

**ATTESTATION REPORT
OF THE
NEBRASKA STATE RACING COMMISSION**

JULY 1, 2004 THROUGH JUNE 30, 2005

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Issued on August 25, 2005

NEBRASKA STATE RACING COMMISSION

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NEBRASKA STATE RACING COMMISSION

BACKGROUND

The Nebraska State Racing Commission was established in 1935 to provide statewide regulation of horse racing in order to prevent and eliminate corrupt practices and fraudulent behavior and thereby maintain a high level of integrity and honesty in the horse racing industry of Nebraska.

The Commission consists of three members appointed by the Governor for three-year terms. They meet approximately six times per year to approve licenses for live horse racing and simulcasting, adopt administrative rules, and conduct administrative hearings. The members are not paid, but are reimbursed for their expenses.

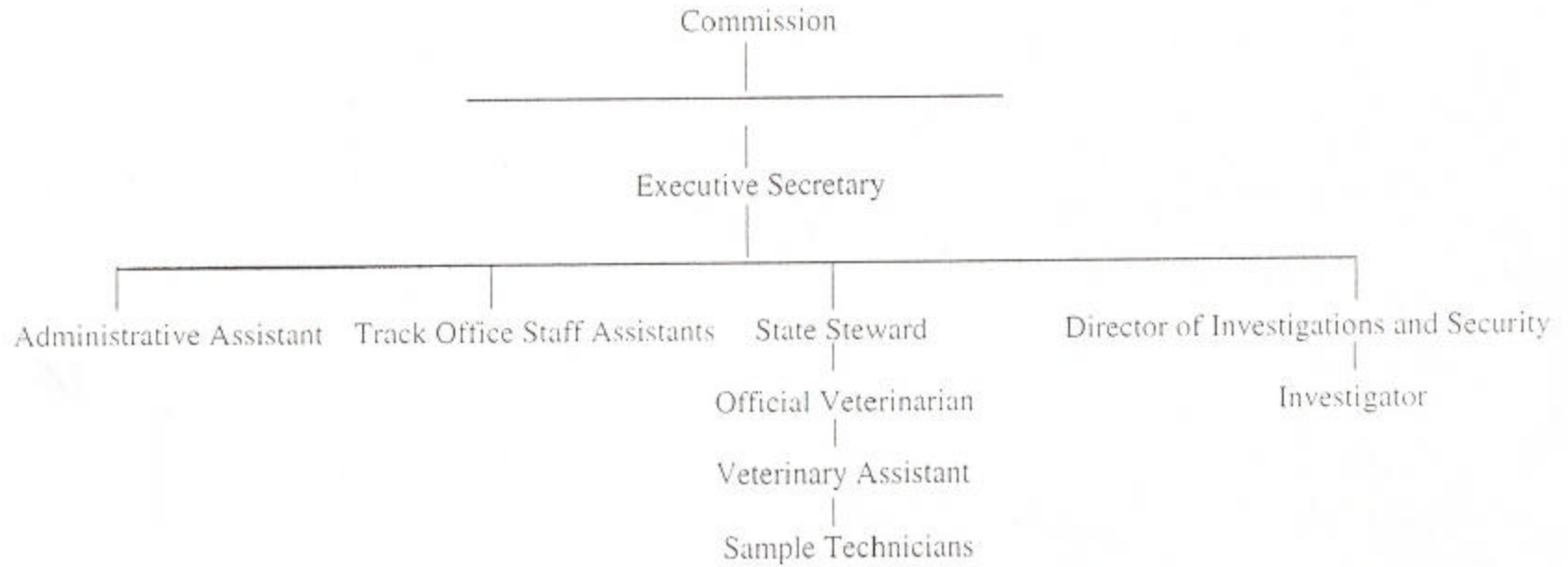
The operations of the State Racing Commission are financed from daily track license fees and occupational license fees. In addition, each licensed racetrack is required to pay the Commission four-tenths of one percent of the gross sum wagered. This percentage changed to sixty-four one hundredths of one per cent effective June 3, 2005.

MISSION STATEMENT

The mission of the State Racing Commission is to prevent and eliminate corrupt practices and fraudulent behavior; to maintain a high level of integrity and honesty in the horse racing industry in Nebraska; to ensure that all funds received by the Commission are properly distributed; and, to promote agriculture and horse breeding in Nebraska.

NEBRASKA STATE RACING COMMISSION

ORGANIZATIONAL CHART



NEBRASKA STATE RACING COMMISSION

EXIT CONFERENCE

An exit conference was held July 26, 2005, with the Commission to discuss the results of our examination. Those in attendance for the Nebraska State Racing Commission were:

| NAME | TITLE |
|--------------------|--------------------------|
| Dennis Oelschlager | Executive Secretary |
| Shelly Norval | Administrative Assistant |

NEBRASKA STATE RACING COMMISSION

SUMMARY OF COMMENTS

During our examination of the Nebraska State Racing Commission, we noted certain matters involving the internal control over financial reporting and other operational matters which are presented here.

1. ***Internal Control Over Cash Receipts:*** One person had the ability to perform all phases of the receipts process at the racetrack. There was also one person at the Commission's office in Lincoln that had the ability to perform all phases of the receipt process at the Lincoln office. There was no reconciliation by the Racing Commission between the computer system used to receipt and issue licenses, Fox Pro, and the Nebraska Information System (NIS). A reconciliation requested by the auditors, and performed by the Commission, noted the amount recorded on Fox Pro was \$73,269 and the amount recorded on NIS was \$74,912, a difference of \$1,643.
2. ***Travel Expenses:*** Two expense reimbursement documents were not submitted within one month of travel. Two expense reimbursement documents appeared to be unreasonable and did not have adequate supporting documentation for meal expenses, totaling \$312. Two expense documents were incorrectly coded to Board and Lodging when they should have been coded to Meals-One Day Travel, totaling \$52.
3. ***License Costs:*** The Commission did not have supporting documentation for the basis for the fees charged. Costs related to the issuance of licenses were not included in the fees.
4. ***Salary Reimbursement:*** The Commission did not bill two racetracks for live days of racing: Columbus was not billed for two days of live racing for a total of \$1,200 and Fonner Park was not billed for 14 days of live racing for a total of \$8,400. Total amount not billed was \$9,600.
5. ***Batch Management:*** One employee was noted as having authorization to enter, approve, and post their own documents in Accounts Payable, Accounts Receivable, and General Ledger on NIS.
6. ***Reconciliation of Bank Records to the Nebraska Information System:*** The Department of Administrative Services' reconciliation process is still not done in a timely manner and continues to reflect unknown variances.

More detailed information on the above items is provided hereafter. It should be noted this report is critical in nature as it contains only our comments and recommendations on the areas noted for improvement.

NEBRASKA STATE RACING COMMISSION

SUMMARY OF COMMENTS

(Continued)

Draft copies of this report were furnished to the Commission to provide them an opportunity to review the report and to respond to the comments and recommendations included in this report. All formal responses received have been incorporated into this report. Where no response has been included, the Commission declined to respond. Responses have been objectively evaluated and recognized, as appropriate, in the report. Responses that indicate corrective action has been taken were not verified at this time but will be verified in the next examination.

We appreciate the cooperation and courtesy extended to our staff during the course of the examination.

NEBRASKA STATE RACING COMMISSION

COMMENTS AND RECOMMENDATIONS

1. Internal Control Over Cash Receipts

Good internal control requires a proper segregation of duties to ensure no one individual is able to both perpetrate and conceal errors or irregularities. Good internal control also requires appropriate controls over cash received and the receipting/depositing process to ensure all revenues due the Commission are collected, recorded, and verified by other separately maintained records.

For fiscal year 2005, the Commission recorded \$503,412 in receipts on the Nebraska Information System (NIS) related to the issuing of licenses for \$62,486, fingerprinting fees for \$12,426, pari-mutuel wagering tax for \$414,900, and fines, forfeits, and penalties for \$13,600. During our examination of internal controls and records of the Commission's receipt process, we noted internal control deficiencies and the lack of adequate records to support the amount recorded on NIS. At the racetrack, the Commission uses a computer system called Fox Pro, for receipting licenses and fingerprinting. The Commission did not reconcile the amount recorded on Fox Pro with NIS. The amount recorded on Fox Pro was \$73,269 and the amount recorded on NIS was \$74,912, a difference of \$1,643. Following are the findings and recommendations related to the receipt process. Primarily we noted a lack of segregation of duties over the receipting/depositing process. One person had the ability to perform all phases of the receipts process at the racetracks. This individual received money for licenses, fingerprinting and fines, entered information into the computer system, issued licenses, prepared the General Document, and made the deposit. This same individual was also able to delete records from the computer system with no independent review of the summary reports. We also noted one person also handled all phases of the receipt process at the Lincoln office with relation to pari-mutuel wagering. This individual received money, prepared the General Document, and prepared the deposit. A similar comment was noted in our prior audit for the fiscal year ended June 30, 2000.

Although the Commission had in place some compensating controls during the examination period, we believe further controls should be considered by the Commission to improve on those controls. Following are our observations and recommendations:

Monitoring Controls

The lack of segregation of duties, if duties cannot be segregated to ensure good internal controls in the receipting/depositing process, dictates strong compensating controls be in place. As noted above, we noted some compensating controls; however, we also noted, for monies collected at the racetrack, there was a general lack of controls to ensure all monies due the Commission were received and deposited with the State Treasurer.

NEBRASKA STATE RACING COMMISSION

COMMENTS AND RECOMMENDATIONS

(Continued)

1. Internal Control Over Cash Receipts (Continued)

Monitoring Controls (Concluded)

We recommend the Commission consider developing procedures to account for all licenses issued by performing on a test basis a comparison of the licenses issued to the application processed in their computer system, by performing on a regular basis analytical review procedures comparing receipts collected and deposited to what would be expected to be collected, and by a comparison of expected fingerprint receipts to what was actually deposited.

Reconciliation Procedure

The Commission began using a computer system called Fox Pro in 2000 for the issuing of licenses and recording of fingerprinting fees.

During our review of this system and reconciliation of this system to NIS, we noted the following:

- There was no reconciliation between Fox Pro and NIS. Although, the Commission was comparing the documents received from the racetrack, they did not reconcile Fox Pro with NIS on a monthly or annual basis.
- Upon request of the auditor, the Commission had difficulty getting information relating to how many licenses they had issued during the fiscal year and the dollar amount provided did not agree to what was recorded on NIS. A reconciliation requested by the auditors, and performed by the Commission, noted the amount recorded on Fox Pro was \$73,269 and the amount receipted during fiscal year 2005 on NIS was \$74,912, a difference of \$1,643.
- The Commission could not provide us with the number of licenses they deleted during the fiscal year; however, this was later obtained with the help of the Department of Administrative Services (DAS) – Information Technology (IT) personnel.

Without adequate controls and supporting documentation over the transactions processed in Fox Pro, there is an increased risk of loss or misuse of State funds.

NEBRASKA STATE RACING COMMISSION

COMMENTS AND RECOMMENDATIONS

(Continued)

1. **Internal Control Over Cash Receipts** (Continued)

Reconciliation Procedure (Concluded)

We recommend the Commission perform a periodic reconciliation between Fox Pro and NIS to help ensure all transactions processed through Fox Pro were properly receipted and recorded. The reconciliation should be performed by an individual that is not normally involved in the receipting/depositing process to help compensate for the lack of segregation of duties over cash receipts.

Controls Over Fox Pro

Good internal control requires proper security over a computer system and adequate safeguarding to ensure those having access to the system have security for their job function and no unnecessary access.

Since the implementation of Fox Pro in 2000, those having access to the system have never been required to change their password. It was also noted those given access to the system generally have the same security access. We noted eight users all being able to enter, change, print, and delete licenses and information related to the licenses. Two individuals have administrative access which enables them to make changes to the tables in Fox Pro.

The possibility of the loss or misuse of State assets and funds is increased when there are no controls or independent reviews to compensate for the lack of segregation of duties.

We recommend the Commission review those having access to Fox Pro and limit security to match the job function of that individual. Access to enter, change, print, and delete licenses should be limited to those having a need for such functions. We also recommend users change their passwords periodically to ensure no unauthorized use.

Overall Recommendation:

We realize due to the size of the Commission it may be difficult to add additional staff in order to provide a proper segregation of duties; however, if a proper segregation of duties can not be obtained strong compensating controls should then be considered. Compensating

NEBRASKA STATE RACING COMMISSION

COMMENTS AND RECOMMENDATIONS

(Continued)

1. **Internal Control Over Cash Receipts** (Concluded)

controls, those noted above and others identified by the Commission, should include the monitoring or review of the receipting/depositing process by an individual independent from the process. The monitoring or review should be performed on a regular basis and documentation should be maintained to support the process was performed.

Commission's Response: The report cites a difference of \$1653 between NIS, and a Daily Summary Report generated from the Fox Pro Licensing System, for license and fingerprint receipts.

What the report fails to state is that every license and fingerprint receipt document entered in NIS is verified against and accompanied by reports from the FoxPro system for license and fingerprint fees, and NIS deposit documents are reviewed and verified by the Administrative Assistant and Executive Secretary.

The \$1653 discrepancy cited for licensing and fingerprinting is a function of a Fox Pro report program that will be addressed with IT support staff.

The report states that the Commission had difficulty getting information relating to how many licenses had been issued, and the dollar amount provided from FoxPro did not agree with amount reported by NIS. Again, this has to do with the FoxPro Daily Summary Report program referenced above which will be addressed.

Our agency has worked extensively to document Internal NIS Procedures to compensate Internal Control Guidelines issued by the United States General Accounting Office, as provided by DAS Accounting – Internal Control Guidelines. Our staff is continuously being provided the most current information related to our agencies Internal NIS Procedures and internal controls are monitored and updated as needed.

We concur with the recommendation to add an additional periodic reconciliation between Fox Pro and NIS, and with the number receipts/deposits and NIS. Additionally we agree to follow up with IT to change passwords and review system access security.

2. **Travel Expenses**

The Auditor of Public Accounts (APA) selected eight documents totaling \$7,475 out of a total \$77,793 in travel expenditures by the Commission for the fiscal year ended June 30, 2005. In our review of these documents, we reviewed meal, lodging, vehicle mileage, airline travel, and other related travel expenditures. Based on our review we noted the following:

NEBRASKA STATE RACING COMMISSION

COMMENTS AND RECOMMENDATIONS

(Continued)

2. Travel Expenses (Continued)

Submittal of Reimbursement Documents

Neb. Rev. Stat. Section 81-1174 R.S.Supp., 2004 states “Whenever any state officer, employee, or member of any commission, council, committee, or board of the state is entitled to be reimbursed for actual expenses incurred by him or her in the line of duty, he or she shall be required to present a request for payment or reimbursement each month to the Director of Administrative Services.”

During our testing we noted two expense reimbursement documents were not submitted within one month of travel expenses:

- One employee included two months of travel expenses on one reimbursement document.
- One employee did not submit his reimbursement document within a month of his travel expenses.

The longer the duration between the expense and the submittal of reimbursement documents increases the risk of expenses being inaccurate or not properly being reported.

We recommend the Commission implement procedures to ensure expense reimbursement documents are submitted in a timely manner according to state statute.

Meal and Lodging

The Nebraska State Accounting Manual, AM-005, Travel Expense Policies, Section 5 and 6, states “Under our accountable plan, the Internal Revenue Service requires employees to substantiate the cost for travel, lodging, meals and other expenses. Adequate accounting generally requires the use of a documentation record such as an account book, expense diary or log, or similar record near the time of incurrence of the expense. Such log should list the date, amount, place (e.g. city), or description, and purpose for each expense or meal/food cost. Agencies are responsible to see that all submitted claims for meals are adequately substantiated. Unsubstantiated meals should not be reimbursed. Normally, receipts are not required. However, agencies, at their discretion, may require receipts where claims are questionable or excessive.”

NEBRASKA STATE RACING COMMISSION

COMMENTS AND RECOMMENDATIONS

(Continued)

2. **Travel Expenses** (Continued)

Meal and Lodging (Concluded)

Good internal control requires procedures to ensure requirements of the State's accountable plan are met and that reimbursements are in compliance with guidelines through the Federal Travel Regulation.

During testing we noted two reimbursement documents without adequate documentation supporting meal reimbursement, or unreasonable expenses:

- Two reimbursements were excessive according to the GSA Federal Per Diem suggested amount. The Federal meal amount for Tucson, AZ is \$43. Daily meal reimbursement amounts claimed by two employees were \$51, \$95, \$53, \$111, \$128, \$109, and \$66 and the amounts over the Federal allowable amount were \$8, \$52, \$10, \$68, \$85, \$66, and \$23 respectively. The total amount over the Federal guidelines was \$312. The Commission did not have documentation to support this excessive reimbursement for meals was reasonable. In addition, one of these two employees did not include restaurant names with the meal log.

Without an adequate accounting of meal expenses the State could lose its accountable plan status. If the State does not have an accountable plan, the amounts reimbursed to employees for meal expenses would be considered taxable income. When the Federal guidelines are not followed there is an increased risk of reimbursement for unreasonable expenses.

We recommend the Commission implement procedures to ensure provisions of the State's accountable plan are followed. We also recommend the Commission not only require a meal log but also require further documentation supporting meal claims in excess of Federal guidelines are reasonable and necessary.

Improper Coding

Good accounting practices require travel expenses be correctly coded to account, fund, and program to ensure expenses are properly paid and accounted for.

We noted two instances of travel expenses being incorrectly coded on NIS:

NEBRASKA STATE RACING COMMISSION

COMMENTS AND RECOMMENDATIONS

(Continued)

2. Travel Expenses (Concluded)

Improper Coding (Concluded)

- Two employees had meals for one day travel coded to Board and Lodging when they should have been coded to Meals – One Day Travel. The total amount which should have been reported as Meals – One Day Travel was \$52.

Without good accounting procedures there is an increased risk expenses are not properly recorded and reported.

We recommend the Commission implement procedures to ensure expenses are accurately reported and recorded.

Commission's Response: Meals reimbursements in excess of the Federal Per Diem suggested amount were cited in the report. These expenses were incurred in conjunction with attendance at a University Symposium held at a resort hotel. The total amount over federal guidelines for seven days was \$312.

*Meal expenses in conjunction with this meeting are higher as a result of the meeting location, and one employee encountered extenuating circumstances, all of which was discussed with the auditors. In view of the Nebraska Accounting Regulations, which clearly state, "**Normally, receipts are not required.** However, agencies, **at their discretion,** may require receipts where claims are questionable or excessive" (emphasis added).*

The Executive Secretary was very familiar with the circumstances of the claims for these meals, and provided a detailed explanation for the auditors. In addition, the documentation of several reviews with employees relating to keeping appropriate meal records was kept and provided to the auditors, and the auditors made independent checks of meal records.

Nebraska Racing Commissioners are not paid. They are only reimbursed expenses. They provide an important and valuable service to the State and the industry they regulate at a significant personal sacrifice to their businesses and families. They certainly would not claim an expense they had any reason to believe would produce any audit criticism. If the audit standard is the GSA Federal Per Diem, and not the Nebraska State Accounting Manual, the Commission will certainly adopt policies with the intent of auditors.

For these reason we disagree with this section of the report, but will adopt additional policies based on the standards adopted by the auditors.

NEBRASKA STATE RACING COMMISSION

COMMENTS AND RECOMMENDATIONS

(Continued)

3. License Costs

When fees are charged for services, good fiscal policy requires the Commission to evaluate the appropriateness of the fees charged in relation to the costs incurred by the Commission.

During our testing of license fees, we noted the Commission did not have supporting documentation for the basis of the fees charged. It was also noted the costs related to the issuance of the licenses was not a factor in the determination of the license fees. This was noted in our prior audit for the fiscal year ended June 30, 2000.

We recommend the Commission implement procedures to determine and document the costs involved in issuing licenses and to annually review all licensing fees and make adjustments to the fees as necessary.

Commission's Response: No comment. We will address the recommendation.

4. Salary Reimbursement

Per the Commission minutes, dated January 9, 2003, the Commission approved \$600 per day to be charged for salary reimbursement, per live racing day. Salary reimbursement is defined in Racing Commission Rules and Regulations 14.001.02 and states, "The compensation for the official veterinarian, deputy official veterinarians, supervisor of drug testing, and test barn assistants shall be set by the Commission and shall be paid to the Commission by the association, either entirely or in part as determined by the Commission."

During our testing of salary reimbursement, we noted the Commission did not bill Columbus for two live days of racing in July 2004, or \$1,200, and did not bill Fonner Park for 14 days of live racing in April 2005, or \$8,400. Total amount not billed was \$9,600.

With the passing of LB 573, the Commission decided to eliminate the charging for salary reimbursements, as noted in the Commission minutes dated March 23, 2005.

Without proper controls over salary reimbursements there is an increased risk the Commission would not bill for all salary reimbursements and therefore not receive payment for all salary reimbursements due them.

We recommend the Commission bill Columbus \$1,200 for the two days missed and bill Fonner Park \$8,400 for the 14 days missed. The Commission should follow up to ensure payment is received.

NEBRASKA STATE RACING COMMISSION

COMMENTS AND RECOMMENDATIONS

(Continued)

4. **Salary Reimbursement** (Concluded)

Commission's Response: Two billing errors for Salary Reimbursement have been corrected, and the payments have been received and deposited.

5. **Batch Management**

Good internal control requires adequate segregation of duties to ensure no one individual is in the position to both perpetrate and conceal errors or irregularities.

One employee was noted as having authorization to enter, approve, and post their own documents in Accounts Payable, Accounts Receivable, and General Ledger on NIS.

Without adequate segregation of duties there is an increased risk of loss or misuse of State funds.

We recommend the Commission review their batch management and address other alternatives that would prevent an individual from entering, approving, and posting their own batches on NIS.

Commission's Response: The agency is not funded to adequately segregate the batch management functions as suggested while maintaining a prompt processing of NIS documents. We have a single administrative support employee in our headquarters office, and a single administrative support employee who mostly works only on race days at our track offices. As a compensating measure the Executive Secretary reviews and signs off on all hard copy documents generated entered approved and posted in NIS by the administrative support, including monthly reports and logs. Additionally we have established and documented internal NIS procedures specifying internal control, verification, processing of payroll, payables, receivables, fixed assets, and pre-audit procedures.

6. **Reconciliation of Bank Records to the Nebraska Information System**

Good internal control requires a plan of organization, procedures, and records designed to safeguard assets and provide reliable financial information. Without a timely and complete reconciliation of bank records to the Nebraska Information System (NIS), there is a greater risk for fraud and errors to occur and to remain undetected.

During the audit of the Comprehensive Annual Financial Report (CAFR) of the State of Nebraska, the Auditor of Public Accounts (APA) noted the absence of reconciliation between the Nebraska State Treasurer's actual bank statements and Nebraska accounting records (in both NIS and NAS, the

NEBRASKA STATE RACING COMMISSION

COMMENTS AND RECOMMENDATIONS

(Continued)

6. Reconciliation of Bank Records to the Nebraska Information System (Concluded)

Nebraska Accounting System before NIS). This has been an issue for the Department of Administrative Services (DAS) Accounting Division for many years. The APA's previous versions noted monthly reconciliations have not been completed in a timely manner and reconciliations performed have shown significant unknown variances between the bank records and the accounting records, with the bank being short compared to the accounting records. Although DAS Accounting Division continues to work on correcting the reconciliation of bank records to NIS, the APA continues to note areas where improvement is still needed in the reconciliation process to ensure NIS integrity and operational efficiency. Specifically, the APA noted the status of the reconciliation process as of August 11, 2005 to be as follows:

DAS Accounting Division has worked on the reconciliation process, but continued progress is needed. DAS Accounting Division's reconciliation process has developed into a very detailed process of analyzing bank activity, compared to activity recorded on NIS, to identify reconciling items. DAS Accounting Division has completed their reconciliation process for the months of June and July of 2004. The APA has reviewed these reconciliations. These two months show variances of \$2,944,126 and \$2,932,824, respectively. Again, the reconciliations show the bank being short compared to the accounting records. Per inquiry of management, DAS Accounting Division has started the reconciliation process for various months of the fiscal year ended June 30, 2005; however, the reconciliation process has not been a continuous monthly process and no monthly reconciliation has been completed since July of 2004.

Although DAS Accounting Division has worked on the reconciliation process, the process is still not done in a timely manner and the variance is inconsistent. The reconciliation continues to reflect unknown variances and shortages. Complete and timely reconciliation procedures between bank records and accounting records are required to provide control over cash and accurate financial information.

The APA recommends DAS Accounting Division continue their reconciliation process, in a more timely manner, and on at least a monthly basis, to ensure all financial information is correct on NIS. We also recommend, when a consistent cash variance between the bank records and the accounting records is obtained (based on at least six months of reconciliations), DAS submit their plan for adjusting NIS to the Governor and the Legislature so they may take appropriate action to correct NIS and resolve the variances noted.

This issue is the responsibility of DAS Accounting Division; however, as the variances have not been identified by fund or agency, this issue directly affects all Nebraska State agencies' financial information and must be disclosed in this report.

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NEBRASKA STATE RACING COMMISSION

INDEPENDENT ACCOUNTANT'S REPORT

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Nebraska State Racing Commission
Lincoln, Nebraska

Don Dunlap, CPA
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We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska State Racing Commission (Commission) for the fiscal year ended June 30, 2005. The Commission's management is responsible for the schedule of revenues, expenditures, and changes in fund balances. Our responsibility is to express an opinion based on our examination.

Pat Reding, CPA
Asst. Deputy Auditor
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Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants, and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and accordingly, included examining, on a test basis, evidence supporting the schedule of revenues, expenditures, and changes in fund balances and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

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In our opinion, the schedule referred to above presents, in all material respects, the revenues, expenditures, and changes in fund balances of the Nebraska State Racing Commission for the fiscal year ended June 30, 2005, based on the accounting system and procedures prescribed by the State of Nebraska Director of Administrative Services as described in Note 1.

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In accordance with *Government Auditing Standards*, we have also issued our report dated July 26, 2005, on our consideration of the Nebraska State Racing Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope

of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an attestation engagement performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our examination.

This report is intended solely for the information and use of the Commission and the appropriate Federal and regulatory agencies. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink that reads "Don Dunlop CPA". The signature is written in a cursive style.

Assistant Deputy Auditor

July 26, 2005

NEBRASKA STATE RACING COMMISSION
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended June 30, 2005

| | Cash Fund 23610 | Track Distribution Fund 23620 | Drug Abuse Fund 23640 | Common School Fund 61270 | Total (Memorandum Only) |
|--|--------------------------|--|-----------------------------|--------------------------------|--|
| REVENUES: | | | | | |
| Taxes | \$ 414,900 | \$ 156,524 | \$ - | \$ - | \$ 571,424 |
| Sales & Charges | 80,637 | - | - | - | 80,637 |
| Miscellaneous | 59,707 | 558 | 3 | 13,600 | 73,868 |
| TOTAL REVENUES | 555,244 | 157,082 | 3 | 13,600 | 725,929 |
| EXPENDITURES: | | | | | |
| Personal Services | 490,553 | - | - | - | 490,553 |
| Operating | 79,449 | - | - | - | 79,449 |
| Travel | 77,876 | - | - | - | 77,876 |
| Capital Outlay | 2,549 | - | - | - | 2,549 |
| Government Aid | - | 156,093 | - | - | 156,093 |
| TOTAL EXPENDITURES | 650,427 | 156,093 | - | - | 806,520 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (95,183) | 989 | 3 | 13,600 | (80,591) |
| OTHER FINANCING USES: | | | | | |
| Deposit to/from Common Fund | - | - | - | (13,600) | (13,600) |
| TOTAL OTHER FINANCING (USES) | - | - | - | (13,600) | (13,600) |
| Net Change in Fund Balances | (95,183) | 989 | 3 | - | (94,191) |
| FUND BALANCES, JULY 1, 2004 | 243,519 | 19,060 | 74 | - | 262,653 |
| FUND BALANCES, JUNE 30, 2005 | <u>\$ 148,336</u> | <u>\$ 20,049</u> | <u>\$ 77</u> | <u>\$ -</u> | <u>\$ 168,462</u> |
| FUND BALANCES CONSIST OF: | | | | | |
| General Cash | \$ 147,993 | \$ 20,049 | \$ 77 | \$ - | \$ 168,119 |
| NSF Items | 166 | - | - | - | 166 |
| Deposits with Vendors | 177 | - | - | - | 177 |
| TOTAL FUND BALANCES | <u>\$ 148,336</u> | <u>\$ 20,049</u> | <u>\$ 77</u> | <u>\$ -</u> | <u>\$ 168,462</u> |

The accompanying notes are an integral part of the schedule.

NEBRASKA STATE RACING COMMISSION

NOTES TO THE SCHEDULE

For the Fiscal Year Ended June 30, 2005

1. Criteria

The accounting policies of the Nebraska State Racing Commission are on the basis of accounting as prescribed by the State of Nebraska Department of Administrative Services (DAS).

Per Neb. Rev. Stat. Section 81-1107(2) R.S.Supp., 2004, the State of Nebraska Director of Administrative Services duties include “The keeping of general accounts and the adoption and promulgation of appropriate rules, regulations, and administrative orders designed to assure a uniform and effective system of accounts and accounting, the approval of all vouchers, and the preparation and issuance of warrants for all purposes.”

The Nebraska Information System (NIS) is the official accounting system prescribed by DAS for the State of Nebraska. Policies and procedures are detailed in NIS manuals and Nebraska Accounting System Concepts published by DAS and available to the public. The financial information used to prepare the schedule of revenues, expenditures, and changes in fund balances for the Commission was obtained directly from the NIS. NIS records accounts receivable and accounts payable as transactions occur. As such certain revenues are recorded when earned and expenditures are recorded when a liability is incurred, regardless of the timing of related cash flows. The accounts payable liability recorded on NIS, and thus recorded as expenditures, as of June 30, 2005, includes only those payables posted to NIS before June 30, 2005, and not yet paid as of that date. The amount recorded as expenditures as of June 30, 2005, **does not** include amounts for goods and services received before June 30, 2005 which had not been posted to NIS as of June 30, 2005.

The Commission had no significant accounts receivable at June 30, 2005. The NIS system does not include liabilities for accrued payroll and compensated absences.

The fund types established by NIS that are used by the Commission are:

20000 – Cash Funds – account for revenues generated by specific activities from sources outside of State government and the expenditures directly related to the generation of the revenues. Cash funds are established by State statutes and must be used in accordance with those statutes.

60000 – Trust Funds – account for assets held by the State in a trustee capacity. Expenditures are made in accordance with the terms of the trust.

NEBRASKA STATE RACING COMMISSION

NOTES TO THE SCHEDULE

(Continued)

1. Criteria (Concluded)

The major revenue object account codes established by NIS used by the Commission are:

Taxes – Compulsory charges levied by a government for the purpose of financing services performed for the common benefit. Taxes recorded as revenue for the Commission consists of pari-mutuel wagering tax.

Sales & Charges – Income derived from sales of merchandise and commodities, compensation for services rendered, and charges for various licenses, permits, and fees.

Miscellaneous – Revenue from sources not covered by other major categories, such as investment income, fines for violations of the racing industry rules and regulations, and salary reimbursement from the racetrack for the stewards, veterinarians, supervisor of drug testing and test barn employees.

The major expenditure object account titles established by NIS used by the Commission are:

Personal Services – Salaries, wages, and related employee benefits provided for all persons employed by the Commission.

Operating – Expenditures directly related to a program's primary service activities.

Travel – All travel expenses for any state officer, employee, or member of any commission, council, committee, or board of the State.

Capital Outlay – Expenditures which result in the acquisition of or an addition to capital assets. Capital assets are resources of a long-term character, owned or held by the government.

Government Aid – Payment of Federal and/or State money to governmental subdivisions, State agencies, local health and welfare offices, individuals, etc., in furtherance of local activities and accomplishment of State programs.

Other significant object account codes established by NIS and used by the Commission include:

Assets – Resources owned or held by a government that have monetary value. Assets include cash accounts and deposits with vendors. Cash accounts and deposits with vendors are also included in fund balance and are reported as recorded on NIS.

Other Financing Uses – Consists of deposit of penalties into the Common School Fund. For information on this amount see Note 5.

NEBRASKA STATE RACING COMMISSION

NOTES TO THE SCHEDULE

(Continued)

2. State Agency

The Nebraska State Racing Commission (Commission) is a State agency established under and governed by the laws of the State of Nebraska. As such, the Commission is exempt from State and Federal income taxes. The schedule includes all funds of the Commission.

The Nebraska State Racing Commission is part of the primary government for the State of Nebraska.

3. Totals

The Totals "Memorandum Only" column represents an aggregation of individual account balances. The column is presented for overview informational purposes and does not present consolidated financial information because interfund balances and transactions have not been eliminated.

4. Capital Assets

Under NIS, capital assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisitions are reflected as expenditures. Capital assets, which includes equipment for the Commission would be reported for the State of Nebraska in the Comprehensive Annual Financial Report (CAFR). The Commission's values all capital assets at cost where historical records are available and at estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. Generally, equipment that has a cost of \$1,000 at the date of acquisition and has an expected useful life of two or more years is capitalized. Depreciation expenses would be reported in the CAFR in the funds used to acquire or construct them for the State of Nebraska. The cost of normal maintenance and repairs that does not add to the value of the asset or extend asset life is not capitalized.

Equipment is depreciated using the straight-line method with estimated useful lives of two years.

Capital asset activity of the Commission for the fiscal year ended June 30, 2005 was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------|-------------------|-----------|-------------------|
| Capital assets: | | | | |
| Equipment | \$ 55,582 | \$ 6,327 | \$ - | \$ 61,909 |
| Less accumulated depreciation for: | | | | |
| Equipment | 44,098 | 7,616 | - | \$ 51,714 |
| Total capital assets, net of depreciation | <u>\$ 11,484</u> | <u>\$ (1,289)</u> | <u>-</u> | <u>\$ 10,195</u> |

NEBRASKA STATE RACING COMMISSION

NOTES TO THE SCHEDULE

(Continued)

5. Deposits to/from Common Funds

As defined in Nebr. Const. Art VIII Sec. 5, fines and penalties are to be paid to the County Treasurer where the fine was levied. The Commission assesses fines and they are recorded in the Common School Fund.

6. Track Distribution Fund - 23620

Neb. Rev. Stat. Section 2-1208.04 R.R.S. 1997, states each racetrack shall withhold an amount equal to one-fourth of one percent of the total pari-mutuel handle. The amount withheld is then paid to the Nebraska State Racing Commission and recorded in the Track Distribution Fund – 23620 as taxes. The following month, the Commission then distributes the money to those racetracks which conduct wagering by the pari-mutuel method on thoroughbred horseracing. This distribution is also recorded in the Track Distribution Fund – 23620 as government aid.

7. Litigation

The Nebraska State Racing Commission and the Executive Secretary are defendants in Federal civil rights complaints filed by two practicing veterinarians regulated by the Commission. These actions were filed subsequent to the Commission findings that these veterinarians were in violation of Nebraska Rules of Racing relating to treatment records and medication labeling, treatment of horses registered for racing, and failure to cooperate in Commission investigations.

The lawsuit seeks unspecified damages and is still pending as of June 30, 2005. It is not possible at the present time to estimate the ultimate outcome or liability, if any, of the Nebraska State Racing Commission for these proceedings.

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**NEBRASKA STATE RACING COMMISSION
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
EXAMINATION OF THE SCHEDULE OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

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We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska State Racing Commission for the fiscal year ended June 30, 2005, and have issued our report thereon dated July 26, 2005. We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Mary Avery
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Internal Control Over Financial Reporting

Dennis Meyer, CGFM
Subdivision Budget
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In planning and performing our examination, we considered the Nebraska State Racing Commission's internal control over financial reporting in order to determine our procedures for the purpose of expressing our opinion on the schedule of revenues, expenditures, and changes in fund balances, and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Nebraska State Racing Commission's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial schedule. Reportable conditions are described in the Comments Section of the report as Comment Number 1 (Internal Controls Over Cash Receipts) and Comment Number 6 (Reconciliation of Bank Records to the Nebraska Information System).

Mark Avery, CPA
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A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial schedule being examined may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Nebraska State Racing Commission's schedule of revenues, expenditures, and changes in fund balances, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our examination, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain additional items that we reported to management of the Nebraska State Racing Commission in the Comments Section of this report as Comment Number 2 (Travel Expenses), Comment Number 4 (Salary Reimbursement), and Comment Number 5 (Batch Management).

This report is intended solely for the information and use of the Commission and the appropriate Federal and regulatory agencies. However, this report is a matter of public record and its distribution is not limited.



Assistant Deputy Auditor

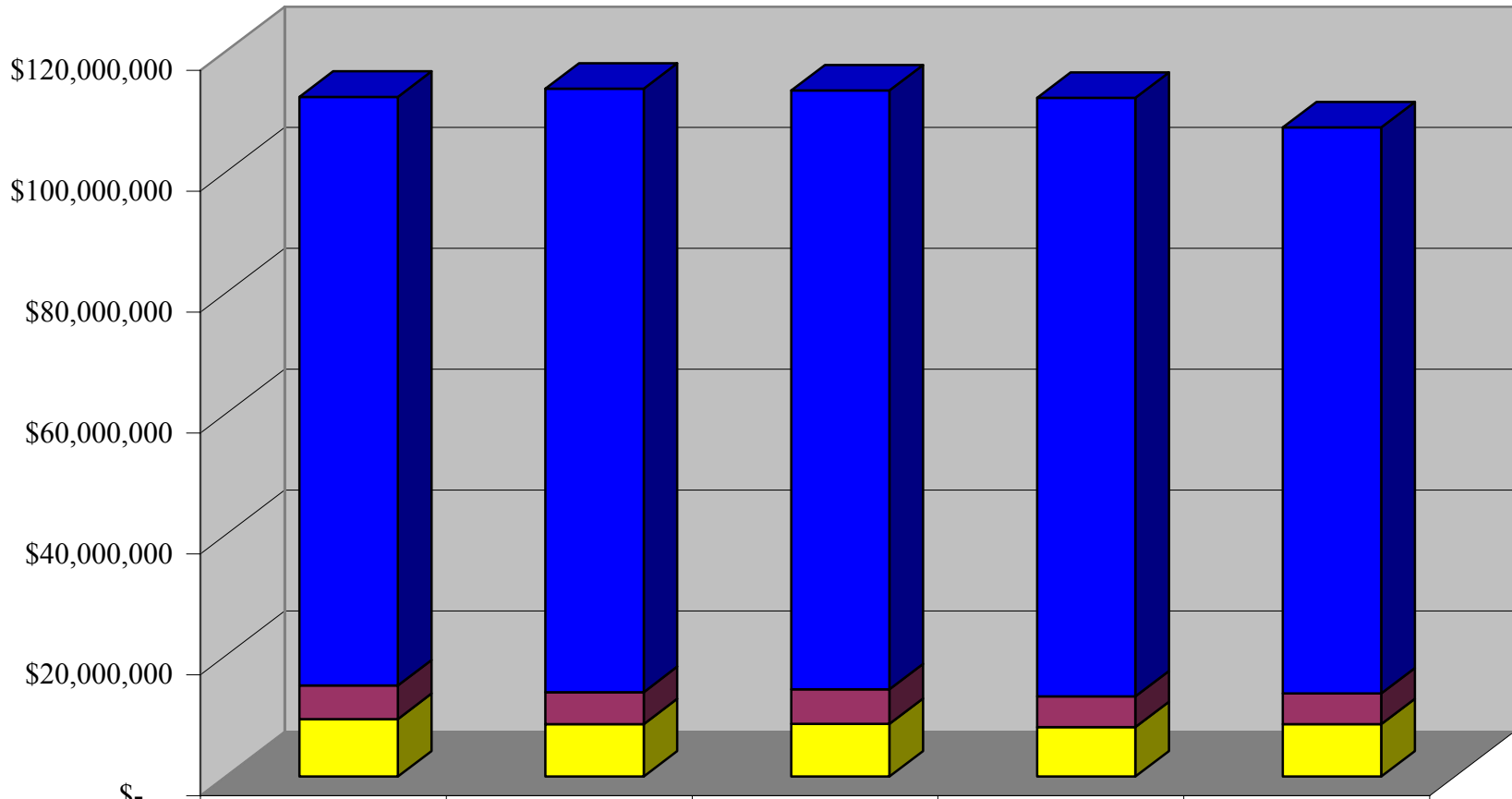
July 26, 2005

NEBRASKA STATE RACING COMMISSION

STATISTICAL SECTION

Our examination was conducted for the purpose of forming an opinion on the schedule of revenues, expenditures, and changes in fund balances. Statistical Section information is presented for purposes of additional analysis. Such information has not been subjected to the procedures applied in the examination of the schedule of revenues, expenditures, and changes in fund balances, and, accordingly, we express no opinion on it.

NEBRASKA STATE RACING COMMISSION
ANNUAL HANDLES BY RACE TYPE
For Calendar Years 2000 Through 2004



| | 2000 | 2001 | 2002 | 2003 | 2004 |
|---------------------------|--------------|--------------|--------------|--------------|--------------|
| ■ Interstate Simulcasting | \$97,407,608 | \$99,839,632 | \$99,080,097 | \$99,033,516 | \$93,675,566 |
| ■ Intrastate Simulcasting | \$5,539,871 | \$5,313,500 | \$5,745,113 | \$5,077,023 | \$5,054,982 |
| ■ Live Meets | \$9,504,065 | \$8,642,910 | \$8,696,802 | \$8,168,013 | \$8,664,785 |

NEBRASKA STATE RACING COMMISSION
ANNUAL HANDLES BY RACETRACK
 For Calendar Years 2000 Through 2004

