

**GAMBLING CONTROL BOARD
FINANCIAL AUDIT
FOR THE TWO YEARS ENDED JUNE 30, 1991**

SEPTEMBER 1992

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

GAMBLING CONTROL BOARD
FINANCIAL AUDIT
FOR THE TWO YEARS ENDED JUNE 30, 1991

Public Release Date: September 11, 1992

No. 92-59

OBJECTIVES:

- EVALUATE INTERNAL CONTROL STRUCTURE: permit and license receipts, payroll, rent, professional services, and travel.
- TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.

CONCLUSIONS:

We found one area where the board's internal control structure needed improvement:

- Internal controls over receipts need strengthening.

We found three areas where the board had not complied with finance-related legal provisions:

- We question the authority for fee waivers granted to organizations whose site licenses expired from August through December 1990.
- The board is not granting compensatory time in accordance with employment contracts.
- The board is not in compliance with special expense procedures.

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

FINANCIAL AUDIT DIVISION



STATE OF MINNESOTA

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JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Ann Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Laura Schupp, Chair
Gambling Control Board

Members of the Gambling Control Board

Harry Baltzer, Executive Director
Gambling Control Board

Audit Scope

We have conducted a financial related audit of the Gambling Control Board as of and for the two 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 Gambling Control Board, as discussed in the Introduction. We have also made a study and evaluation of the internal control structure of the Gambling Control Board in effect during February 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 Gambling Control Board are free of material misstatements.

As part of our study and evaluation of the internal control structure, we performed tests of the Gambling Control Board'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 Gambling Control Board is responsible for establishing and maintaining an internal control structure. This responsibility includes compliance with applicable laws, regulations, contracts, and grants. 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:

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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:

- permit and license receipts,
- payroll,
- rent,
- professional services, and
- travel.

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

Our study and evaluation disclosed the condition discussed in finding 1 involving the internal control structure of the Gambling Control Board. We consider this condition to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data.

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A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial activities being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We do not believe the reportable condition described above is a material weakness.

The results of our tests indicate that, except for the issues discussed in the following paragraphs and findings 2 and 3, with respect to the items tested, the Gambling Control Board complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to items not tested, nothing came to our attention that caused us to believe that the Gambling Control Board had not complied, in all material respects, with those provisions.

The Gambling Control Board granted fee waivers to organizations whose site licenses expired from August 1 through December 31, 1990. In 1990, the Legislature replaced the site license requirement with a premise permit requirement. However, it repealed the site license effective August 1, 1990 and the premise permit requirement was not effective until January 1, 1991. The board did not believe it had legal authority to charge for either site licenses or premise permits between August 1 and December 31, 1990. However, it continued to accept applications and payments, and issued site licenses during this time.

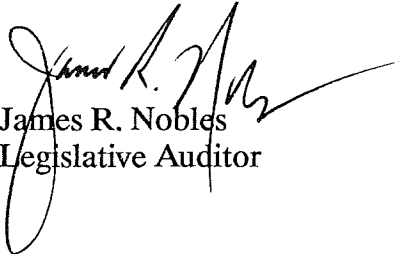
All the organizations who applied from August to December 1990 were given a one year premise permit free of charge. If an organization paid during this time period, the board kept the fee as a deposit for the next year. If an organization did not pay during this time period, it was given a site license free of charge and then charged a one year fee the following year.

We question whether the board's practice complied with the intent of applicable legal provisions. We believe all organizations should have been charged for a premise permit effective January 1, 1991.

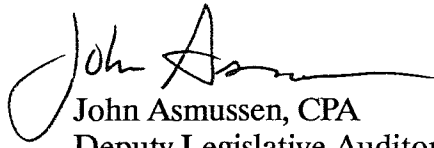
This report is intended for the information of the Legislative Audit Commission and management of the Gambling Control Board. This restriction is not intended to limit the distribution of this report, which was released as a public document on September 11, 1992.

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We would like to thank the Gambling Control Board staff for their cooperation during this audit.



James R. Nobles
Legislative Auditor



John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: April 3, 1992

Report Signed On: September 4, 1992

Gambling Control Board

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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
Lori Pellicci, CPA	Auditor-In-Charge
Judy Cammack, CPA	Staff Auditor
Jean Mellett, CPA	Staff Auditor

Exit Conference

The findings and recommendations in this report were discussed with the following staff of the Gambling Control Board on August 18, 1992:

Harry W. Baltzer	Executive Director
Bernice Caruth	Executive Assistant
Lee Graczyk	Lawful Gambling Compliance Supervisor
Debra Hellenberg	Accounting Officer

Gambling Control Board

Introduction

During our audit period the Gambling Control Board was a division of the Department of Gaming. The division's activities were controlled by a six member board appointed by the governor. Effective July 1, 1991, the Legislature abolished the Department of Gaming. It also increased board membership to seven. The governor appoints five of the board members, and the commissioner of public safety and attorney general each appoint one member.

The Gambling Control Board is responsible for regulating lawful gambling. It has the authority to issue, revoke, and suspend licenses; collect and deposit license fees; inspect the records, books and other documents of organizations to ensure legal compliance; make rules; and impose civil penalties against organizations found in noncompliance with the law.

The board operations are financed through General Fund appropriations. The following schedule shows total nondedicated receipts and operating expenditures for fiscal years 1990 and 1991:

	<u>1991</u>	<u>1990</u>
Revenue:		
Permits and license fees	\$ 784,232	\$ 814,214
Other revenues	<u>65,281</u>	<u>1,300</u>
Total Revenue	<u>\$ 849,513</u>	<u>\$ 815,514</u>
Expenditures:		
Employee payroll	\$1,002,761	\$ 389,428
Rent	131,174	38,644
Professional services	104,988	50,076
Travel	63,188	30,937
Other expenditures	<u>356,623</u>	<u>127,988</u>
Total Expenditures	<u>\$1,658,734</u>	<u>\$ 637,073</u>

Source: Statewide Accounting System Estimated Actual Receipts and Manager's Financial Reports as of the close of books for fiscal years 1990 and 1991.

Current Findings and Recommendations

1. Internal controls over receipts need strengthening.

The Gambling Control Board needs to improve its internal controls over receipts. First, board staff do not reconcile permits, licenses, and stamps issued to actual receipts deposited. As a result, it is unable to verify that it has properly collected and deposited required fees. The board reported that it collected \$1,021,505 in fees for fiscal year 1991 based on internal records. However, it only deposited \$849,513 in the state treasury. Staff were unable to reconcile the difference. One reason for the difference is that the board did not record actual receipts on its internal records for August through December 1990. During this period of transition between site licenses and premise permits, staff issued licenses whether or not a fee was received. In order to print a license, staff recorded receipt of a fee even if no payment was made. A person independent of collection and deposit duties should reconcile receipts to permits, licenses, and stamps issued to ensure that fees are collected, recorded and deposited.

The Gambling Control Board also does not adequately separate receipt duties. The person who receives registration stamp orders and payments also has custody of stamps, records stamp sales, and fills orders. These duties are incompatible and do not provide for prompt detection of errors. The person who receives cash should not keep records or have custody of registration stamps.

The board office does not deposit receipts daily as required by state law. Currently, staff deposit the funds two days after they receive them. The deposits usually total several thousand dollars. Staff who open mail also sort applications and checks and prepare a mail list. Staff stated that they do not have time to complete the mail list on the day they receive checks. Therefore, they complete the mail list one day later. Minn. Stat. Section 16A.275 requires agencies to deposit receipts totaling \$250 or more daily, unless the commissioner of finance provides an exemption. The Gambling Control Board does not currently have a waiver from the Department of Finance.

The board office also does not restrictively endorse checks immediately upon receipt. Instead, the person who prepares the deposit endorses the checks. Staff should endorse checks immediately to prevent unauthorized persons from cashing them.

In addition, the board office does not deduct nonsufficient funds checks from deposits immediately. Rather, staff deduct nonsufficient fund checks approximately five to six days after they receive the returned checks. In one case, staff deposited a \$2,500 replacement check three days before they deducted the nonsufficient funds check from the deposits.

Gambling Control Board

Recommendations

- *The Gambling Control Board should reconcile receipts to permits, licenses, and stamps issued.*
- *The Gambling Control Board should separate receipt duties.*
- *The Gambling Control Board should deposit receipts totaling \$250 or more daily or obtain a waiver from the Department of Finance.*
- *The Gambling Control Board should restrictively endorse checks upon receipt.*
- *The Gambling Control Board should immediately deduct nonsufficient funds checks from deposits.*

2. The Gambling Control Board is not granting compensatory time in accordance with employment contracts.

Gambling Control Board employees are earning compensatory time for time worked on normal job duties. The employees earn the majority of compensatory time during compliance reviews of gambling organizations. These reviews involve on-site visits to various locations throughout the state. Employees also earn compensatory time for working through lunch, traveling to a seminar in the metro area, and catching up on work. Also, there is no documentation that the employees received advance approval for the compensatory time earned. Seventeen of the 38 employees earned compensatory time during fiscal year 1991. Six employees earned over 100 hours in the fiscal year and eight earned between 50 and 100 hours. Most of the employees that earn compensatory time are lawful gambling control specialists. These employees are covered by the Minnesota Association of Professional Employees (MAPE) employment contract. This contract specifically states, "Employees may receive overtime at the rate of straight-time when assigned to a special work assignment which is in addition to their normal job duties and upon having received advance approval from their Appointing Authority." The Board should determine what constitutes a special work assignment. It should also develop policies to ensure that employees receive advance approval for compensatory time earned.

Recommendation

- *The Gambling Control Board should develop appropriate policies to ensure that employees are earning compensatory time in accordance with employment contracts.*

3. The Gambling Control Board is not in compliance with special expense procedures.

The Gambling Control Board has not developed a plan for review and approval of special expense requests. However, staff have made special expense expenditures without the required plan. Also, the Department of Finance cited the Board for reimbursing several fiscal year 1990 special expenses to employees without approved special expense requests on

Gambling Control Board

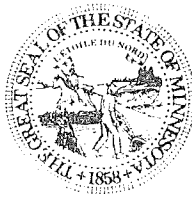
file. Special expenses are items which are not reimbursable through the regular expense regulations. Many of the expenses Finance cited were for meals and lodging within the employee's work area.

In addition, the Gambling Control Board reimbursed employees \$265 for the cost of playing bingo and pull tabs. As part of a training exercise, lawful gambling control specialists played bingo and pull tabs while visiting charitable gambling sites. The board reimbursed the employees up to \$25 each. If an employee won, they could keep their winnings but the board did not allow them to submit that expense for reimbursement. Gambling is not a necessary training expense and the board should not reimburse such costs with state funds.

Department of Employee Relations administrative procedures require agencies to develop a written plan and have it approved by both the Department of Employee Relations and the Department of Finance. The procedures further require that, except in emergency situations, agencies approve special expenses in advance.

Recommendations

- *The Gambling Control Board should develop a written special expense plan and have it approved.*
- *The Gambling Control Board should request and approve special expenses in advance.*
- *The Gambling Control Board should not reimburse employees for gambling expenses.*



STATE OF MINNESOTA

GAMBLING CONTROL BOARD
1711 West County Road B
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August 28, 1992

Mr. James Nobles, Legislative Auditor
Office of The Legislative Auditor
Centennial Office Building
St Paul, Minnesota 55155

Dear Mr. Nobles:

As requested, I am responding to findings in the Financial and Compliance Audit of the Gambling Control Board for July 1, 1989 through June 30, 1991.

1. Internal controls over receipts need strengthening.

Recommendations

- The Gambling Control Board should reconcile receipts to permits, licenses, and stamps issued.*
- The Gambling Control Board should separate receipt duties.*
- The Gambling Control Board should deposit receipts totaling \$250 or more daily or obtain a waiver from the Department of Finance.*
- The Gambling Control Board should restrictively endorse checks upon receipt.*
- The Gambling Control Board should immediately deduct nonsufficient funds checks from deposits.*

Response:

- Effective July 1, 1992 receipts will be reconciled to permits, licenses and stamps issued.
- Receipt duties are now separated. Payments for registration stamps are processed by receptionists. The stamps are then issued by the Legal Coordination/Special Licensing Section.
- Every effort is made to deposit funds within 24 hours. Steps have been taken to expedite processing of checks and cash. We have requested from Finance a waiver of the daily deposit requirement.
- Checks are being restrictively endorsed at the reception desk upon receipt.
- Nonsufficient funds checks will be deducted from deposits within 2 days of notification from the Treasurer's Office.

2. **The Gambling Control Board is not granting compensatory time in accordance with employment contracts.**

Recommendation

•The Gambling Control Board should develop appropriate policies to ensure that employees are earning compensatory time in accordance with employment contracts.

Response:

•The Gambling Control Board has a new compensatory time policy that went into effect July 1, 1992. Compensatory time will only be allowed for special assignments when approved in advance.

3. **The Gambling Control Board is not in compliance with special expense procedures.**

Recommendations

*•The Gambling Control Board should develop a written special expense plan and have it approved.
•The Gambling Control Board should request and approve special expenses in advance.
•The Gambling Control Board should not reimburse employees for gambling expenses.*

Response:

•The Gambling Control board has submitted a written special expense plan to the Department of Employees Relations and Finance.
•All special expenses will be approved in advance.
•The purchase of gambling equipment, i.e., pulltabs, raffle tickets, bingo cards, and tipboards is crucial in investigating gambling organizations. Expense reimbursement will be handled as a special expense and be limited to the Compliance Agent or Compliance Officer. Equipment purchased or prizes won becomes property of the State of Minnesota.

Thank you for the opportunity to respond. If you have questions please contact me.

Sincerely,



Harry W. Baltzer
Executive Director