
Gambling Control Board

Financial Audit

For the Three Years Ended June 30, 1995

August 1996

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Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

96-29



STATE OF MINNESOTA
OFFICE OF THE LEGISLATIVE AUDITOR
CENTENNIAL BUILDING, 658 CEDAR STREET • ST. PAUL, MN 55155 • 612/296-4708 • TDD RELAY 612/297-5353
JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Ann H. Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Dennis Flaherty, Chair
Gambling Control Board

Members of the Gambling Control Board

Mr. Harry W. Baltzer, Executive Director
Gambling Control Board

We have audited the Gambling Control Board for the period July 1, 1992, through June 30, 1995. Our audit scope included license revenues, employee payroll, and administrative expenditures. The following Summary highlights the audit objectives and conclusions. We discuss these issues more fully in the individual chapters of this report.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we obtain an understanding of management controls relevant to the audit. The standards also require that we design the audit to provide reasonable assurance that the Gambling Control Board complied with provisions of laws, regulations, contracts and grants that are significant to the audit. Management of the Gambling Control Board is responsible for establishing and maintaining the internal control structure and for compliance with applicable laws and regulations.

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 August 2, 1996.

James R. Nobles
Legislative Auditor

John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: May 13, 1996

Report Signed On: July 29, 1996

SUMMARY

State of Minnesota

Office of the Legislative Auditor

Centennial Office Building • St. Paul, MN 55155

612/296-4708

Gambling Control Board

Financial Audit For the Three Years ended June 30, 1995

Public Release Date: August 2, 1996

No. 96-29

Agency Background

The Gambling Control Board (board) is responsible for regulating lawful gambling. It has the authority to license organizations and personnel involved in lawful gambling operations, to audit lawful gambling organizations for compliance with statutes and rules, and to impose civil penalties against organizations found in noncompliance with the law.

The board's operations are financed through General Fund appropriations. By statutory and rule authority, the board collects licensing fees and fines. The board deposits license fees into the General Fund as nondedicated revenue.

Audited Areas and Conclusions

Our audit scope covered the three years ended June 30, 1995 and included license and fine revenues, employee payroll, and administrative expenditures. Based on our audit of license and fine revenues, we concluded that the board needs to perform additional procedures to ensure that it collects the appropriate amount of license revenues for the number of licenses issued. For the license fees and fines deposited, the board assessed the proper amounts according to statute. The board deposited the fees promptly and recorded them accurately on the statewide accounting system.

For employee payroll, we concluded that the board established policies and procedures to ensure that payroll was properly authorized, except that controls over access to the payroll and personnel systems need improvement. The board accurately recorded payroll expenditures on the personnel and payroll accounting system. The board's staff were paid at the proper amounts according to applicable bargaining unit agreements.

We also concluded that the board properly and accurately processed and recorded administrative expenditures on the statewide accounting system. Administrative expenditures were reasonable, within the legal provisions of the appropriation, and complied with applicable finance related legal provisions.

Contact the Financial Audit Division for additional information.

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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
Jim Riebe, CPA	Audit Manager
Charlie Gill	Auditor-In-Charge
Fubara Dapper, CPA	Senior Auditor

Exit Conference

The findings and recommendations in this report and an additional matter involving the internal control structure were discussed with the following staff of the Gambling Control Board on July 24, 1996

Harry W. Baltzer	Executive Director
Bernice Caruth	Executive Assistant Principal
Deb Hellenberg	Office Services Supervisor
Steve Pedersen	Licensing Supervisor

Gambling Control Board

Chapter 1. Introduction

The Gambling Control Board (board) consists of seven members. Five members are appointed by the Governor, one by the Commissioner of Public Safety, and one by the Attorney General. All members are appointed with the advice and consent of the senate. Harry W. Baltzer has served as Executive Director of the board since August 1991.

The board regulates lawful gambling in Minnesota. It has the authority to license organizations and personnel involved in lawful gambling operations, to audit lawful gambling organizations for compliance with statutes and rules, and to impose civil penalties against organizations found in noncompliance with the law. The board has four offices which are located in Roseville, Fergus Falls, Hibbing, and St. Peter.

By statutory and rule authority, the board collects licensing fees and fines. The board deposits receipts into the General Fund as nondedicated revenue. The board's operations are financed through General Fund appropriations. Appropriations totaled approximately \$1.9 million each year for fiscal years 1993, 1994, and 1995. Table 1-1 shows total nondedicated revenues and operating expenditures for the audit period.

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**Table 1-1
Gambling Control Board
Revenues and Expenditures**

	<u>1993</u>	<u>1994</u>	<u>1995</u>
Revenue (Net of revenue refunds):			
Permits and license fees	\$677,550	\$1,218,000	\$719,600
Fines	58,000	80,450	60,206
Other revenues	<u>68,669</u>	<u>36,672</u>	<u>(1,578)*</u>
Total Revenues	<u>\$804,219</u>	<u>\$1,335,122</u>	<u>\$778,228</u>
Expenditures:			
Employee payroll	\$1,438,883	\$1,412,177	\$1,488,893
Rent	153,702	152,345	152,981
Professional services	73,100	104,092	65,490
Travel	59,583	55,316	69,262
Supplies and equipment	51,010	31,918	211,762
Other expenditures	<u>74,952</u>	<u>89,369</u>	<u>98,417</u>
Total Expenditures	<u>\$1,851,230</u>	<u>\$1,845,217</u>	<u>\$2,086,805</u>

* The negative balance is due to a legislative change (Minn. Stat. Section 349.162 Subd. 1 (b)) whereby disposable registration stamps became obsolete and the board refunded fees to manufacturers and distributors for unused stamps.

Source: Statewide Accounting System Estimated Actual Receipts and Manager's Financial Reports as of the close of books for fiscal years 1993, 1994, and 1995.

The table shows a significant increase in license and fee permits in fiscal year 1994. It also indicates an increase in supplies and equipment expenditures in fiscal year 1995. The reason for the increase in license and permit fees is that premises permits are issued on a two year cycle. The increase in supplies and equipment expenditures resulted from increased purchases of office equipment and to a lesser extent, miscellaneous office supplies.

The five forms of lawful gambling conducted by nonprofit organizations are bingo, pull-tabs, paddlewheels, tipboards, and raffles. According to the 1996 Annual Report of the Gambling Control Board, gross receipts from these activities totaled approximately \$1.3 billion during the period July 1, 1994 to June 30, 1995. Of this amount, the Department of Revenue collected approximately \$65 million in taxes, and about \$78 million went to support charitable causes.

Minn. Stat. 1994, Section 349.12, Subd. 25 governs the types of expenditures that lawful gambling organizations can make from gambling proceeds. In general, the expenditures are to be made for charitable causes. Those causes include poverty; physical or mental health; education; humanitarian or military service; recreational, community, and athletic facilities and activities for persons under 21; government; churches; taxes and audits of gambling organizations; wildlife management; and snowmobile trails.

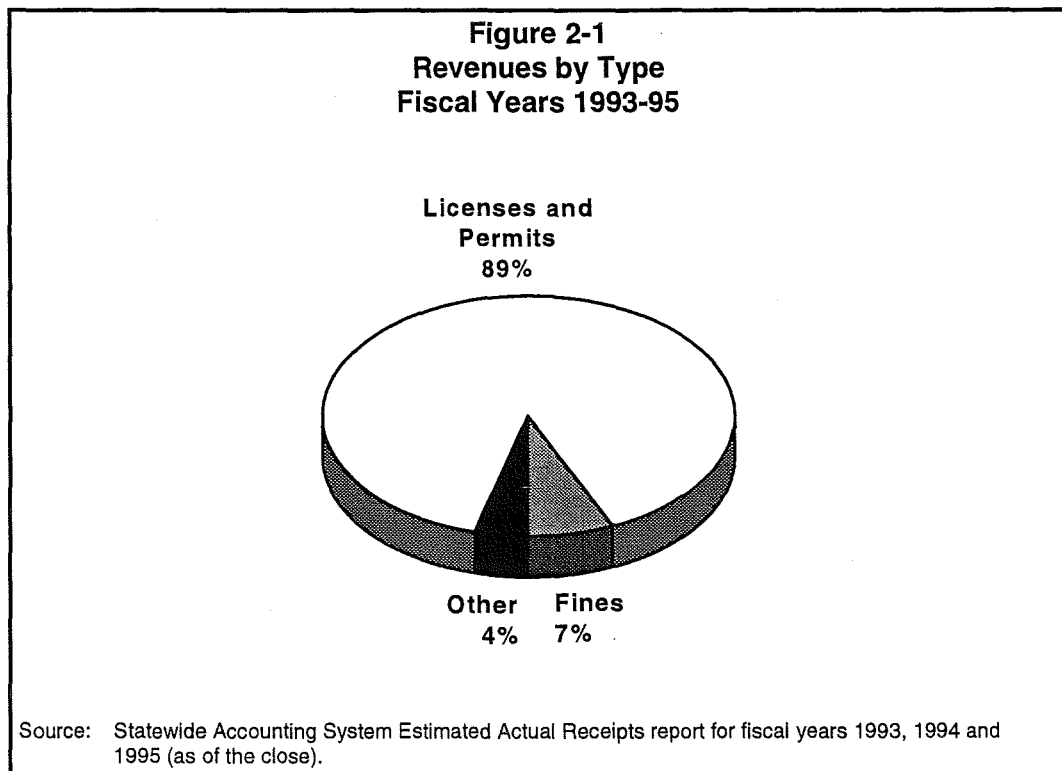
Chapter 2. License and Fines Revenues

Chapter Conclusions

The board needs to perform additional procedures to ensure that it collects the appropriate amount of license revenues for the number of licenses issued. For the license fees and fines deposited, the board assessed the proper amounts according to statute. The board deposited the fees promptly and recorded them accurately on the statewide accounting system.

Background

The board collects licensing fees and fines by statutory and rule authority. The board deposits the fees into the General Fund as nondedicated revenue. Fees for licenses and permits represent the majority of the receipts the board collects. In addition, the board assesses and collects fines as part of its regulatory function. Figure 2-1 shows the percentage of each type of revenue for the three years ended June 30, 1995.



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The revenues collected during fiscal years 1993, 1994 and 1995, covered approximately 51 percent of the board expenditures for the same period. Although Minn. Stat. Section 16A.1285 requires that agencies recover the costs involved in licensing or regulatory functions, the board and the Department of Finance have not recommended fee increases because of the significance of lawful gambling tax revenues collected by the Department of Revenue.

During fiscal year 1995, the Minnesota licensed lawful gambling industry was comprised of 37 manufacturers and distributors, 1,558 nonprofit organizations each with a gambling manager, 3,102 permitted premises, 19 bingo halls, and 1,254 exempt organizations. Table 2-1 shows the license and permit fees collected for fiscal years 1993, 1994 and 1995:

	<u>1993</u>	<u>1994</u>	<u>1995</u>
Licenses:			
Manufacturer and Distributor	\$ 160,500	\$ 163,000	\$176,000
Bingo Hall	57,500	45,000	53,500
Gambling Manager	183,200	179,000	224,100
Premises Permits	243,800	791,000	222,000
Exempt Permits	<u>38,500</u>	<u>40,000</u>	<u>44,000</u>
 Total	 <u>\$683,500*</u>	 <u>\$1,218,000</u>	 <u>\$719,600</u>

* Fiscal year 1993 license and permit fees, net of refunds, totaled \$677,550. In fiscal years 1994 and 1995, the board presented fees net of refunds.

Source: Annual Reports of the Gambling Control Board for 1994, 1995, and 1996.

License fees range from \$100 to \$5,000. There is no fee for nonprofit organization licenses. Permit fees range from \$25 to \$400. Effective August 1991, the board began renewing premises permits on a two-year cycle. This change accounts for the large increase in premises permits revenues during fiscal year 1994 (and future even-numbered years) as shown in Table 2-1. New premises permits, and premises permits renewed prior to August 1991, account for premises permits revenues collected in the odd-numbered years as presented in the table.

Objectives

We focused our review of receipts on the following objectives:

- Did the board collect the appropriate amount of license fees based on the number of licenses issued, and were fees, including fines, assessed at the approved rates?
- Were the fee receipts adequately safeguarded and properly recorded on the statewide accounting system?

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Methodology

The methodology we used to audit revenues included interviewing agency staff to gain an understanding of how they process receipts. We performed analytical procedures to determine and evaluate changes in revenues during the three year period. We also selected a sample of licenses issued and traced the deposits through the accounting system.

Conclusions

The board needs to perform additional procedures to ensure that it collects the appropriate amount of license revenues for the number of licenses issued, as cited in finding 1. For the license fees and fines deposited, the board assessed the proper amounts according to statute. The board deposited the fees promptly and recorded them accurately on the statewide accounting system.

1. The board did not ensure that it collected the appropriate amount of license revenues for the number of licenses issued.

The board did not perform periodic reconciliations of the number of licenses issued to the license revenues recorded on the statewide accounting system. The board issues licenses from its licensing computer system. The licensing system has the capability to produce the necessary reports to enable staff to complete the reconciliation. During the audit period the board deposited approximately \$2.6 million in total.

Without a timely reconciliation between the number of licenses issued and the license revenues deposited, the board cannot be assured that it has collected and deposited the appropriate amount of license receipts. Absent this control procedure, errors could occur and remain undetected.

Recommendation

- *The board should perform monthly reconciliations of the license revenues recorded on the statewide accounting system to the number of licenses issued as recorded on the licensing computer system.*

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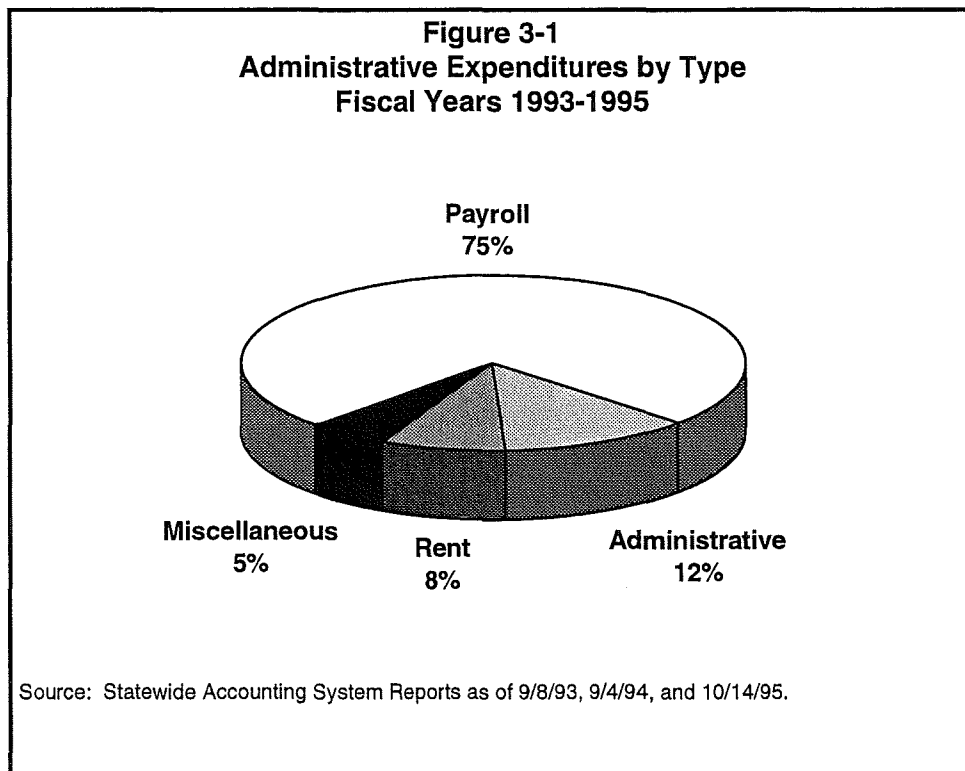
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Chapter 3. Payroll and Other Administrative Expenditures

Chapter Conclusions

The board's administrative expenditures, including payroll, were consistent with the board's purpose. The expenditures were reasonable, in compliance with applicable laws and regulations, and accurately recorded in the statewide accounting or payroll and personnel systems. The board's staff were paid at the proper amounts according to applicable bargaining unit agreements. We found, however, that controls over access to the payroll and personnel systems need improvement.

Payroll represents the majority of the board's expenditures. In addition to rent, other significant administrative expenditures include rent, professional service contracts, supplies and equipment, and travel. The board incurs other miscellaneous expenditures which consist mainly of repairs, printing, and communications expenditures. Figure 3-1 shows the percentage of each type of expenditure for the three years ended June 30, 1995.



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Payroll

Personal services are the largest expenditures of the board. During each year of the audit period, the board incurred approximately \$1.4 million for payroll expenditures. The board employs approximately forty employees. The board's accounting staff processes payroll through the statewide payroll system on a biweekly basis.

Objectives

We focused our review of payroll on the following objectives:

- Does the board have policies and procedures to ensure that payroll expenditures are properly authorized and accurately recorded on the accounting system?
- Were the board's staff paid at the proper amounts according to applicable bargaining unit agreements?

Methodology

The methodology used to evaluate the audit objectives over payroll included inquiries, analytical reviews, and testing a sample of transactions. We interviewed accounting staff to gain an understanding of the payroll process. We tested a sample of payroll records to ensure that the board properly authorized and accurately recorded payroll.

Conclusions

The board's staff were paid at the proper amounts according to applicable bargaining unit agreements. Payroll expenditures were accurately recorded on the payroll and personnel systems. We found, however, that controls over access to payroll and personnel system need improvement as disclosed in finding 2.

2. Controls over access to the payroll and personnel system need improvement.

Three board employees have update (input) access to both the payroll and human resources computer systems. A fourth employee, the payroll clerk, has full access to payroll but only inquiry access to the human resources records which is appropriate. Having update access to both the payroll and human resource records does not provide adequate control over the payroll and personnel functions to ensure that errors or irregularities are prevented or detected in a timely manner. To improve control over payroll expenditures which represent a significant expenditure of the board, employees performing payroll functions generally should not be able to update human resources records. Although the board is a small agency, we believe that a stronger separation of these functions could be achieved by not allowing access to both the payroll and personnel systems.

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Recommendation

- *The Gambling Control Board should not allow employees to have update access to both payroll and human resource records on the system.*

Other Administrative Expenditures

The board incurred administrative expenditures, other than payroll, in the following categories: travel, professional technical services, purchased services, supplies and equipment, rent, and other miscellaneous expenses.

Objectives

During our review of other administrative expenditures, we considered the following objectives:

- Were the board's administrative expenditures consistent with the board's purpose?
- Were administrative expenditures reasonable, made in compliance with applicable laws and regulations, and accurately recorded in the statewide accounting system?

Methodology

The methodology we use to audit administrative expenditures included various audit techniques. We interviewed the board's staff to gain an understanding of the disbursement process. We obtained the board's financial data from the statewide accounting system. This data allowed us to review, analyze, and select sample items to test. We performed analytical procedures to evaluate any trends throughout the audit period. In addition, we reviewed documentation supporting expenditures.

Conclusions

We concluded that the board's administrative expenditures were consistent with the board's purpose. The expenditures were reasonable, made in compliance with applicable laws and regulations, and accurately recorded in the statewide accounting system.

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State of Minnesota • Gambling Control Board

July 26, 1996

Suite 300 South
1711 W. County Road B
Roseville, MN 55113
612/639-4000

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

Dear Mr. Nobles:

A financial-related audit the period July 1, 1992 through June 30, 1995 was completed by your office. The conclusions and recommendations along with our response follows.

1. The board needs to perform additional procedures to ensure that it collects the appropriate amount of license revenues for the number of licenses issued. For the license fees and fines deposited, the board assessed the proper amounts according to statute. The board deposited the fees promptly and recorded them accurately on the statewide accounting system.

Recommendations:

The board did not ensure that it collected the appropriate amount of license revenues for the number of licenses issued.

Response:

While our staff did verify a license fee had been paid on all licenses issued, a monthly reconciliation to ensure accuracy of this verification process was not done. The board will begin a new monthly reconciliation process that will account for all receipts received. The Licensing Supervisor will compare a report of all license applications and fees received against a report of license fees actually processed for that same period of time. Discrepancies will be handled immediately by updating databases with correct information or contacting license applicants to submit additional receipts. With programming updates to our licensing system, we hope to fully automate this process in the future.

2. The board's administrative expenditures, including payroll, were consistent with the board's purpose. The expenditures were reasonable, in compliance with applicable laws and regulations, and accurately recorded in the statewide accounting or payroll and personnel systems. The board's staff were paid at the proper amounts according to applicable bargaining unit agreements. We found, however, that controls over access to the payroll and personnel systems need improvement.

Recommendations:

The Gambling Control Board should not allow employees to have update access to both payroll and human resource records on the system.

Response:

For the period covered by this audit, updates to employee appointment and pay records were reviewed and entered into the Payroll Personnel System (PPS) by Employee Relations staff. Information for these updates was provided by board staff. With conversion to SEMA4, each agency became responsible for maintaining and updating their employee personnel and payroll information in SEMA4.

The board converted from PPS to SEMA4 on December 12, 1995. Prior to conversion, security profiles for 4 staff members were discussed at length with Statewide System Project conversion analysts. Their recommendation was small agencies would need full access to both Human Resources and Payroll functions for at least one individual.

Full access clearance was requested for the Office Services Supervisor who administers the personnel program for the agency. Full access was also requested and granted by SEMA4's Security Administrator for another employee (Management Analyst 3) to allow for backup during a leave of absence. SEMA4 access restricted to Payroll was requested for the payroll clerk and a backup for payroll. Because of a keying error, the backup for payroll was given full clearance for both human resources and payroll. Immediately after being brought to our attention by Legislative Audit staff, that individual's security profile was restricted to the Payroll system only.

In discussing concerns with the SEMA4 Security Administrator, there are over 300 state employees with full access to both the payroll and human resources aspects of the SEMA4 system. We feel it is essential to continue the full access profile for the Office Services Supervisor and Management Analyst. We now have only 1 payroll clerk. The Management Analyst is backup for both the human resource and payroll aspects of SEMA4. While separation of duties is always a concern, as a small agency it is hard to achieve with limited staff.

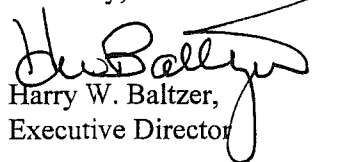
We will institute the following safeguards to ensure the integrity and accuracy of our human resources and payroll information:

- Leave balances will be verified each pay period by an employee with no SEMA4 access. This will ensure balances are accurate and any adjustments are valid and documented.
- The Payroll Register will be compared to the previous pay period's report by an employee without system access. Additional employees and changes in pay rates will be highlighted. The report will be reviewed and signed by the Executive Director or Executive Assistant Principal.

This information will be verified back to the December 12, 1995 conversion to SEMA4.

Thank you for the opportunity to respond to these audit recommendations. If you would like to discuss them before the report is issued, please contact me.

Sincerely,


Harry W. Baltzer,
Executive Director