

**MINNESOTA RACING COMMISSION  
FINANCIAL AUDIT  
FOR THE THREE YEARS ENDED JUNE 30, 1991**

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**MAY 1992**

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**Financial Audit Division  
Office of the Legislative Auditor  
State of Minnesota**

**92-32**



# SUMMARY

State of Minnesota  
Office of the Legislative Auditor  
Centennial Office Building • St. Paul, MN 55155  
612/296-4708

## MINNESOTA RACING COMMISSION

### FINANCIAL AUDIT FOR THE THREE YEARS ENDED JUNE 30, 1991

Public Release Date: May 22, 1992

No. 92-32

#### OBJECTIVES:

- EVALUATE INTERNAL CONTROL STRUCTURE: pari-mutuel tax collection, reimbursement for costs of veterinarians, stewards, and laboratory services, Breeders' Fund awards, payroll expenditures, and professional/technical contracts.
- TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.

#### CONCLUSIONS:

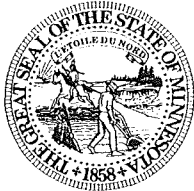
We found the internal control structure to be effective.

We found one area where the commission had not complied with finance-related legal provisions:

- The commission did not process all Breeders' Fund receipts and disbursements through the State Treasury.

Contact the Financial Audit Division for additional information.  
(612) 296-1730





STATE OF MINNESOTA

**OFFICE OF THE LEGISLATIVE AUDITOR**

CENTENNIAL BUILDING, ST. PAUL, MN 55155 • 612/296-4708

JAMES R. NOBLES, LEGISLATIVE AUDITOR

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Representative Ann Rest, Chair  
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Richard Pemberton, Chair  
Minnesota Racing Commission

Members of the Minnesota Racing Commission

Mr. Richard Krueger  
Executive Director

## **Audit Scope**

We have conducted a financial related audit of the Minnesota Racing Commission for the three years ended June 30, 1991. Our audit was limited to only that portion of the State of Minnesota financial activities attributable to the transactions of the Minnesota Racing Commission, as discussed in the Introduction. We have also made a study and evaluation of the internal control structure of the Minnesota Racing Commission in effect as of January, 1992.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial activities attributable to the transactions of the Minnesota Racing Commission are free of material misstatements.

As part of our study and evaluation of the internal control structure, we performed tests of the Minnesota Racing Commission's compliance with certain provisions of laws, regulations, contracts, and grants. However, our objective was not to provide an opinion on overall compliance with such provisions.

## **Management Responsibilities**

The management of the Minnesota Racing Commission is responsible for establishing and maintaining an internal control structure. This responsibility includes compliance with applicable laws, regulations, and contracts. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

Representative Ann Rest, Chair  
Members of the Legislative Audit Commission  
Mr. Richard Pemberton, Chair  
Members of the Minnesota Racing Commission  
Mr. Richard Krueger, Executive Director  
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- assets are safeguarded against loss from unauthorized use or disposition;
- transactions are executed in accordance with applicable legal and regulatory provisions, as well as management's authorization; and
- transactions are recorded properly on the statewide accounting system in accordance with Department of Finance policies and procedures.

Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

## **Internal Control Structure**

For purposes of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- pari-mutuel tax collection,
- reimbursement for costs of veterinarians, stewards, and laboratory services,
- Breeders' Fund awards,
- payroll expenditures, and
- professional/technical contracts.

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

## **Conclusions**

In our opinion, the internal control structure of the Minnesota Racing Commission in effect at January 1992, taken as a whole, was sufficient to meet the objectives stated above insofar as those objectives pertain to the prevention or detection of errors or irregularities in amounts that would be material in relation to the financial activities attributable to transactions of the Minnesota Racing Commission.

Representative Ann Rest, Chair  
Members of the Legislative Audit Commission  
Mr. Richard Pemberton, Chair  
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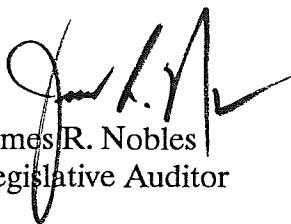
However, we noted certain matters involving the internal control structure and its operation that we reported to the management of the Minnesota Racing Commission at the exit conference held on April 17, 1992.

The results of our tests indicate that, except for the issue discussed in finding 1, with respect to the items tested, the Minnesota Racing Commission complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to the items not tested, nothing came to our attention that caused us to believe that the Minnesota Racing Commission had not complied, in all material respects, with those provisions.

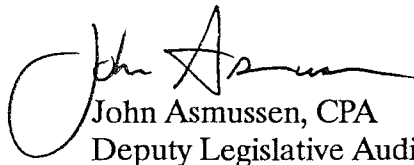
With respect to items not tested, nothing came to our attention that caused us to believe that the Minnesota Racing Commission had not complied, in all material respects, with those provisions.

This report is intended for the information of the Legislative Audit Commission and 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 22, 1992.

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



James R. Nobles  
Legislative Auditor



John Asmussen, CPA  
Deputy Legislative Auditor

End of Fieldwork: February 6, 1992

Report Signed On: May 18, 1992





# Minnesota Racing Commission

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### Audit Participation

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

John Asmussen, CPA	Deputy Legislative Auditor
Claudia Gudvangen, CPA	Audit Manager
Jack Hirschfeld, CPA	Auditor-In-Charge
Amy Jorgenson	Auditor
Steve Pyan, CPA	Auditor

### Exit Conference

The findings and recommendations in this report were discussed with the following staff of the Minnesota Racing Commission at an exit conference on April 17, 1992:

Richard Krueger	Executive Director
Carolyn Allmon	Director of Pari-Mutuals and Finance
Sharon Beighley	Office Manager



# Minnesota Racing Commission

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## Introduction

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The Minnesota Racing Commission was created by the Legislature in 1983. The powers and duties of the commission are specified in Minn. Stat. Chapter 240. The commission consists of nine members appointed by the Governor. The governor also appoints an executive director to serve as the chief administrative officer. Richard Krueger has served in this capacity since July, 1989.

Primary powers and duties of the commission include: regulating horse racing and enforcing all laws and rules governing horse racing, collecting and distributing all taxes imposed upon receipts collected by licensed racetracks, supervising the conduct of pari-mutuel betting on horse racing, conducting investigations and inquiries deemed necessary to carry out its duties, and issuing five classes of licenses.

Canterbury Downs in Shakopee is the only racetrack licensed by the commission. Canterbury Downs is owned and operated by a private corporation.

The Minnesota Racing Commission received \$2,754,000 in appropriations for the three fiscal years from 1989 through 1991. Following is a summary of the financial activities of the Minnesota Racing Commission during fiscal year 1991:

Appropriation	<u>\$980,000</u>
Receipts:	
Pari-mutuel Tax (1)	\$2,728,000
Reimbursements	485,000
Other Receipts	<u>153,000</u>
Net Receipts	<u>\$3,366,000</u>
Expenditures:	
Payroll	\$ 475,000
Professional/Technical Contracts	432,000
Breeders' Fund Awards (1)	973,000
Other Expenditures	<u>274,000</u>
Net Expenditures	<u>\$2,154,000</u>

Note (1): This amount includes \$325,000 in purse supplements not recorded on the statewide accounting system.

Source: Estimated/Actual Report as of August 31, 1991; and Managers Financial Report as of August 31, 1991.

### Current Finding and Recommendations

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**1. The Minnesota Racing Commission does not process all Breeders' Fund receipts and disbursements through the State Treasury.**

The Minnesota Racing Commission does not record Breeders' Fund purse supplement receipts and disbursements on the statewide accounting system. The commission collects a tax of one percent of the total amount bet on each racing day for deposit into the Minnesota Breeders' Fund. A portion of these receipts are allocated to supplement purses. Minnesota Rule 7874 governs the collection of the amount allocated for purse supplements. This rule allows the track to collect and retain amounts designated for purse supplements. The track then pays the purse supplement in conjunction with the payment of the scheduled purse winnings. The purse supplement receipts retained by the track are not deposited in the State Treasury or recorded on the statewide accounting system.

The commission does not have authority to withhold these receipts from the State Treasury and statewide accounting system. Minn. Stat. Section 16A.275 requires agencies to deposit all receipts into the state treasury. In addition, Section 16A.15 requires the Commissioner of Finance to keep an accounting system that shows by fund the actual amount of receipts and disbursements. By not including the purse supplements in the budget or on the statewide accounting system, the commission understated its receipts and expenditures by \$325,000 for fiscal year 1991. The state also lost possible investment income on money collected and retained by the track. The average daily balance of the purse supplement retained by the track for the 1991 live track meet was over \$234,000.

The money used to pay the purse supplements were not allotted and encumbered by the Commissioner of Finance. Minn. Stat. Section 16A.15 states that payments may not be made without a prior obligation. An obligation may not be incurred unless the commissioner has certified a sufficient unencumbered balance. The purse supplements were not paid out of encumbered funds.

#### *Recommendations*

- *The Minnesota Racing Commission should include purse supplement receipts and expenditures on statewide accounting records. In addition, the receipts collected for the Breeders' Fund should be deposited and retained in a state account as long as possible to maximize the interest earnings for the funds.*
- *The commission should work with the Office of the Attorney General to resolve conflicts between statutory provisions and applicable rules.*



## MINNESOTA RACING COMMISSION

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Licensing Office (April - October)  
P.O. Box 315, Shakopee, Minnesota 55379  
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Veterinary Office (April - October)  
P.O. Box 315, Shakopee, Minnesota 55379  
Telephone: 612-496-7753 Fax: 612-496-7762

April 24, 1992

Mr. James R. Nobles  
Legislative Auditor  
State of Minnesota  
1st Floor South, Centennial Office Building  
658 Cedar Street  
St Paul MN 55155

Dear Mr. Nobles:

Again, it is with a great deal of satisfaction that we have completed an audit by your office. Although one of your recommendations causes me some consternation, your memorandum and audit report indicate that the Commission is in compliance, in all material respects, with the scope of this audit engagement.

I want to compliment your staff members who worked on this audit. Ms. Gudvangen and Mr. Hirschfeld were extremely professional and cordial in their conduct and approach throughout the engagement. Although Ms. Jorgenson and Mr. Pyan were here on a limited basis, they also were very helpful and professional. You are all to be congratulated.

With regard to the recommendation on breeders' fund receipts it is my opinion that, contrary to the substance of the recommendation, the Commission has administered the purse supplement distribution in complete compliance with rules governing distribution of those monies and has been doing so since we began racing in 1985. The Commission rules state as follows:

Minn. Rule 7874.0100, Subp. 2. Payment of pari-mutuel tax, breakage, and breeders' fund. Taxes, breakage, and breeders' funds collected by an association must be remitted to the commission within seven days of the day on which it was collected. However, the amount allocated for purse supplements, pursuant to part 7895.0110, subpart 2, item B, may be deducted and retained by the association as reimbursement for purse supplements paid by it. The remittance must be accomplished by a direct deposit in a financial institution designated by the commissioner of finance and approved by the commission. On those days when the seventh day is a holiday or a weekend day, the payment must be made by the succeeding business day.

Minn. Rule 7895.0110, Subp. 6. Time of payment. Purse supplements are part of the purse and shall be credited to owners'

accounts at the time the purses are earned. All money allocated for breeders' awards and stallion awards shall be distributed within 30 days of the end of the thoroughbred race meeting.

Minn. Rule 7895.0300, Subp. 6. Time of payment. Purse supplements are part of the purse and shall be credited to owners' accounts at the time the purses are earned. All money allocated for breeders' awards, owners' awards, and stallion awards shall be distributed within 30 days of the end of the quarter horse race meeting.

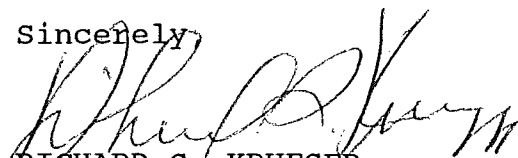
The manner in which we distribute these funds is to permit the Commission's licensee (Canterbury Downs) to retain the purse supplement portion of the breeders' fund and, on a daily basis, transfer that portion of the tax earned to the horsemens' account for credit to individual horse owner accounts. This is the most expeditious and cost-effective way to accomplish prompt payment to one of the many clientele we have, that being the horsemen in this instance.

Further, as your staff I'm sure has notified you, on a daily basis we control and review the reporting and accounting of this tax receipt/disbursement with the horsemens' bookkeeper and the Executive Director of the HBPA (Horsemens' Benevolent and Protective Association).

Up until now we have been doing this under authority of Commission rule. Had required legislative authority not existed, it puzzles me how the rule was promulgated back in 1985.

I hope you will agree with this observation and position.

Sincerely,



RICHARD G. KRUEGER  
Executive Director

RGK:sb

cc: Carolyn Allmon