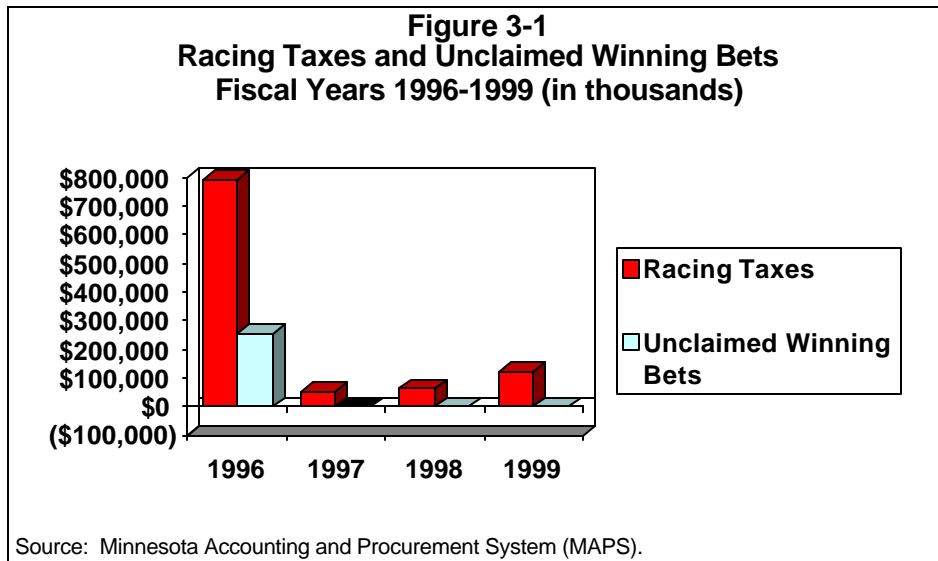
Source: Minnesota Accounting and Procurement System.

Taxes and Unclaimed Winning Bets

The Minnesota Racing Commission collected taxes from Canterbury Park Holding Corporation. Canterbury Park is a publicly traded corporation that operates a racetrack that is located in Shakopee. It is a for-profit business that is tightly regulated through state statutory provisions. The racetrack's main revenue source was from a share of the money bet on the horse races (including any winning bets not claimed after a year). Its other revenue sources were from parking, admission fees, and concessions from racing or other events held at the track. The state taxed the track's wager revenue when revenue exceeded \$12 million in a fiscal year. Usually the track exceeded its \$12 million limit in mid-May. The commission deposited these receipts into the state's General Fund. Each day the track reported to the commission its revenue from betting activities and paid the commission any tax owed.

Minnesota Racing Commission

In order to maintain the horse racing industry in Minnesota, the Legislature made statutory changes in 1996 that allowed the racetrack to be more profitable. Prior to fiscal year 1997, the statutes did not exempt the first \$12 million from the state tax and required Canterbury to submit unclaimed winning bets to the commission. Thus, the state tax and the unclaimed winning bets in fiscal year 1996 were significantly higher than in the following fiscal years. Figure 3-1 provides a summary of taxes and unclaimed winning bets the commission collected over the audit period.



License Fees

The commission licenses any racetrack employees in Minnesota to help ensure that only qualified individuals participate in horse racing. Applicants are fingerprinted and are required to provide personal information to the commission. The commission establishes the fees for occupational licenses through the rule making process. The license fee for racetracks is specified in Minn. Stat. Section 240.10. The commission issued about 2,750 licenses annually. The fees for licenses are deposited into the state's General Fund.

Scope and Objectives

We focused our review of General Fund receipts on the following objectives:

- Did the commission collect and deposit the appropriate amount of tax, unclaimed winning bets, license fees, and reimbursements?
- Did the commission adequately safeguard and properly record the receipts in the state's accounting system?

Minnesota Racing Commission

Audit Methodology and Conclusions

We interviewed commission staff to gain an understanding of the controls in place over the processing of receipts. We also performed analytical reviews and selected samples of transactions for detailed audit tests.

The commission collected the appropriate amount of taxes, unclaimed winning bets, license fees, and reimbursements. The commission adequately safeguarded and properly deposited the receipts in the state treasury.

Chapter 4. Minnesota Breeders' Fund

Chapter Conclusions

The commission collected and deposited the appropriate amount of Breeders' Fund tax as required by Minnesota Statutes. The receipts collected were adequately safeguarded and properly recorded on the state's accounting system.

Expenditures from the Breeders' Fund were made in accordance with applicable finance related legal provisions.

The commission is responsible for administering the Breeders' Fund. The primary purpose of the Breeders' Fund is to provide incentive to Minnesota horse breeders and horse owners to participate in racing in Minnesota. The fund's receipts were derived from a one percent tax on the total amount wagered on live races, and a 5.5 percent tax on simulcast races. Annually, the commission collected and deposited about \$767,000 into the fund. The receipts collected were allocated to three different areas: recouping the cost of administering the fund, equine research and grants, and awards and purse supplements for horses bred and raced in Minnesota. The allocation of the receipts is specified in Minn. Stat. Section 240.18 and Minnesota Rules, Chapter 7895.

After deducting the administrative and equine research and grant portion from the Breeders' Fund tax, the commission allocated the remaining funds to awards and purse supplements to Minnesota-bred horses and owners of the Minnesota sires of Minnesota-bred horses that finish third or better in a race. Table 4-1 provides a summary of the fund's activity for the four years ended June 30, 1999.

Minnesota Racing Commission

Table 4-1
Minnesota Breeders' Fund
Summary of Financial Activity - Fiscal Years 1996 – 1999

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
Sources:				
Receipts from Racing Taxes	\$ 733,857	\$ 802,933	\$ 772,607	\$ 758,248
Balance Forward from Prior Fiscal Year	<u>624,918</u>	<u>645,132</u>	<u>762,870</u>	<u>529,206</u>
Total Sources	<u>\$1,358,775</u>	<u>\$1,448,065</u>	<u>\$1,535,477</u>	<u>\$1,287,454</u>
Uses:				
Fund Administration:				
Payroll	\$ 13,365	\$ 12,267	\$ 12,669	\$ 15,407
Rent	3,394	0	0	0
Computer Services	4,832	0	420	1,890
Contract Services	1,040	1,428	0	0
Statewide Indirect Costs	0	2,652	3,522	3,227
Other	<u>831</u>	<u>825</u>	<u>1,212</u>	<u>2,259</u>
Total Fund Administration	\$ 23,462	\$ 17,172	\$ 17,823	\$ 22,783
Grants	9,400	37,960	41,747	33,016
Purse Supplements and Awards	<u>680,782</u>	<u>630,063</u>	<u>946,701</u>	<u>640,286</u>
Total Uses	<u>\$ 713,644</u>	<u>\$ 685,195</u>	<u>\$1,006,271</u>	<u>\$ 696,085</u>
Balance Forward to Next Fiscal Year	<u>\$ 645,131</u>	<u>\$ 762,870</u>	<u>\$ 529,206</u>	<u>\$ 591,369</u>

Source: Minnesota Accounting and Procurement System (MAPS).

Table 4-2 provides more detail of financial activity for fiscal year 1999.

Table 4-2
Minnesota Breeders' Fund
Summary of Financial Activity - Fiscal Year 1999

	<u>Fund Administration</u>	<u>Equine Research and Grants</u>	<u>Arabian ⁽¹⁾</u>	<u>Quarterhorse</u>	<u>Standardbred</u>	<u>Thoroughbred</u>	<u>Totals</u>
Sources:							
Tax Receipts	\$20,387	\$22,077	\$2,123	\$20,419	\$25,431	\$ 667,811	\$ 758,248
Balance Forward							
From Prior FY	<u>6,704</u>	<u>72,406</u>	<u>3,784</u>	<u>32,459</u>	<u>24,004</u>	<u>389,849</u>	<u>529,206</u>
Total Sources	<u>\$27,091</u>	<u>\$94,483</u>	<u>\$5,907</u>	<u>\$52,878</u>	<u>\$49,435</u>	<u>\$1,057,660</u>	<u>\$1,287,454</u>
Uses:							
Fund Administration	\$22,783						\$22,783
Grants		\$33,016					33,016
Awards and Purse Supplements	_____	_____	_____	<u>\$25,398</u>	<u>\$26,503</u>	<u>\$588,385</u>	<u>640,286</u>
Total Uses	<u>\$22,783</u>	<u>\$33,016</u>	<u>\$ 0</u>	<u>\$25,398</u>	<u>\$26,503</u>	<u>\$588,385</u>	<u>\$696,085</u>
Balance Forward							
To Next FY	<u>\$ 4,308</u>	<u>\$61,467</u>	<u>\$5,907</u>	<u>\$27,480</u>	<u>\$22,932</u>	<u>\$469,275</u>	<u>\$591,369</u>

Note (1): No Arabian horses are registered as Minnesota-bred.

Source: Minnesota Accounting and Procurement System (MAPS).

Scope and Objectives

Our audit objectives for the Minnesota Breeders' Fund were:

- Did the commission collect the appropriate amount of Breeders' Fund tax and deposit the receipts into the correct accounts?
- Did the commission comply with significant finance-related laws, policies, and Minnesota statutes and rules?
- Did the commission properly record expenditures in the accounting system?

Audit Methodology and Conclusions

We interviewed commission staff to gain an understanding of the controls in place over the processing of fund receipts and expenditures. We also conducted analytical reviews and selected sample receipt and expenditure transactions for additional testing.

The commission collected the appropriate amount of Minnesota Breeders' Fund tax and deposited the receipts into the proper account. The commission expended funds in accordance with applicable legal provisions and state policies. The commission properly recorded expenditures in the state's accounting system.

Minnesota Racing Commission

Status of Prior Audit Issues As of March 15, 2000

Most Recent Audit Report 96-32, issued in August 1996, examined the Minnesota Racing Commission's activities for fiscal years 1992, 1993, 1994, and 1995. The audit scope included a review of pari-mutuel taxes, unclaimed winning bets, license fees, and reimbursement revenues. It also included a review of payroll, professional/technical services, and administrative expenditures.

We noted the commission reimbursed some commission members for ineligible expenses. The commission implemented our recommendation to seek reimbursement from commission members who were incorrectly reimbursed and reimburse meal expenditures only when commission members are in travel status.

State of Minnesota Audit Follow-Up Process

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up on issues cited in financial audit reports issued by the Legislative Auditor. The process consists of an exchange of written correspondence that documents the status of audit findings. The follow-up process continues until Finance is satisfied that the issues have been resolved. It covers entities headed by gubernatorial appointees, including most state agencies, boards, commissions, and Minnesota state colleges and universities. It is not applied to audits of the University of Minnesota, any quasi-state organizations, such as the metropolitan agencies, or the State Agricultural Society, the state constitutional officers, or the judicial branch.



MINNESOTA RACING COMMISSION

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April 21, 2000

Mr. James R. Nobles
Legislative Auditor
Centennial Building
658 Cedar Street
St. Paul, MN 55155

Dear Mr. Nobles,

The Commission and its staff sincerely appreciate the work and assistance of your office in reviewing and evaluating the past accounting and financial performance of this Commission. As in previous audits your staff conducted themselves professionally and cordially throughout the time of this engagement. Ms. Cecile Ferkul, Ms. Connie Stein, and Mr. Tory Monson were very helpful and patient in their approach as we had many files and records for them to review and evaluate to the state's accounting procedures and controls.

Even with their thoroughness we are pleased no exceptions were found. We will continue to maintain our controls and compliance with all accounting procedures and practices.

Regards,

/s/ Richard G. Krueger

Richard G. Krueger
Executive Director

c: Commissioner James Filkins, PhD., Chair, Internal Affairs Committee