

# **Minnesota Racing Commission**

## **Financial Audit**

**For the Period July 1, 1991, through June 30, 1995**

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**August 1996**

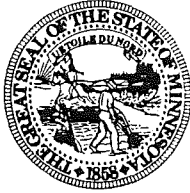
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**Financial Audit Division  
Office of the Legislative Auditor  
State of Minnesota**

**96-32**





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. Richard Pemberton, Chair  
Minnesota Racing Commission

Members of the Minnesota Racing Commission

Mr. Richard Krueger, Executive Director  
Minnesota Racing Commission

We have audited the Minnesota Racing Commission for the period July 1, 1991, through June 30, 1995, as further explained in Chapter 1. Our audit scope included a review of pari-mutuel tax, unredeemed ticket, reimbursements, and license fee revenues. We also reviewed payroll, professional/technical services, and administrative expenditures. In addition, we examined the financial activities of the Breeders' Fund. 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 Minnesota Racing Commission complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. Management of the Minnesota Racing Commission 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 Minnesota Racing Commission. This restriction is not intended to limit the distribution of this report, which was released as a public document on August 23, 1996.

A handwritten signature in cursive script, reading "James R. Nobles".

James R. Nobles  
Legislative Auditor

A handwritten signature in cursive script, reading "John Asmussen".

John Asmussen, CPA  
Deputy Legislative Auditor

End of Fieldwork: July 3, 1996

Report Signed On: August 16, 1996



# 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 Period July 1, 1991, through June 30, 1995**

Public Release Date: August 23, 1996

No. 96-32

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#### **Background Information**

The primary responsibilities of the Minnesota Racing Commission (commission) are to regulate horse racing by enforcing laws and rules, collecting and distributing all taxes imposed upon revenues collected by licensed racetracks, supervising the conduct of pari-mutuel wagering, conducting investigations and inquiries, and issuing licenses. The commission is comprised of nine members appointed by the Governor for six year terms. The Senate confirms the appointments. The Governor also appoints an executive director to serve as the chief administrative officer. Richard Krueger has served in this position since 1989.

#### **Audit Scope and Objectives**

Our audit scope included a review of pari-mutuel taxes, unredeemed tickets, license fees, and reimbursement revenues. We also reviewed payroll, professional/technical services, and administrative expenditures. In addition, we examined the financial activities of the Breeders' Fund. Our audit period was July 1, 1991, through June 30, 1995. As part of our audit, we considered management controls relevant to the commission's financial operations and determined compliance with significant laws and regulations.

#### **Conclusions**

We concluded that the commission collected the appropriate amount of pari-mutuel taxes, unredeemed tickets, license fees, and reimbursement revenues as set in statute. The commission adequately safeguarded and properly recorded the fees in the statewide accounting system.

The commission also processed payroll, professional/technical services, and administrative expenditures in accordance with applicable laws and regulations. These expenditures were made for a proper purpose and accurately recorded in the statewide accounting system. We found, however, that the commission reimbursed some commission members for ineligible expenses.

The commission appropriately administered the Breeders' Fund in accordance with applicable laws and regulations. Fund revenues and expenditures were adequately controlled and properly accounted for.

**Contact the Financial Audit Division for additional information.**

**296-1235**



# 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
Jim Riebe, CPA	Audit Manager
Pat Ryan	Auditor-in-Charge
Sonya Hill, CPA	Auditor
Susan O'Connell	Auditor

### Exit Conference

We discussed the findings and recommendations with the following staff of the Racing Commission at an exit conference held on August 15, 1996:

Richard Krueger	Executive Director
Pam Webber	Office Manager
Jean LeBeau	Mutuels Manager
James Filkins	Racing Commissioner





# Minnesota Racing Commission

## Chapter 1. Introduction

The Minnesota Legislature established the Racing Commission (commission) in 1983 pursuant to Minn. Stat. Chapter 240. The primary responsibilities of the commission are to regulate horse racing by enforcing laws and rules, collecting and distributing all taxes imposed upon revenues collected by licensed racetracks, supervising the conduct of pari-mutuel wagering, conducting investigations and inquiries, and issuing licenses.

The commission is comprised of nine members appointed by the Governor to six year terms. The Senate confirms the appointments. 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 receives an annual appropriation and also receives revenue from the Breeders' Fund tax which is generated from a tax imposed on pari-mutuel wagering. Table 1-1 provides a summary of the commission's financial activity for the four fiscal years ended June 30, 1995.

**Table 1-1**  
**Summary of Financial Activity by Fiscal Year**

<b>Sources:</b>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
General Fund Activities				
Appropriations	\$1,046,000	\$1,058,000	\$366,000	\$ 277,000
Pari-Mutuel Tax	850,379	370,403	107,063	695,716
Unredeemed Tickets	375,755	235,645	0	68,157
License Fees	118,365	26,837	25,505	102,129
Reimbursements	258,921	135,645	0	799
Other	24,620	43,945	481	52,074
Total General Fund	<u>\$2,674,040</u>	<u>\$1,870,475</u>	<u>\$499,049</u>	<u>\$1,195,875</u>
Special Revenue Fund Activities				
Breeders' Fund Tax (1)	\$ 568,238	\$ 307,158	\$110,241	\$ 664,181
Reimbursements	183,604	78,794	0	43,750
Total Special Revenue Fund Activities	<u>\$ 751,842</u>	<u>\$ 385,952</u>	<u>\$110,241</u>	<u>\$ 707,931</u>
Total Sources	<u>\$3,425,882</u>	<u>\$2,256,427</u>	<u>\$609,290</u>	<u>\$1,903,806</u>
<b>Uses:</b>				
General Fund Activities				
Payroll	\$ 490,026	\$ 423,306	\$196,009	\$ 205,670
Professional/Technical Services	417,332	164,020	29,001	51,601
Travel and Per Diems	54,234	38,667	10,321	14,941
Refunds	1,500	10,500	0	2,000
Other	150,471	172,133	47,982	68,319
Total General Fund	<u>\$1,113,563</u>	<u>\$ 808,626</u>	<u>\$283,013</u>	<u>\$ 342,531</u>
Special Revenue Fund Activities				
Breeders' Fund Activities (1)	\$ 335,866	\$ 452,263	\$ 2,737	\$361,983
Reimbursement Account Activities	208,789	96,936	0	42,080
Subtotal Special Revenue Fund	<u>\$544,2655</u>	<u>\$ 549,199</u>	<u>\$ 2,737</u>	<u>\$404,063</u>
Total Uses	<u>\$1,658,218</u>	<u>\$1,357,825</u>	<u>\$285,750</u>	<u>\$746,597</u>

(1) See Chapter 3 for an explanation of the financial activity in the Breeders' Fund.

Source: Statewide Accounting System Managers Financial Reports and Estimated Actual Receipts Reports as of the close of books.

## **Minnesota Racing Commission**

It is important to note that the racetrack was closed in 1993 and reopened for simulcasting in May 1994. Live racing resumed in 1995. These factors significantly affected the amount of appropriations, revenues, and expenditures during those years of the audit period.

# Minnesota Racing Commission

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## Chapter 2. Revenues

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### *Chapter Conclusions*

*The commission collected and deposited the appropriate amount of pari-mutuel tax, license fees, unredeemed tickets, and reimbursements as set forth in statute. The commission also adequately safeguarded and properly recorded the revenues in the statewide accounting system.*

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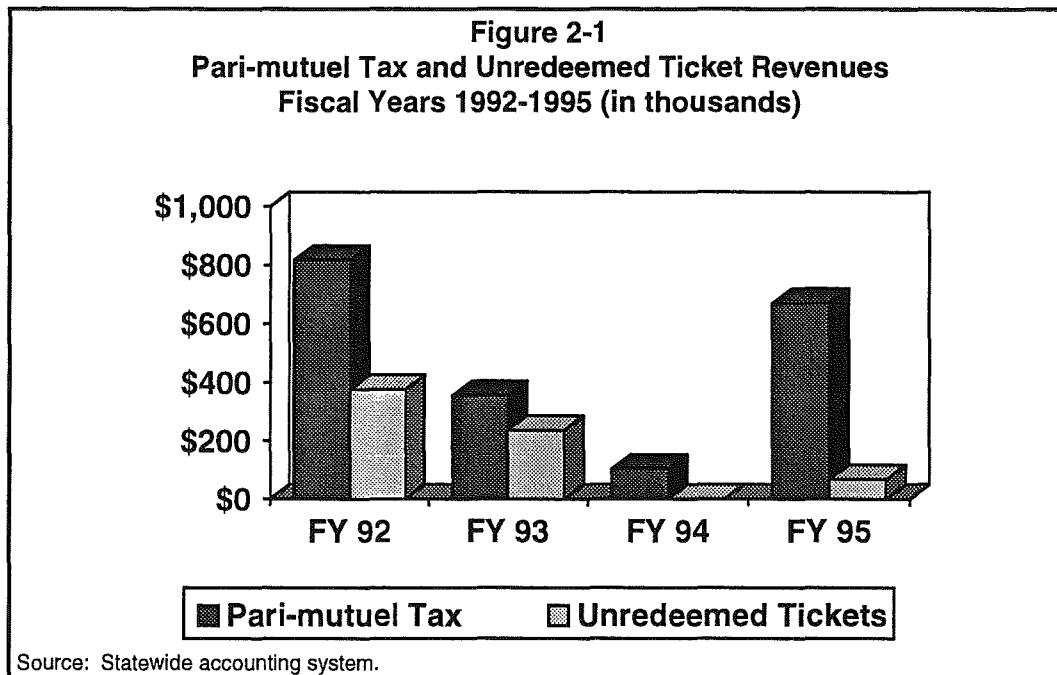
### **Pari-mutuel Tax and Unredeemed Ticket Revenues**

The commission is responsible for collecting pari-mutuel taxes and unredeemed tickets from wagering at horse racing tracks in the state. Currently, there is only one racetrack operating in the state, Canterbury Park, located in Shakopee. The racetrack was closed in 1993 and reopened for simulcasting in May 1994. Live racing resumed in 1995. These factors significantly affected the amount of revenue collected by the commission. Minn. Stat. Section 240.15 imposes a tax of six percent on the total amount of the takeout withheld from all pari-mutuel pools. Minn. Stat. Section 240.13 allows the racetrack to deduct up to 17 percent from straight win, place, and show pari-mutuel pools and 23 percent from multiple pari-mutuel pools (exactas, daily doubles, etc.). The pari-mutuel tax is based on these takeout amounts. The racetrack has seven days from the date of the races to remit the tax to the commission. These revenues are deposited into the state's General Fund.

Unredeemed ticket revenues result when winning pari-mutuel tickets are not cashed in by bettors. The racetrack retains the value of unredeemed tickets for up to 100 days after the end of a racing meet. After that time, the racetrack must remit the value of the outstanding tickets to the commission, together with a detailed list of the outstanding tickets. Holders of unredeemed tickets have one year from the date the commission receives the proceeds to submit a winning ticket. After one year, the value of the unredeemed tickets is retained by the state's General Fund.

In 1996, the Legislature amended Minn. Stat. Section 240.15 by exempting the racetrack from paying the six percent pari-mutuel tax on the first \$12,000,000 of the takeout amount withheld by the racetrack each year. The change was effective July 1, 1996, and remains in effect until July 1, 1999. The statute was also amended to allow the racetrack to retain the proceeds of unredeemed tickets one year after the conclusion of the race meet. This statutory change is effective until December 31, 1999. Figure 2-1 provides a summary of pari-mutuel and unredeemed ticket revenues collected during the audit period.

# Minnesota Racing Commission



## License Fees

The commission is responsible for licensing anyone employed at a racetrack in Minnesota to help ensure that only qualified individuals participate in horse racing. Applicants are fingerprinted and are required to release personal information to the commission. The commission establishes the fees for occupational licenses through the rulemaking process. The license fee for racetracks is specified in Minn. Stat. Section 240.10. During the four years ended June 30, 1995, the commission issued over 12,000 licenses and collected more than \$270,000 in fees. The fees for licenses are deposited into the state's General Fund.

## Reimbursements

Canterbury Park reimburses the commission for the costs incurred in providing services such as assistant veterinarians and racing stewards to the racetrack. The costs incurred and the related reimbursements are accounted for in a Special Revenue Fund. Costs of \$701,513 were reimbursed to the commission during the four year audit period.

## Scope and Objectives

We focused our review of commission revenues on the following objectives:

- Did the commission collect and deposit the appropriate amount of pari-mutuel tax, unredeemed ticket receipts, license fees, and reimbursements in accordance with Minnesota statutes and rules?
- Did the commission adequately safeguard and properly record revenues in the statewide accounting system?

# **Minnesota Racing Commission**

## **Audit Procedures and Results**

We interviewed commission staff to gain an understanding of the controls in place over the processing of these revenues. We also performed analytical reviews and selected samples of transactions from the respective revenue types for detailed audit tests.

Based on the testing performed, we concluded that the commission collected the appropriate amount of pari-mutuel taxes, unredeemed tickets, license fees, and reimbursements. The commission adequately safeguarded and properly deposited the revenue in the State Treasury.

## Minnesota Racing Commission

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# Minnesota Racing Commission

## Chapter 3. Breeders' Fund

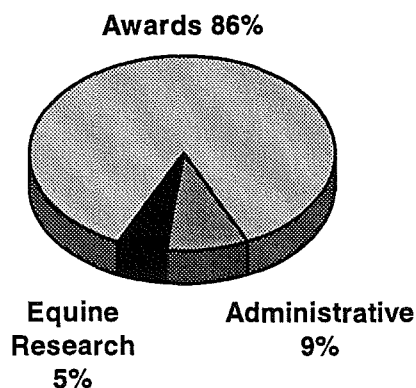
### Chapter Conclusions

*The commission collected and deposited the appropriate amount of Breeders' Fund tax as required by Minnesota statutes. The revenue collected was adequately safeguarded and properly recorded on the statewide accounting system.*

*Expenditures from the Breeders' Fund were made in accordance with applicable laws and regulations.*

The commission is responsible for administering the Breeders' Fund. The primary purpose of the Breeders' Fund is to provide incentive to Minnesota horse breeders and horse owners to participate in racing in Minnesota. The fund's revenue is derived from a one percent tax on the total amount wagered on live races, and a 5.5 percent tax on the takeout from simulcast races. During the period July 1, 1991, through June 30, 1995, the commission collected and deposited about \$1.6 million into the fund. The revenue collected is allocated to three different areas: recouping the cost of administering the fund, equine research, and awards and purse supplements for breeds of horses participating in racing in Minnesota. The allocation of the revenue is specified in Minn. Stat. Section 240.18 and Minnesota Rules Chapter 7895. The Breeders' Fund is accounted for in the Special Revenue Fund. Figure 3-1 shows the allocation of revenue received during the audit period.

**Figure 3-1**  
**Allocation of Breeders' Fund Revenue**  
**Fiscal Years 1992-1995**



Source: Statewide accounting system.

# Minnesota Racing Commission

Prior to 1996, the commission was not collecting and depositing the portion of the Breeders' Fund tax allocated to purse supplements. Instead, the commission allowed Canterbury Park to retain and allocate the funds to purses as directed by the commission. In our audit report for the three years ended June 30, 1991, we concluded that the commission should have collected and deposited these funds into the State Treasury. We reviewed the procedures for the 1996 racing meet and found that the commission is now collecting the purse supplement portion from the racetrack and depositing the proceeds into the State Treasury.

After deducting the administrative and equine grant portion from the Breeders' Fund tax, the commission allocates the remaining funds to purse supplements and awards to Minnesota-bred horses and owners of the Minnesota sires of Minnesota-bred horses that finish third or better in any pari-mutuel race. Table 3-1 provides a summary of the fund's revenues and expenditures for the four years ended June 30, 1995.

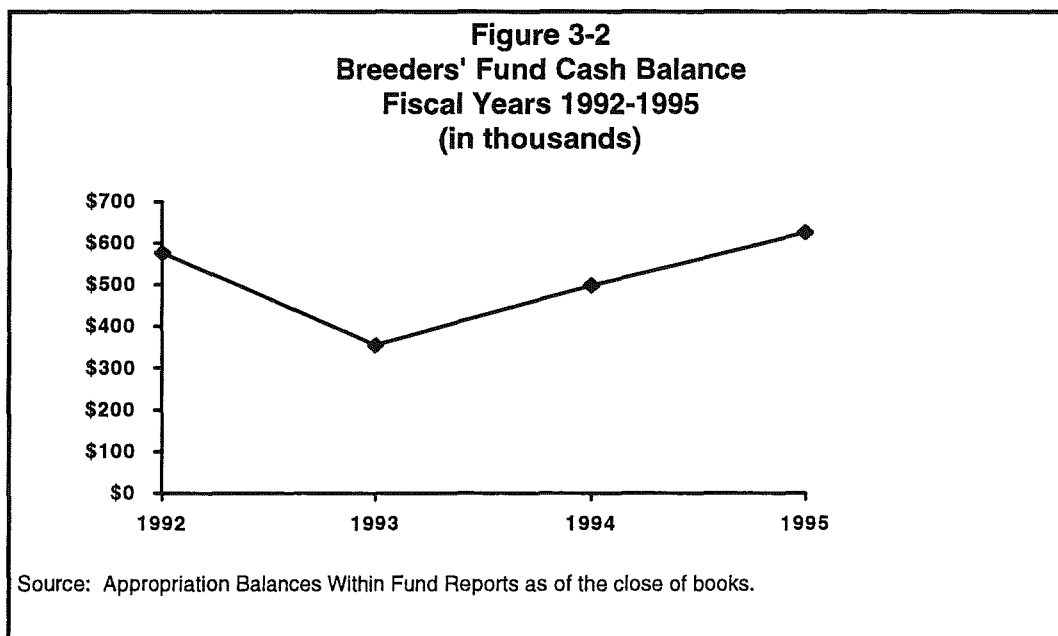
**Table 3-1**  
**Breeders' Fund Financial Activity by Fiscal Year**

	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
Breeders' Fund Tax Revenues	<u>\$568,238</u>	<u>\$307,158</u>	<u>\$110,241</u>	<u>\$664,181</u>
Breeders' Fund Expenditures:				
Payroll	\$ 34,025	\$ 24,630	\$ 1,008	\$ 8,437
Professional/Technical Services	4,052	2,902	0	8,496
Awards	248,881	380,284	0	300,000
Grants (1)	25,848	31,222	0	40,000
Other	<u>23,060</u>	<u>13,225</u>	<u>1,729</u>	<u>5,050</u>
Total Breeders' Fund Expenditures	<u>\$335,866</u>	<u>\$452,263</u>	<u>\$ 2,737</u>	<u>\$361,983</u>

(1) The commission disburses grants after fiscal year end which are not reflected in this table.

Source: Statewide accounting system as of the close of books.

Figure 3-2 highlights the cash balance in the Breeders' Fund for each of the four years of the audit period.





# **Minnesota Racing Commission**

## **Scope and Objectives**

Our audit objectives for the Breeders' Fund were:

- Did the commission collect the appropriate amount of Breeders' Fund tax and deposit the revenues into the correct accounts?
- Did the commission expend funds in accordance with applicable legal provisions?

## **Audit Procedures and Results**

We interviewed commission staff to gain an understanding of the controls in place over the processing of receipts and disbursements from the fund. We also conducted analytical reviews and selected sample revenue and expenditure transactions for additional testing.

Based on the testing performed, we concluded that the commission collected the appropriate amount of Breeders' Fund tax and deposited the revenue into the proper account. We also found that the commission expended funds in accordance with applicable legal provisions.

## **Minnesota Racing Commission**

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# Minnesota Racing Commission

## Chapter 4. Payroll and Other Administrative Expenditures

### Chapter Conclusions

*The commission processed payroll in accordance with applicable bargaining unit agreements and properly recorded payroll transactions in the payroll and personnel systems. Payments for contractual services and other purchased services were reasonable and for purposes related to the commission's activities. The commission paid commissioners per diems properly. We found, however, that the commission reimbursed certain commission members for ineligible expenses.*

Since fiscal year 1992, the commission has significantly reduced the number of its full-time staff. During fiscal year 1992, the commission had nine full-time employees. When Canterbury Downs closed in 1993, the commission was forced to reduce the size of its staff. The commission currently employs four full-time staff. Commission staff are paid biweekly through the statewide payroll system. The commission had payroll costs of \$1,403,269 for the four year audit period. The commission also incurred costs associated with professional/technical services totaling \$1,004,267 for the same period. A large portion of the professional/technical expenditures are reimbursed by Canterbury Park (see Chapter 2). Commission members and staff are eligible for reimbursement of travel expenditures incurred in performing commission-related activities. Commission members are also eligible for a daily per diem of \$55. Table 4-1 provides a summary of these expenditures for the four years ended June 30, 1995.

**Table 4-1**  
**Administrative Expenditures by Fiscal Year**  
**General and Special Revenue Funds**

	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
Payroll	\$ 533,968	\$458,176	\$197,018	\$214,107
Professional/Technical Services	620,255	252,833	29,001	102,177
Travel and Per Diems	54,304	38,667	10,321	14,940
Other	<u>169,386</u>	<u>134,411</u>	<u>49,195</u>	<u>74,808</u>
Total Administrative Expenditures	<u>\$1,377,913</u>	<u>\$884,087</u>	<u>\$285,535</u>	<u>\$406,032</u>

Source: Statewide accounting system.

### Payroll

Our audit scope included payroll disbursements made to commission employees for the four years ended June 30, 1995. Our audit objectives for payroll focused on the following questions:

- Were commission payroll expenditures processed in accordance with applicable bargaining unit agreements?

## **Minnesota Racing Commission**

- Were payroll transactions adequately controlled and properly recorded in the state's accounting system?

We interviewed agency staff to gain an understanding of the controls in place over payroll. We analyzed payroll expenditures and tested detailed payroll transactions. We also reviewed severance payments.

Our review of payroll found that commission employees were paid at the proper amounts according to the applicable bargaining unit agreements, and that the payroll transactions were properly recorded on the state's accounting system.

### **Professional/Technical Services**

We focused our review of professional/technical services payments on the following objectives:

- Were professional/technical service expenditures authorized and made for a proper purpose?
- Were professional/technical service expenditures made in accordance with applicable finance related legal provisions?

During our audit, we gained an understanding of the professional/technical contract cycle through interviews with commission staff. We performed a review of professional/technical services payments made throughout the audit period. We performed testing to ensure that all payments were accurate, made for a purpose related to commission activities, and properly recorded on the statewide accounting system. We also determined if the expenditures were made in accordance with significant laws and regulations.

Our review found that professional/technical service expenditures were authorized, made for proper purposes, and complied with applicable finance related legal provisions.

### **Travel and Per Diem Expenditures**

Our audit also included a review of the commission's travel and per diem expenditures. We addressed the following objectives:

- Were travel and per diem expenditures authorized, reasonable, and paid for appropriate commission activities?
- Were travel and per diem expenditures made in accordance with finance-related legal provisions?

We gained an understanding of the controls over travel and per diem expenditures through interviews with commission staff. We reviewed expenditures on a sample basis for compliance purposes and performed analytical reviews.

## Minnesota Racing Commission

We found that the commission paid per diems properly. As discussed in the Finding 1, however, certain commissioners received reimbursements for meals while not in travel status, which is not in compliance with expense reimbursement regulations.

### **1. The commission overpaid \$597 of ineligible expenses to certain commission members.**

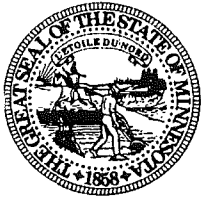
The commission reimbursed certain commission members \$597, primarily for meal expenses incurred when the commissioners were not in travel status. The commission reimbursed commission members for meals when they were within 35 miles of the commission work station. According to state travel regulations and Department of Finance Policy and Procedure 06:05:15, the commissioners must be in travel status to be eligible for meal reimbursements.

#### *Recommendations*

- *The commission should seek reimbursements from commission members who were incorrectly reimbursed.*
- *The commission should reimburse meal expenditures only when commission members are in travel status.*

## **Minnesota Racing Commission**

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## MINNESOTA RACING COMMISSION

P.O. Box 630  
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August 13, 1996

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

Dear Mr. Nobles:

The Commission and its staff sincerely appreciates the work and assistance of your office in reviewing the past accounting and financial performance of this Commission. Although I would appreciate it if audits could be done sooner than every four years as it creates a challenge to maintain accounting and financial record organization and retrieval thereof; but I do at the same time recognize the many demands placed on you and staff.

As in previous audits your staff conducted themselves in an extremely professional and cordial manner throughout the time of this engagement. Mr. Pat Ryan, Ms. Sonya Hill and Ms. Susan O'Connell were very helpful in their approach as we had many files and records for them to review.

We are satisfied with all of your conclusions and recommendations. Further, with regard to Chapter 4, Payroll and Other Administrative Expenditures, a letter has gone out under my signature requesting reimbursement from those that were incorrectly reimbursed.

I will be responsible for reviewing Commissioner reimbursement requests and will follow the recommendations in his summary of findings given to me by Mr. Ryan on June 19, 1996. Additionally, Ms. Pam Webber is updating the expense reimbursement guidelines for Commissioners which will be promptly disseminated to all Commissioners. We have had such a checklist but it has been my failure to regularly remind the Commissioners of it as well as not thoroughly reviewing all expense reimbursement requests. This will not be a problem in the future.

It is my hope that this meets with your approval.

Regards,

Richard G. Krueger  
Executive Director