



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial Audit Division Report

Minnesota Racing Commission
July 1, 2001, through June 30, 2005



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.

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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.

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OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

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Minnesota Racing Commission

Members of the Minnesota Racing Commission

Mr. Richard Krueger, Executive Director
Minnesota Racing Commission

We conducted an audit of the Minnesota Racing Commission for the period July 1, 2001, through June 30, 2005. Our audit scope included payroll and administrative expenditures, pari-mutuel tax, license and reimbursement revenues, and Breeders' Fund activities. Our objectives focused on a review of the commission's internal controls over these financial activities and its compliance with applicable legal provisions.

The enclosed Report Summary highlights our overall audit conclusions. The specific audit objectives and conclusions for each area are contained in the individual chapters of this report.

We would like to thank staff from the Minnesota Racing Commission for their cooperation during this audit.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: July 8, 2005

Report Signed On: September 16, 2005

Minnesota Racing Commission

Table of Contents

	Page
Report Summary	1
Chapter 1. Introduction	3
Chapter 2. Payroll and Administrative Expenditures	5
Chapter 3. Revenues	7
Chapter 4. Minnesota Breeders' Fund	11
Status of Prior Audit Issues	15
Agency Response	17

Audit Participation

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

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Jeanine Leifeld, CPA, CISA	Audit Manager
Pat Ryan	Auditor-in-Charge
Patrick Phillips, CPA	Auditor
John Hakes, CPA	Auditor

Exit Conference

We discussed the results of the audit with the following representatives of the Minnesota Racing Commission at an exit conference on September 14, 2005:

Richard Krueger	Executive Director
Kristine Sundberg	Commission Member
Pam Webber	Office Manager
Colleen Hurlbert	Pari-Mutuel/License Coordinator

Minnesota Racing Commission

Report Summary

Overall Conclusion:

The Minnesota Racing Commission's internal controls were adequate, and it generally complied with material finance-related legal provisions. However, there are legal questions concerning the allocation of card club tax revenue.

Finding:

- The commission has used two different interpretations of law to distribute Breeders' Fund monies received from the Canterbury Park Card Club. (Finding 1, page 13)

The report contained one finding related to legal compliance. There were no audit findings in the prior report.

Audit Scope:

Audit Period:

July 1, 2001, to June 30, 2005

Programs Audited:

- Pari-Mutuel Tax Revenue
 - License Fee Revenue
 - Reimbursement Revenue
 - Payroll Expenditures
 - Travel and Per Diem Expenditures
 - Contract Services
 - Breeders' Fund Activities
-

Agency Background:

The Minnesota Racing Commission was established in 1983. Its primary responsibilities are to regulate horse racing in Minnesota and to regulate card club activities at Canterbury Park. Historically, the commission received General Fund appropriations to pay for its operating costs. In fiscal year 2004, the commission's funding changed to Special Revenue Fund appropriations from its license fee collections.

Minnesota Racing Commission

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Minnesota Racing Commission

Chapter 1. Introduction

The Office of the Legislative Auditor selected the Minnesota Racing Commission for audit based on an annual assessment of state agencies and programs. We used various criteria to determine the entities to audit, including the size and type of each agency's financial operations, length of time since the last audit, changes in organizational structure and key personnel, and available audit resources. It had been five years since our last audit of the commission.

Agency Overview

The Minnesota State Legislature established the Racing Commission in 1983. The commission operates pursuant to *Minnesota Statutes*, Chapter 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. In addition, the commission provides oversight of the card club that opened at Canterbury Park in April 2000.

Canterbury Park is a publicly traded corporation, which operates the racetrack located in Shakopee, Minnesota. It is a for-profit entity regulated by state law. The statutes limit the amount Canterbury can take out of betting pools and requires the track to set aside a portion for purses. However, the scope of our audit was limited to a review of the taxes, fees, and reimbursements that Canterbury is required to pay to the Minnesota Racing Commission.

All of Minnesota's gambling regulatory organizations – including the Racing Commission – were recently evaluated by our office's Program Evaluation Division. That review focused primarily on the efficiency and effectiveness of the state regulatory activities. Those issues were not included in this financial audit.

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

Historically, the commission received an annual General Fund appropriation for its operating costs. Beginning in fiscal year 2004, the commission's funding changed. Pursuant to *Minnesota Statutes*, Section 240.15, Subd. 6, the commission now deposits all license revenues into a racing and card playing regulation account in the Special Revenue Fund. The Legislature appropriates a portion of these receipts to the commission each biennium to fund the commission's operating expenditures. In addition, the commission receives reimbursement from Canterbury Park for the costs of providing services such as veterinarians, racing stewards, and payroll costs related to investigations and card club oversight.

Table 1-1 provides a summary of the commission's operating accounts for the four fiscal years ended June 30, 2005.

Minnesota Racing Commission

Table 1-1
Racing Commission Operating Accounts⁽⁵⁾
Summary of Financial Activity

	Fiscal Year			
	2002	2003	2004	2005 ⁽⁴⁾
Sources:				
General Fund Appropriations ⁽¹⁾	\$426,000	\$438,000	\$104,000	\$ 0
Appropriation Cancellations/Reductions	0	(50,948)	(104,000)	0
Special Revenue Fund Appropriations ⁽²⁾	0	0	421,000	577,000
Reimbursements ⁽³⁾	353,260	367,505	527,617	598,256
Finger Print Fees	22,800	27,288	29,580	28,952
Balance Forward In	1,826	1,810	4,200	26,649
Total Sources	<u>\$803,886</u>	<u>\$783,655</u>	<u>\$982,397</u>	<u>\$1,230,857</u>
Uses:				
Payroll	\$376,572	\$378,438	\$432,290	\$ 478,705
Contracted Services	328,835	305,150	379,100	437,939
Travel and Per Diems	12,574	10,423	15,150	23,563
Other Operating Expenditures	84,095	85,444	129,208	167,179
Balance Forward Out	1,810	4,200	26,649	123,471
Total Uses	<u>\$803,886</u>	<u>\$783,655</u>	<u>\$982,397</u>	<u>\$1,230,857</u>

- Note (1) Fiscal years 2002 and 2003 General Fund appropriations each included \$12,000 for small agency infrastructure.
- Note (2) In fiscal years 2004 and 2005, the commission received Special Revenue Fund appropriations from the racing and card playing regulation account in the Special Revenue Fund. The appropriations were from the commission's license fee collections totaling \$445,547 and \$576,486 for fiscal years 2004 and 2005, respectively.
- Note (3) As discussed in Chapter 3, Canterbury Park reimburses the Minnesota Racing Commission for the costs of providing veterinarians and racing stewards, as well as for lab fees and certain payroll costs. In addition, North Metro Harness Initiative, Inc., reimbursed the commission for investigative costs related to its license application.
- Note (4) The fiscal year 2005 expenditure amounts are cash basis through July 31, 2005. The balance forward out is the cash balance that remained at July 31, 2005.
- Note (5) This table does not include non-dedicated receipts or Breeders' Fund activity.

Source: Minnesota Accounting and Procurement System (MAPS), budget fiscal years 2002 to 2005 through July 31, 2005.

Audit Approach

Our audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of the Racing Commission's internal controls relevant to the audit objectives. We used the guidance contained in *Internal Control-Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission, as our criteria to evaluate controls. The standards also require that we plan the audit to provide reasonable assurance that the Racing Commission complied with financial-related legal provisions that are significant to the audit. In determining the commission's compliance with legal provisions, we considered requirements of laws, regulations, contracts, and grant agreements.

To meet the audit objectives, we gained an understanding of the commission's financial policies and procedures. We considered the risk of errors in the accounting records and noncompliance with relevant legal provisions. We analyzed accounting data to identify unusual trends or significant changes in financial operations. We examined documents supporting the commission's internal controls and compliance with laws, regulations, contracts, and grant provisions.

Chapter 2. Payroll and Administrative Expenditures

Chapter Conclusions

The Racing Commission's internal controls provided reasonable assurance that it properly compensated staff and other vendors, and that it accurately reported payroll and other administrative expenditures in the accounting records. For the items tested, the commission complied with applicable legal provisions.

Audit Objectives

Our review of the commission's payroll and administrative expenditures focused on the following questions:

- Did the Racing Commission's internal controls provide reasonable assurance that it accurately compensated staff and paid vendors for goods and services received and properly recorded payroll and administrative expenditures in the accounting system?
- For the payroll and administrative expenditure items tested, did the commission comply with significant finance-related legal provisions, compensation plans, and management's authorization?

Background

The Racing Commission spent approximately \$3.6 million on operations during the four-year audit period. Payroll expenditures were the largest operating cost, comprising 46 percent of the annual operating budget. The commission had nine employees at the end of fiscal year 2005. Commission employees belong to various bargaining units and compensation plans, including the American Federation of State, County, and Municipal Employees; Minnesota Association of Professional Employees; and the Commissioner's Plan.

Forty percent of the commission's spending, or about \$362,000 each year, was for contractual services. The majority of these expenditures were for veterinarians, racing stewards, and testing laboratories. According to statutory requirements, Class A licensees reimbursed about 92 percent of the commission's contractual service costs.

The commission expended about \$62,000 on travel and per diems during the four-year audit period. The commission reimburses members and staff for travel costs incurred while performing commission-related activities. Commission members are also eligible to receive per diems of \$55 for each commission meeting.

There were no findings in the payroll and administrative expenditure area.

Minnesota Racing Commission

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Chapter 3. Revenues

Chapter Conclusions

The commission collected and deposited the appropriate amount of pari-mutuel tax, license fees, and reimbursements as set forth in statute during the audit period. The commission adequately safeguarded and properly recorded receipts in the state's accounting system. For the items tested, the commission complied with applicable legal provisions.

Audit Objective

The primary objective of our audit of the Minnesota Racing Commission's pari-mutuel tax, license fees, and reimbursement revenue was to answer the following questions:

- Did the commission adequately safeguard and properly record revenues in the state's accounting system?
- Did the commission collect and deposit the appropriate amount of tax, license fees, and reimbursement revenues in accordance with applicable legal provisions?

Table 3-1 (on page 9) shows the types of revenues collected by the commission for the four years ended June 30, 2005.

Pari-Mutuel Taxes

Pursuant to *Minnesota Statutes*, Section 240.15, the Minnesota Racing Commission collects a six percent pari-mutuel tax from Canterbury Park. This tax is levied on horse races, including live racing at Canterbury as well as simulcast races from other racetracks throughout the United States. The tax begins each fiscal year after Canterbury handles \$60 million in wagers (\$12 million in takeout). The track usually exceeds this threshold by mid-May. The commission deposited about \$990,000 of pari-mutuel taxes into the state's General Fund for the four years ended June 30, 2005. The commission cannot use any of these tax revenues for its operations. They are nondedicated receipts to the state.

Minnesota Racing Commission

License Fees

Racetrack Licenses

The commission licenses Minnesota racetracks, as specified in *Minnesota Statutes*, Section 240.10. During fiscal years 2002 and 2003, the fee for a Class A license for ownership and operation of a racetrack was \$10,000 per year. In fiscal year 2004, the Legislature raised the fee to \$253,000 per year. In addition, the commission charges a fee of \$500 per live racing day and \$100 for each simulcast racing day. The commission currently licenses the Canterbury Park track in Shakopee. In January 2005, the commission approved a Class A license to the North Metro Harness Initiative, Inc. The commission deposits racetrack license revenues into the racing and card playing regulation account in the state's Special Revenue Fund.

Card Club License

Canterbury Park opened a card club in April 2000. Revenues generated by the card club currently comprise the single largest source of revenue for Canterbury Park. The card club operates under *Minnesota Statutes*, Section 240.30, and is limited to 50 tables. The only exception to the 50-table limit is for one tournament per year for no longer than 14 days. For fiscal years 2002 and 2003, the card club license fee was \$10,000 per year. Effective July 1, 2003, the card club's license fee is included in Canterbury's Class A horse racing fee.

Occupational Licenses

The commission also licenses everyone who works or conducts business at the racetrack to help ensure that only qualified individuals participate in horse racing. Applicants are fingerprinted and are required to provide personal background information to the commission. The commission establishes the fees for occupational licenses through the rule-making process as defined in *Minnesota Rules* 7877.0120. The commission issued approximately 3,550 occupational licenses annually and collected \$457,000 during the four years of our audit scope.

Reimbursements

Canterbury Park reimburses the commission for services provided by veterinarians and stewards and for medical testing of horses, as well as investigative and certain payroll costs incurred by the commission. During the four years ended June 30, 2005, the commission collected approximately \$1.9 million in reimbursement revenues. Included in this amount was the commission's investigation costs associated with the proposed licensing of the North Metro Harness racetrack.

There were no findings in the revenue area.

Minnesota Racing Commission

Table 3-1
Racing Commission Revenue Collections⁽⁴⁾
Fiscal Years 2002 through 2005

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
General Fund Revenues: ⁽¹⁾				
Pari-Mutuel Taxes	\$241,233	\$242,568	\$ 259,924	\$ 246,624
License Fees ⁽²⁾	137,570	144,473	0	0
Fines and Forfeits	13,175	3,725	8,725	14,940
Total General Fund Revenues	<u>\$391,978</u>	<u>\$390,766</u>	<u>\$ 268,649</u>	<u>\$ 261,564</u>
Special Revenue Fund Revenue:				
License Fees ⁽²⁾	0	0	445,547	576,486
Reimbursements:				
Service and Investigative Costs ⁽³⁾	353,260	367,505	527,617	598,256
Finger Print Fees	<u>22,800</u>	<u>27,288</u>	<u>29,580</u>	<u>28,952</u>
Total Revenues	<u>\$768,038</u>	<u>\$785,559</u>	<u>\$1,271,393</u>	<u>\$1,465,258</u>

Note (1) The General Fund revenues cannot be used by the commission. They are non-dedicated.

Note (2) Beginning in fiscal year 2004, license fees previously deposited into the General Fund are now deposited into a racing and card playing regulation account in the Special Revenue Fund. The commission receives appropriations from the account to fund its operations.

Note (3) Pursuant to statute, Canterbury Park reimburses the commission for the costs of providing services and for certain payroll costs. North Metro Harness Initiative Inc. reimbursed the commission for investigative costs related to its license application.

Note (4) This table does not include revenues deposited into the Breeders' Fund.

Source: Minnesota Accounting and Procurement System (MAPS), budget fiscal year 2002 to 2005 as of July 31, 2005.

Minnesota Racing Commission

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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. However, the commission has used two different interpretations of laws to distribute Breeders' Fund monies received from the Canterbury Park Card Club. Expenditures from the Breeders' Fund were accurately recorded in the accounting system.

Audit Objectives

Our audit objectives for the Minnesota Breeders' Fund were to answer the following questions:

- Did the commission collect and safeguard the appropriate amount of Breeders' Fund receipts and deposit the revenues into the correct accounts?
- Did the commission comply with significant finance-related laws, policies, and rules?
- Did the commission properly expend funds and accurately record expenditures in the state's accounting system?

Background

The commission is responsible for administering the Breeders' Fund. The primary purpose of the Breeders' Fund is to provide incentives to Minnesota horse breeders and horse owners to participate in racing in Minnesota. Canterbury Park must pay the Breeders' Fund a one percent tax on the total amount wagered on all live horse races, as well as 5.5 percent of the takeout on simulcast races. The Canterbury Park Card Club must pay ten percent of the amount it is required to set aside for purses to the Racing Commission for Breeders' Fund purse supplements.

During the four years ended June 30, 2005, the commission collected and deposited about \$4.7 million into the Breeders' Fund. The receipts collected were distributed to three different accounts: fund administration, equine research and grants, and awards and purse supplements for horses bred and raced in Minnesota. The allocation of the receipts is specified in *Minnesota Statutes*, Section 240.18, and *Minnesota Rules*, Chapter 7895. After deducting the administrative and equine research and grant portions, 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, 2005.

Minnesota Racing Commission

**Table 4-1
Minnesota Breeders' Fund
Summary of Financial Activity - Fiscal Years 2002 – 2005**

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Sources:				
Pari-Mutuel Taxes	\$1,098,509	\$1,114,320	\$1,229,518	\$1,292,648
Forfeits	2,700	4,050	6,750	3,850
Balance Forward In	<u>631,225</u>	<u>580,797</u>	<u>700,462</u>	<u>765,172</u>
Total Sources	<u>\$1,732,434</u>	<u>\$1,699,168</u>	<u>\$1,936,729</u>	<u>\$2,061,670</u>
Uses:				
Fund Administration:				
Payroll	\$ 18,167	\$ 20,404	\$ 22,783	\$ 22,266
Other Expenses	6,103	6,191	4,560	10,420
Grants	47,680	32,849	76,006	8,855
Purse Supplements	736,115	626,979	755,205	911,301
Awards	343,571	312,281	313,003	315,734
Balance Forward Out	<u>580,798</u>	<u>700,464</u>	<u>765,172</u>	<u>793,094</u>
Total Uses	<u>\$1,732,434</u>	<u>\$1,699,168</u>	<u>\$1,936,729</u>	<u>\$2,061,670</u>

Source: Minnesota Accounting and Procurement System (MAPS), budget fiscal year 2002 to 2005 as of July 31, 2005.

Table 4-2 provides a further breakdown of the Breeders' Fund financial activity for fiscal year 2005.

**Table 4-2
Minnesota Breeders' Fund
Financial Activity Detail – Budget Fiscal Year 2005**

	<u>Fund</u>	<u>Equine</u>			<u>Standard</u>	<u>Thorough-</u>	
	<u>Administration</u>	<u>Research</u>	<u>Arabian</u>	<u>Quarterhorse</u>	<u>-bred</u>	<u>bred</u>	<u>Totals</u>
		<u>& Grants</u>					
Sources:							
Tax Receipts	\$30,330	\$33,682	\$ 1,934	\$ 69,044	\$36,758	\$ 1,124,750	\$1,296,498
Balance Forward In	<u>16,879</u>	<u>6,638</u>	<u>16,404</u>	<u>50,000</u>	<u>31,167</u>	<u>644,084</u>	<u>765,172</u>
Total Sources	<u>\$47,209</u>	<u>\$40,320</u>	<u>\$18,338</u>	<u>\$119,044</u>	<u>\$67,925</u>	<u>\$1,768,834</u>	<u>\$2,061,670</u>
Uses:							
Administration	\$32,686	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 32,686
Grants	0	8,855	0	0	0	0	8,855
Awards/Purse							
Supplements	0	0	0	60,847	30,500	1,135,688	1,227,035
Balance Forward Out	<u>14,523</u>	<u>31,465</u>	<u>18,338</u>	<u>58,197</u>	<u>\$37,425</u>	<u>633,146</u>	<u>793,094</u>
Total Uses	<u>\$47,209</u>	<u>\$40,320</u>	<u>\$18,338</u>	<u>\$119,044</u>	<u>\$67,925</u>	<u>\$1,768,834</u>	<u>\$2,061,670</u>

Source: Minnesota Accounting and Procurement System (MAPS), budget fiscal year 2005 as of July 31, 2005.

As noted in the following finding, the commission has used two different interpretations of law to distribute Breeders' Fund monies received from the Canterbury Park Card Club.

Minnesota Racing Commission

Current Finding and Recommendation

1. **The Minnesota Racing Commission has used two different interpretations of law to distribute Breeders' Fund monies received from the Canterbury Park Card Club.**

The statutory provisions governing use of Breeders' Fund receipts from the Canterbury Park Card Club have been subject to conflicting interpretation. Use of card club revenue is governed by *Minnesota Statute* Section 240.135, which has three subdivisions, as follows:

- Subd. (a) provides that Canterbury Park shall use a portion of its card club gross receipts for racing purses;
- Subd. (b) provides that, of the amount set aside under Subd. (a), Canterbury Park must deposit ten percent into the Breeders' Fund; and
- Subd. (c) provides that it is the intent of the legislature that the proceeds of the card playing activities be used to improve the horse racing industry by improving purses.

Since the opening of the card club, the commission has allocated the proceeds received under Subd. (b) for the Breeders' Fund in two different ways. From May 2000 until December 2001, the commission used approximately \$152,000 of the card club receipts for equine research and breeder awards, in addition to amounts for purse supplements. This distribution was in accordance with *Minnesota Statute* Section 240.18, which governs use of monies in the Breeders' Fund.

At a commission meeting in November 2001, there was considerable discussion regarding the appropriate use of the Breeders' Fund monies received from the card club. The discussion was initiated because the commission received a letter from two legislators who said that the monies were not being distributed according to the intent of the card club legislation, and that the intent was that the monies should be used to improve purses for the advancement of the horse racing industry. An attorney from the Office of the Attorney General presented the commission with various options to resolve the issue. After the discussion, the commission voted to begin using the card club proceeds only to improve purses. That is the practice that has been followed since December 2001. The commission did not go back and reallocate or adjust the previous distribution of funds.

The primary legal question relating to use of the card club revenue received under Section 240.135, Subd. (b) is whether the statutory language governing use of the Breeders Fund prevails, or whether the provision in Section 240.135, Subd. (c) identifying legislative intent applies to the Breeders' Fund proceeds. While the commission relied, in part, on correspondence from two legislators, we think it would have been more appropriate to seek formal legislative clarification of the statutory provisions.

Recommendation

- *The Minnesota Racing Commission should seek legislation to clarify allowable uses of the Breeders' Fund monies received from the card club.*

Minnesota Racing Commission

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Minnesota Racing Commission

Status of Prior Audit Issues As of July 8, 2005

May 4, 2000, Legislative Audit Report 00-17 covered the Minnesota Racing Commission's activities for the four years ended June 30, 1999. The scope of the audit included pari-mutuel taxes, license fees, and reimbursement revenues. It also included a review of payroll, contractual services, and travel and per diem expenditures. The report did not contain any findings or recommendations.

Other Office of the Legislative Auditor Coverage

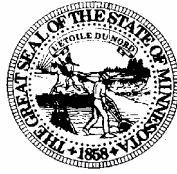
January 2005 Program Evaluation Report on Gambling Regulation and Oversight (Report 05-02) examined the methods used by the Minnesota Racing Commission in overseeing horse racing and card club activities. The report contained several findings and recommended that the commission streamline licensing procedures, expand its oversight of the card club, verify Canterbury Park's purse contributions, and improve the use of technology regarding verifying pari-mutuel wagering information.

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 metropolitan agencies or the State Agricultural Society, the state constitutional officers, or the judicial branch.

Minnesota Racing Commission

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MINNESOTA RACING COMMISSION

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September 14, 2005

Mr. James R. Nobles, Legislative Auditor
140 Centennial Building
658 Cedar Street
St. Paul, MN 55155-1603

Dear Mr. Nobles,

The Commission and 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. Pat Ryan, Patrick Phillips, and John Hakes were very helpful and patient in their approach as we had many files and records that needed to be reviewed and evaluated as to compliance with the state's accounting procedures and controls.

They have adequately described the events that occurred immediately after the card club opened and we began depositing the statutory revenues to the Breeders' Funds.

In my opinion the current practice of all receipts being deposited to the respective purse supplement accounts for each breed (thoroughbred, quarterhorse, and standardbred) which we have been doing since December, 2001, as pointed out in your report, is fulfilling the purpose of the card club legislation. This finding will be reviewed with the full Commission to determine further action that might be taken.

Its our hope that this meets with your concurrence.

Regards,

/s/ Richard G. Krueger

Richard G. Krueger
Executive Director

c: Commissioner Darcy Hitesman, Chair
Commissioner Kristine Sundberg, Administrative Committee Chair