



**OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA**

FINANCIAL AUDIT DIVISION REPORT

**Minnesota Racing Commission
Internal Control and Compliance Audit
July 1, 2007, through March 31, 2010**

October 14, 2010

Report 10-32

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OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

October 14, 2010

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Darcy Hitesman, Chair
Minnesota Racing Commission

Members of the Minnesota Racing Commission

Mr. Richard Krueger, Executive Director
Minnesota Racing Commission

This report presents the results of our internal control and compliance audit of the Minnesota Racing Commission for the period July 1, 2007, through March 31, 2010.

We discussed the results of the audit with the commission's staff on September 28, 2010. This audit was conducted by Jim Riebe, CPA, (Audit Manager) and Pat Ryan (Auditor-in-Charge), assisted by Sadie Huber and Kevin Schoenrock.

This report is intended for the information and use 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 October 14, 2010.

We received the full cooperation of the Minnesota Racing Commission's staff while performing the audit.

A handwritten signature in black ink that reads 'James R. Nobles'.

James R. Nobles
Legislative Auditor

A handwritten signature in black ink that reads 'Cecile M. Ferkul'.

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

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Report Summary

Conclusion

The Minnesota Racing Commission did not have adequate internal controls to ensure it safeguarded or accurately recorded license revenues in the accounting system, or that employee expense reimbursements complied with finance-related legal requirements. The commission generally had adequate internal controls over other revenues and administrative expenditures to ensure it safeguarded its assets, accurately paid employees and vendors in accordance with management's authorization, complied with finance-related legal requirements, and produced reliable financial data. However, it had internal control weaknesses in these areas.

For the items tested, the commission generally complied with finance-related legal requirements. However, the commission had specific instances of noncompliance in some areas.

The commission substantially resolved a prior audit finding.¹

Findings

- The Minnesota Racing Commission did not monitor the effectiveness of the internal controls related to some of its financial operations. ([Finding 1, page 7](#))
- The commission did not have adequate controls over licensing receipts. ([Finding 2, page 7](#))
- The commission did not have adequate internal controls and procedures to ensure it accurately compensated employees for overtime worked or that direct supervisors approved employee time sheets in some cases. ([Finding 3, page 9](#))
- The commission did not adequately ensure compliance with state travel policies. ([Finding 4, page 10](#))
- The commission did not always properly administer its professional/technical services contracts. ([Finding 5, page 11](#))
- The commission did not accurately pay Breeders' Fund awards in some cases. ([Finding 6, page 12](#))

Audit Objectives and Scope:

<u>Objectives</u>	<u>Period Audited</u>
<ul style="list-style-type: none">• Internal Controls• Compliance	July 1, 2007, through March 31, 2010

¹ Although the commission did not seek legislation to clarify allowable uses of Breeders' Fund monies received from card clubs, as recommended in our prior audit report, since 2002, it has used the funds exclusively for purse supplements.

Programs Audited

- License Revenues, Card Club Tax Revenues, Pari-Mutuel Tax Revenues, and Reimbursement Revenues
- Payroll and Employee Travel Reimbursements and Contract Service Expenditures

Minnesota Racing Commission

Agency Overview

The Minnesota Racing Commission's primary responsibilities include regulating horse racing in Minnesota by enforcing laws and rules, issuing licenses associated with the horse racing industry,² supervising the conduct of wagering and collecting and distributing taxes imposed upon racetrack receipts to the Breeders' Fund, and conducting investigations and inquiries. The commission also provides oversight of card clubs located at race tracks. The commission operates under *Minnesota Statutes 2009, Chapter 240*.

There are two horse racing tracks in Minnesota: Canterbury Park located in Shakopee (owned and operated by the Canterbury Park Holding Company, a publicly traded corporation) and Running Aces Harness Park located in Columbus (owned and operated by Black Diamond Commercial Finance LLC, a privately held corporation).³ State statutes limit the amount the tracks can take out of betting pools and require the tracks to set aside a portion for horse racing purses. Statutes also define the taxes, fees, and reimbursements the tracks pay to the commission. We limited the scope of our audit to a review of the taxes, fees, and reimbursements that the tracks paid to the Minnesota Racing Commission.

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. The commission employs ten full-time staff.

In accordance with state statutes, the commission deposits all license revenues into racing and card playing regulation accounts in a special revenue fund.⁴ The Legislature appropriates a portion of these revenues to the commission each biennium to fund the commission's operating expenditures. In addition, the commission receives reimbursement from the tracks for the costs of providing services, such as veterinarians, racing stewards, lab fees, and payroll costs related to card club oversight.

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. The tracks must

² The commission licenses race tracks, employees of the race tracks, and personnel employed in occupations pertaining to horse racing.

³ Running Aces Harness Park opened in April 2008.

⁴ *Minnesota Statutes 2009, 240.15, subd. 6.*

pay the Breeders' Fund a one percent tax on the total amount wagered on all live horse races, as well as five and one-half percent of the takeout on simulcast races.⁵ The card clubs must pay ten percent of the amount they are required to set aside for purses to the Racing Commission for Breeders' Fund purse supplements.

Table 1 summarizes the commission's sources and uses of financial resources by fund for fiscal year 2009.

Table 1
Sources and Uses of Financial Resources
Fiscal Year 2009

	Special Revenue Fund	Breeders' Fund
Sources		
License and Fee Receipts ¹	\$ 800,608	\$ 0
Pari-Mutuel Tax Revenue ²	47,352	639,113
Card Club Tax Revenue	0	487,589
Reimbursements ³	914,900	0
Finger Print Fees	0	30,836
Other Revenues	3,650	34,000
Balance Forward-In from Fiscal Year 2008	<u>361,778</u>	<u>602,315</u>
Total Sources	<u>\$2,128,288</u>	<u>\$1,793,853</u>
Uses		
Payroll	\$ 871,741	\$ 0
Contract Services	629,382	0
Travel	26,541	0
Purse Supplements	0	780,775
Awards	0	256,914
Grants	32,018	0
Other Operating Expenditures	148,332	32,034
Balance Forward-Out to Fiscal Year 2010	<u>420,274</u>	<u>724,130⁴</u>
Total Uses	<u>\$2,128,288</u>	<u>\$1,793,853</u>

¹The commission obtains its appropriation from the collection of license fees. The statutory appropriation for fiscal year 2009 was \$899,000, but the commission only collected \$800,608 of license fees. As specified in *Minnesota Statutes 2009*, 240.15, subd. 6, "Receipts in this account are available for the operations of the commission up to the amount authorized in the biennial appropriations from the legislature."

²The commission retained a portion of the pari-mutuel taxes collected to fund its administrative costs associated with operating the Breeders' Fund.

³Canterbury Park and Running Aces Harness Park reimburse the commission for the costs of providing veterinarians, racing stewards, and lab fees. In addition, the tracks reimburse the commission for the costs of regulating the card clubs.

⁴After paying awards and purse supplements subsequent to June 30, the balance in the fund was about \$327,000 as of March 2010.

Source: Minnesota Accounting and Procurement System.

⁵Takeout represents the amount that a racetrack withholds from the various betting pools to fund purses and track operating costs.

Objectives, Scope, and Methodology

Our audit of the Minnesota Racing Commission included the material revenues and expenditures for the period July 1, 2007, through March 31, 2010, and focused on the following audit objectives:

- Were the Minnesota Racing Commission's internal controls adequate to ensure that it safeguarded its assets, accurately paid employees and vendors in accordance with management's authorizations, complied with finance-related legal requirements, and created reliable financial data?
- Did the commission comply with significant finance-related legal requirements?
- Did the commission resolve a prior audit finding?⁶

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 requirements. We analyzed accounting data to identify unusual trends or significant changes in financial operations. In addition, we selected a sample of financial transactions and reviewed supporting documentation to test whether the controls were effective and if the transactions complied with laws, regulations, policies, and grant, contract, and loan provisions.

We conducted the 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 used the guidance contained in the *Internal Control-Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission, as our criteria to evaluate the commission's internal controls.⁷ We used state laws, regulations, and contracts, as well as policies and procedures established by the Department of Management and Budget, the Department of Administration, and the commission's internal policies and procedures as evaluation criteria over compliance.

⁶ Minnesota Office of the Legislative Auditor, Financial Audit Division, Report 05-51, *Minnesota Racing Commission*, September 22, 2005.

⁷ The Treadway Commission and its Committee of Sponsoring Organizations were established in 1985 by the major national associations of accountants. One of their primary tasks was to identify the components of internal control that organizations should have in place to prevent inappropriate financial activity. The resulting *Internal Control-Integrated Framework* is the accepted accounting and auditing standard for internal control design and assessment.

Conclusion

The Minnesota Racing Commission did not have adequate internal controls to ensure it safeguarded or accurately recorded license revenues in the accounting system, or that employee expense reimbursements complied with finance-related legal requirements. The commission generally had adequate internal controls over other revenues and administrative expenditures to ensure it safeguarded its assets, accurately paid employees and vendors in accordance with management's authorization, complied with finance-related legal requirements, and produced reliable financial data. However, it had some internal control weaknesses in these areas.

For the items tested, the commission generally complied with finance-related legal requirements. However, the commission had specific instances of noncompliance in some areas.

The commission substantially resolved a prior audit finding. Although the commission did not seek legislation to clarify allowable uses of Breeders' Fund monies received from card clubs, as recommended in our prior audit report, since 2002, it has used the funds exclusively for purse supplements.

The following *Findings and Recommendations* further explain the commission's internal control weaknesses and noncompliance with finance-related legal requirements.

Findings and Recommendations

The Minnesota Racing Commission did not monitor the effectiveness of the internal controls related to some of its financial operations.

The Minnesota Racing Commission did not have an adequate process to monitor the effectiveness of its internal controls to safeguard assets or ensure compliance with finance-related legal requirements in some areas. Findings 2 through 6 identify weaknesses in the commission's internal control procedures and specific noncompliance with finance-related legal requirements that the commission's internal control structure did not prevent or detect. If the commission had monitored the effectiveness of its internal controls, it may have identified and resolved these deficiencies.

State policy requires agencies to monitor results and report significant control deficiencies to individuals responsible for the process or activity involved, including executive management and those individuals in a position to take corrective action.⁸ It is likely that the commission will continue to have noncompliance and weaknesses in internal controls until it establishes monitoring procedures to ensure the controls are in place and are effective to reduce the significant risks identified.

Recommendation

- *The commission should establish a monitoring function to ensure internal controls are in place and are effective to reduce the significant risks identified in its key business processes.*

The commission did not have adequate controls over licensing receipts.

Finding 2

The commission had several internal control weaknesses over the processing of Class C license receipts, which totaled about \$398,000 from July 2007 through March 2010.⁹

- The commission had significant deficiencies in the data input controls over the licensing subsystem. Staff did not consistently or accurately complete a number of necessary data fields, which resulted in numerous cash receipt errors and prevented effective reconciliations between the

⁸ Department of Management and Budget Policy Number 0102-01.

⁹ Minnesota Statutes 2009, 204.05, authorizes the commission to issue four classes of licenses. Class C licenses regulate various occupations related to horse racing.

licensing subsystem and the state accounting system. Transactions recorded in the commission's licensing subsystem did not always agree with the receipts entered into the state's accounting system. For example, the receipts for calendar year 2009 recorded in the state's accounting system were approximately \$3,800 less than the amount recorded in the commission's licensing subsystem. Without complete and accurate information in the subsystem, the commission could not resolve this discrepancy.

- The commission did not consistently perform accurate daily and monthly reconciliations of Class C license receipts, bank deposits, and accounting reports, as required by state policy¹⁰ and internal procedures.¹¹ Of the 63 daily deposits we tested, the commission had not completed 12 reconciliations, and 1 had a nominal unresolved discrepancy. In addition, of the 57 monthly deposit reconciliations we tested for both Canterbury Park and Running Aces, the commission had not completed 8 monthly deposit reconciliations, and 24 monthly reconciliations had unexplained discrepancies. In addition no person independent of the licensing process reviewed the monthly reconciliations.
- The commission did not retain sufficient source documentation to support some of its licensing transactions. For the Class C license receipts we tested, 21 of 63 daily deposits did not have a system-generated transaction report on file to support the number and type of licenses issued. Of these 21 exceptions, 5 had no transaction report on file, while the remaining 16 had information on a spreadsheet that staff stated had been obtained from the transaction reports, creating the possibility of data manipulation or error. In addition, eight of the daily deposits lacked cash register reports, which detail the day's receipt transactions.

Recommendations

- *The commission should ensure that staff enter complete and accurate information into the licensing subsystem to facilitate effective reconciliations between the subsystem and the accounting system.*
- *The commission should ensure that staff complete accurate receipt reconciliations in a timely manner, they adequately document the reconciliations and resolve reconciling items, and someone independently reviews the monthly receipt reconciliations.*

¹⁰ Department of Management and Budget Policy Number 0602-03.

¹¹ Minnesota Racing Commission's cash receipt reconciliation procedure.

The commission did not have adequate internal controls and procedures to ensure it accurately compensated employees for overtime worked or that direct supervisors approved employee timesheets in some cases.

The commission did not always calculate overtime in accordance with state bargaining agreements and did not always have employees' direct supervisors or managers approve employee timesheets.¹²

The commission overpaid one employee \$952 by miscalculating the employee's overtime hours in three different pay periods. Contrary to the employee's bargaining agreement, the commission included paid vacation and holiday hours to calculate the overtime hours worked in excess of 40 hours in a 7-day period. The commission erroneously paid the employee at the overtime rate of time-and-one-half instead of at the employee's regular hourly rate.

The commission overpaid another employee by \$102 over four pay periods by compensating the employee for overtime hours when the employee did not work more than 40 hours in a 7-day period, as defined by the employee's bargaining agreement. In this case, contrary to bargaining agreement provisions, the commission included holiday hours worked in excess of the employee's normal work day when calculating overtime pay.

The commission's executive director approved all employee time reports for employees working at both the Shakopee and Columbus locations even though his permanent work station is Shakopee. Since the commission's deputy director's permanent work location is Columbus, she would have more direct knowledge about employees' work schedules and assignments as a basis to approve the timesheets for the employees working in Columbus. State policy requires that the supervisor or manager who is most knowledgeable about employee work schedules be responsible for approving those timesheets.¹³

Recommendations

- *The commission should comply with applicable bargaining agreements to ensure that it accurately compensates employees for time worked.*
- *The commission should recover the amount it overcompensated employees.*
- *The commission should ensure that supervisors or managers who approve employee timesheets are the most knowledgeable about the employees' hours worked.*

¹² Minnesota Association of Professional Employees Labor Agreement.

¹³ Department of Management and Budget Policy PAY0017.

Finding 3

Finding 4

The commission did not adequately ensure compliance with state travel policies.

The commission did not have adequate internal controls and procedures in place to ensure that employees accurately completed employee expense reports and submitted receipts, as required by state travel policies.¹⁴ The commission reimbursed employees \$32,243 from July 2007 through March 2010. The commission had the following deficiencies in the ten travel expense reimbursements we tested:

- The commission reimbursed the following mileage expenses that state policy prohibited or that employees had not adequately documented:
 - Three travel expense reimbursements we tested lacked sufficient documentation, including details on individual trips and departure and destination addresses, to support \$591 in mileage reimbursements.
 - One travel expense reimbursement we tested exceeded the number of miles allowed, resulting in a \$26 overpayment. The employee claimed 116 miles each for three round trips from Shakopee to Columbus instead of 101 miles, the number of miles if traveling the most direct route.
- The commission overpaid an employee a total of \$25 for ineligible meals and \$42 for room service charges claimed on one expense reimbursement we tested. The commission reimbursed an employee who was not in travel status for a meal and for meals provided as part of a conference registration.
- The commission reimbursed an employee \$422 for lodging and parking expenses without receipts on one expense reimbursement we tested. State policy requires that in order to obtain reimbursement for lodging and parking, employees must submit the original receipt showing the detail of charges or file an affidavit in lieu of a lost original receipt.
- The commission did not accurately record dates in the state's payroll system related to late employee expense reimbursements for two of ten reimbursement claims we tested. The errors resulted in the reimbursements not being reported as taxable income to both employees. Federal law and state policy require that employee reimbursement claims be taxable when an employee submits reimbursement requests more than 60 days after incurring

¹⁴ Department of Management and Budget Policy PAY0021.

the expenses.¹⁵ The state's payroll system determines the tax status of the reimbursements based on dates entered into the system and withholds employee and employer taxes on claims identified as taxable. By not recording the actual dates of each trip, the payroll system cannot properly identify the travel expenses that should be reported as taxable income.

Recommendation

- *The commission should implement procedures to help ensure that employee travel expense reimbursements comply with state travel policies.*

The commission did not always properly administer its professional/technical services contracts.

Finding 5

The commission had the following weaknesses in the professional/technical services contracts tested:

- The commission did not have contracts with five professional/technical vendors for payments totaling \$3,333 during the audit scope. The commission did not have an annual plan on file that would have allowed obtaining these services without formal contracts.
- The commission paid one contractor \$500 per week for a total of \$6,500 for undocumented living expenses. Department of Administration policy requires that contractors document the expenses incurred in order to be reimbursed.¹⁶ In addition, the commission paid several contractors without adequate documentation supporting the mileage reimbursements claimed.
- The commission allowed about \$8,000 of services to be performed on two contracts before it encumbered the funds. State statute requires agencies to encumber funds before incurring liabilities.¹⁷ Furthermore, in these cases, the commission did not document and explain the reasons for the noncompliance as required by state policy.¹⁸ The intent of the policy is to prevent the noncompliance from occurring again.

The Department of Administration developed contract policies to ensure that state agencies enter into and oversee contracts in accordance with statutory requirements and follow good management practices.

¹⁵ Internal Revenue Service Publication 15, Circular E, effective January 8, 2010, and Department of Management and Budget Policy PAY0021.

¹⁶ Department of Administration's Professional/Technical Services Contract Manual.

¹⁷ Minnesota Statutes 2009, 16C.08, subd.2.

¹⁸ Department of Management and Budget Policy and Procedure 0702-02.

The majority of the commission's professional/technical contracts pertained to veterinarians, laboratory services, and racing stewards. The commission expended about \$1,662,000 on professional/technical services from July 2007 through March 2010. Canterbury Park and Running Aces Harness Park reimbursed the commission for all eligible contract expenditures, which amounted to about 97 percent of these expenditures.¹⁹

Recommendation

- *The commission should comply with all requirements established by statute and the Department of Administration for professional/technical services contracts.*

Finding 6

The commission did not accurately pay Breeders' Fund awards in some cases.

The commission made several errors in the processing of breeder and stallion award payments. The errors occurred because the commission did not perform an independent reconciliation of the award amounts calculated by the Breeders' Fund database program to the payments processed in the state's accounting system. The commission made the following errors:

- The commission double paid three awards totaling \$4,927.
- The commission paid \$1,121 from the wrong award account.
- The commission overpaid one award by \$376 and underpaid another award by \$195.

As required by statute, the commission pays out awards to the breeders and owners of Minnesota-bred horses that win money at licensed race tracks in Minnesota.²⁰ The commission developed a Breeders' Fund database program to record and track the results of races in which Minnesota-bred horses compete. At the end of each live meet, the program calculates the amount of awards due to each breeder and owner. A commission employee generates a report from the program that is used to enter the payments into the state's accounting system. From July 2007 through March 2010, the commission paid about \$770,000 in awards.

¹⁹ Minnesota Statutes 2009, 240.155, determines the contract expenditures to be reimbursed.

²⁰ Minnesota Statutes 2009, 240.18, subd.2.

Recommendations

- *The commission should perform an independent review of award payments to ensure that it accurately pays owners and breeders.*
- *The commission should seek repayment of the award overpayments and process a payment for the underpayment.*

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MINNESOTA RACING COMMISSION

October 7, 2010

Mr. Jim Nobles, Legislative Auditor
Office of the Legislative Auditor
Room 140, Centennial Building
658 Cedar Street
St. Paul, MN 55155

Dear Mr. Nobles,

Since it has been four and a half years since our last financial audit, the Commission and staff eagerly looked forward to this audit engagement. A number of significant changes occurred within those years. A new racetrack and card club opened which added significantly to our regulatory duties and responsibilities as well as our administrative and business practices. In addition a new licensing system was developed and implemented and included our best effort to comply with Minnesota Management and Budget (MMB) internal control guidelines and to expedite integration with the new SWIFT accounting system.

The conclusion of audit staff indicated that "the Minnesota Racing Commission did not have adequate internal controls to ensure it safeguarded or accurately recorded license revenues in the accounting system, or that employee expense reimbursements complied with finance-related legal requirements." However they go on in that "the Commission generally had adequate internal controls over other revenues and administrative expenditures to ensure it safeguarded its assets, accurately paid employees and vendors in accordance with management's authorization, complied with finance-related legal requirements, and produced reliable financial data." These other revenues and administrative expenditures account for well over 90% of the Commission's business management operations, which includes management and control of the Commission's various breeders' fund accounts and its regulatory reimbursement accounts.

It is our firm commitment to implement and change necessary practices so as to comply with all of the findings and recommendations. Following is our response to each of the findings and will include our best explanation for corrective action which in some cases have already occurred since the conclusion of the auditor field work.

Finding 1 indicates that the Commission did not monitor the effectiveness of the internal controls related to some of its financial operations. With the attendance of MMB Internal Control staff during the exit conference, we will work closely with them on the development of effective internal control practices specifically for the agency's business practices and will implement the monitoring responsibilities and tasks that will assist this small agency in mitigating monitoring weaknesses, some of

which occur from time to time as the result of staff focusing on seasonal regulatory duties and responsibilities.

Finding 2 indicates that the Commission did not have adequate controls over licensing receipts. It needs to be pointed again that Commission staff developed and implemented a new licensing system since the last financial audit. As expected, inconsistencies did occur upon initial implementation, but all money received over the licensing counter did get deposited in the appropriate account in the state's accounting system.

Since the conclusion of the audit, Commission staff has taken steps to strengthen internal controls for processing Class A (racetrack ownership), Class B (racing), and Class C (occupational) license receipts. Licensing staff enter data and/or update all necessary data fields for all cash receipts and, in the case of Class C licenses, provide the licensee with the cash register receipt attached to a printed "Minnesota Racing Commission Receipt" generated by the licensing subsystem. Staff will enter all payment data fields for all cash receipts on a daily basis. There will no longer be the ability to generate spreadsheets from the licensing subsystem. Staff will reconcile the bank deposit receipt, EFTs, invoices, and cash register reports on a daily basis. All differences (shortages, overages, refunds, etc.) are recorded in the licensing subsystem with staff responsibility for documenting differences, resolution steps, and attaching the documentation from the licensing system along with the deposit receipt, EFT, and cash register reports. Senior Management Staff will electronically review and approve daily bank deposits, EFTs, and daily deposit transaction reports which will be used as back up to the SWIFT interface and MAPS accounting entry. Monthly receipt reconciliations will be performed by the Office Manager who will compare the monthly licensing subsystem against SWIFT and/or MAPS and conform to state policy. Senior Management Staff will periodically perform spot checks of the licensing subsystem to ensure that licensing staff is entering complete and accurate information into the licensing subsystem and performing accurate receipt reconciliations in a timely manner.

Regarding the matter of the "...state's accounting system being approximately \$3,800 less than the amount recorded in the Commission's licensing subsystem", post audit, staff has been able to reconcile that difference. Staff found that there was \$1,273.50 incorrectly coded to the wrong MRC office and that \$2,560.75 were transactions that occurred during the 2008 calendar year. The reconciliation worksheets will be filed with our 2010 audit file for review during the next financial audit engagement.

Finding 3 indicates that the Commission did not have adequate internal controls and procedures to ensure it accurately compensated employees for overtime worked or that direct supervisors approve employee timesheets in some cases. Regarding this finding, it needs to be pointed that the Commission does not have a full time Human Resources Specialist, which is not unusual for a small agency. We do the best we can in reviewing provisions of bargaining agreements when issues and questions come to our attention. We commit to establishing effective communication with MMB Internal Control Unit and MMB Human Resource Specialists as issues need to be resolved. All of the exception noted in the audit report have been corrected including the amounts that were reported as overpaid.

Finding 4 indicates that the Commission did not adequately ensure compliance with state travel policies. Here again we will work with MMB Internal Control staff to develop procedures for all Commission staff to adequately document all expenses that are requested for reimbursement. We will tighten up the procedures we already have in place and develop and disseminate to all staff and contractors the information and receipts needed to substantiate the reimbursement request and standard mileage readings needed (already being done) to be included on all expense reimbursement requests.

Appropriate review by senior staff of all expense reimbursement requests has already been implemented which will ensure compliance with state travel policies.

Finding 5 indicates that the Commission did not in all cases properly administer its professional/technical service contracts. For future live race meets, rather than execute individual contracts for seasonal part time veterinarians, human drug testing, court reporter services, and other services that may be needed but can't be anticipated at this time, we will prepare an annual contract plan and seek approval of Contract Management, Department of Administration. In at least one instance a contract was thought to have been encumbered but had not been completed through to ENS status. Accordingly, in the future, before a contract is sent to Contract Management for signature, a copy of the encumbered contract showing the ENS status will be added to the contract file. The receipts for the undocumented living expenses by one of the Commission's contractors have been submitted post audit to this office and will become part of our audit file for review by the next OLA audit. In the hubris of a race meet, senior staff overlooked that receipts had not been submitted with the appropriate weekly contractor invoice.

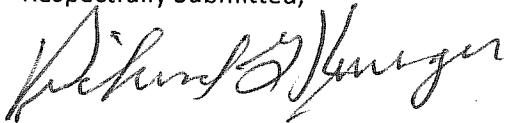
Finding 6 indicates that the Commission did not accurately pay Breeders' Fund awards in some cases. The inconsistencies noted in the audit report have been corrected including communication with the horsepersons involved in the overpayments and will be remitted back to the Commission. Commission staff is in the process of integrating the pari-mutuel auditing system with the Breeders' Fund tracking system. Until that happens and to avoid incorrect payments in the future, once the awards listing is finalized, staff will create an invoice which shows the vendor, the accounting code block (including the award account number) and the amount to be paid out. Payments entered into GFS from the invoice will put in hold status rather than being immediately processed. The payment date and GFS document number will be noted on the invoice along with the signature of the staff initiating the payment. When the payments have been entered and ready to be released, senior staff will compare the GFS payment documents to the invoices verifying that the vendor, award account, and payment are the same. When the payment is released the person doing the processing will initial and date the invoice. When the month-end expenditure by expense budget report is received, it will be cross checked against the invoices.

Once the integration of the pari-mutuel auditor system with the Breeders' Fund system is complete (which will eliminate the need for duplicate data entry and reduce the potential for human error in data entry), staff will perform daily pari-mutuel audit reconciliation to the Breeders' Fund. The pari-mutuel will produce daily Breeders' Fund invoices to the racing associations. Staff will data enter daily Breeders' Fund invoice EFT payments into pari-mutuel subsystem. The pari-mutuel subsystem will electronically reconcile Breeders' Fund invoices to EFT payments and interface cash receipts into SWIFT. Monthly receipt reconciliations will be performed by the Office Manger who will compare the monthly pari-mutuel subsystem against SWIFT and/or MAPS and conform to state policy. Senior staff will periodically request spot checks of the pari-mutuel subsystem to ensure that staff is performing the daily pari-mutuel audits for both racetracks, that staff is entering complete and accurate information into the pari-mutuel subsystem, and that staff is performing accurate receipt reconciliations in a timely manner. We will be replacing the existing Breeders' Fund subsystem with one that interfaces with the pari-mutuel auditing system and eventually SWIFT.

The Racing Commission and staff sincerely appreciate the work of the staff of the Office of the Legislative Auditor. Throughout this engagement, your staff conducted themselves with a high degree of professionalism, respect, and empathy toward Commission staff in acknowledging the importance of

our activities regarding these forms of gaming and the safety and welfare of equine and human participants. I am sure that this report will enhance our business practices and subsequently and positively impact our regulatory and enforcement oversight duties and responsibilities thereby furthering our ability to accomplish the Commission's goals regarding compliance with statutes and rules for pari-mutuel horse racing and card playing.

Respectfully Submitted,



Richard G. Krueger

Executive Director

C: Racing Commission Members

Ms. Mary Manney, Deputy Executive Director