

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

**JULY 1, 2016, THROUGH JUNE 30, 2017**

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**Issued on November 27, 2017**

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### Audit Staff Working On This Examination

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NEBRASKA STATE RACING COMMISSION

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# NEBRASKA STATE RACING COMMISSION

## **BACKGROUND**

The Nebraska State Racing Commission (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 five members appointed by the Governor for four-year terms. No more than three members can belong to the same political party, no more than two can reside in the same congressional district, and no more than two can reside in the same county. They meet approximately 10 times per year to approve licenses for live horse racing and simulcasting, adopt administrative rules, and conduct administrative hearings. Though not paid, the members are reimbursed for their expenses.

The Commission is authorized to employ a Secretary and other employees as necessary to carry out its purpose. The Secretary is to keep a record of all Commission proceedings, preserve the books, records, and documents, and perform other duties as prescribed by the Commission.

The operations of the Commission are financed from daily track fees, occupational license fees, and parimutuel taxes. Each licensed racetrack is required to remit to the Commission sixty-four one hundredths of one percent of the gross sum wagered by the parimutuel method.

NEBRASKA STATE RACING COMMISSION

**KEY OFFICIALS AND COMMISSION CONTACT INFORMATION**

**Nebraska State Racing Commission Members**

<u>Name</u>	<u>Title</u>	<u>Term Ending</u>
Dennis Lee	Commission Chair	March 31, 2018
Janell Beveridge	Commissioner	March 31, 2019
Helen Abbott Feller	Commissioner	March 31, 2020
Jeffrey Galyen	Commissioner	March 31, 2018
Thomas Patterson	Commissioner	March 31, 2021

**Nebraska State Racing Executive Management**

<u>Name</u>	<u>Title</u>
Thomas Sage	Executive Secretary/Director

Nebraska State Racing Commission  
5903 Walker Ave.  
Lincoln, NE 68507  
[Racingcommission.nebraska.gov](http://Racingcommission.nebraska.gov)

## NEBRASKA STATE RACING COMMISSION

### SUMMARY OF COMMENTS

During our examination of the Nebraska State Racing Commission (Commission), we noted certain deficiencies and other operational matters that are presented here. Comment #1, "Lack of Controls Over Revenues," is required to be reported in accordance with *Government Auditing Standards*; the comment is considered to be a significant deficiency.

These comments and recommendations are intended to improve the internal control over financial reporting or result in operational efficiencies in the following areas:

1. ***Lack of Controls Over Revenues:*** We noted a lack of segregation of duties over the issuance of licenses and other revenues collected by the Commission. Licenses were not adequately controlled to ensure all monies received were actually deposited.
2. ***Lack of Controls Over Expenditures:*** We noted a lack of segregation of duties over expenditures. A Commission employee was able to prepare, approve, and post her own transactions in the State's accounting system.
3. ***Payroll Issues:*** We noted a lack of segregation of duties over payroll processing and one employee who did not have an approved timesheet or leave approval.
4. ***Capital Asset Issues:*** We noted a lack of segregation of duties over capital assets and one transaction, totaling \$3,037, inappropriately recorded as a capital asset instead of an operating expenditure.
5. ***Racetrack Bonds:*** The Commission had no basis or documentation for how the racetrack bond amounts were determined to be reasonable in accordance with State law.
6. ***Personal Use of State-Owned Property:*** One employee used a Commission-owned firearm for personal use while working off duty at various locations, which conflicts with State law.
7. ***Unsupported Fees:*** The Commission has not updated fees set in rules and regulations since 2007 and had no documentation to support how the fee amounts were determined to be reasonable. Furthermore, three fees did not agree, and one fee was not listed in the rules and regulations.
8. ***Travel Expenditure Issues:*** The Commission reimbursed \$138 for meals without detailed receipts and one reimbursement for a flight costing \$886 did not appear reasonable.

More detailed information on the above items is provided hereinafter. It should be noted that this report is critical in nature, containing only our comments and recommendations on the areas noted for improvement and does not include our observations on any accounting strengths of the Commission.

NEBRASKA STATE RACING COMMISSION

**SUMMARY OF COMMENTS**

(Concluded)

Draft copies of this report were furnished to the Commission to provide its management with an opportunity to review and to respond to the comments and recommendations contained herein. All formal responses received have been incorporated into this report. Responses that indicate corrective action has been taken were not verified at this time, but they will be verified in the next examination.

# NEBRASKA STATE RACING COMMISSION

## COMMENTS AND RECOMMENDATIONS

### 1. Lack of Controls Over Revenues

During testing, we noted the Nebraska State Racing Commission (Commission) lacked an adequate segregation of duties over both the revenue process and the issuance of licenses, as follows:

- One individual was able to open mail containing cash receipts without a second staff member being present, process applications for licenses, issue licenses, change license rates in the license system (ARCI), prepare deposits, create invoices, collect and apply cash receipts to accounts, and process refunds in the ARCI – all without a secondary approval. Three individuals had access to perform these procedures. For the fiscal year ended June 30, 2017, the Commission deposited \$45,720 in license revenues.
- We also noted one of the three individuals was able to prepare and approve her own deposit documents in the State's accounting system. This access would allow the employee to process a transaction from beginning to end without a secondary person being involved in the process. We reviewed the accounting system and noted one deposit transaction, totaling \$1,055, was prepared and approved by the individual during the fiscal year ended June 30, 2017.
- Licenses were not adequately controlled to ensure all monies received were actually deposited, as licenses could be voided and/or deleted in the ARCI system after being issued. Because the license number sequence would not be continuous, a thorough review of transaction reports would be required to detect voided transactions. There was no documented review of voided receipts by someone without access to the ARCI system. We identified 15 voided licenses by reviewing the license revenue report provided from the ARCI system. The report included the license number, licensee name, type of license, and amount charged. We manually compiled the missing license numbers and selected 3 of 15 to test. For 2 of the 3 voids tested there was no documentation on file to support why the license was voided or whether the void was reasonable and necessary.
- Additionally, at the conclusion of the examination we determined the original license revenue report from the ARCI system was inaccurate; according to the Commission, the ARCI system was not up to date and did not contain all voided transactions. The Commission was not aware of the issue until we brought the reporting inconsistencies to its attention. We noted 20 additional voids, totaling \$480, for a total of 35 voids. The additional voids date back as far as August 2016. When we asked why the information in the ARCI system was not current the developer responded that a change to either the structure of the payment tables or the query used to create the reports may have caused the inconsistencies.

Revenues totaled \$600,091 during the fiscal year ended June 30, 2017, of which \$594,005 was processed through the Commission and is considered to be at risk due to the lack of an adequate segregation of duties. The remaining receipts were interest income credited through the Department of Administrative Services (DAS).

NEBRASKA STATE RACING COMMISSION

COMMENTS AND RECOMMENDATIONS

(Continued)

1. **Lack of Controls Over Revenues** (Continued)

A similar finding was noted in the last two reports for the periods ended June 30, 2005, and December 31, 2011.

A good internal control plan requires an adequate segregation of duties or compensating procedures to ensure no one individual is in a position both to perpetrate and to conceal errors or irregularities when issuing licenses and preparing deposits, including the preparation of an initial listing of monies received and a review of deleted transactions.

A lack of segregation of duties increases the risk of loss, misuse, or theft of State funds. Without proper controls over the issuance of licenses, moreover, there is an increased risk a license could be issued without the fee being collected, or a fee paid by an applicant might not be deposited.

We recommend the Commission implement a proper segregation of duties or compensating procedures for the handling of receipts and the issuance of licenses, including a documented review of voided receipts.

*Commission Response: The Commission is a very small agency and does not have the staff or the positions to allow for all segregation of duties. The Commission has taken steps to limit the access to the staff member at the track. That employee can no longer delete licenses or change licensing fees.*

*One employee was able to prepare and approve a deposit document. This was done to be in compliance with State Statute 84-710 which requires deposits be made within three days. The Director was out of the office so he gave the employee permission to proceed. The employee also corresponded with the treasurers' office and included documentation from the bank showing that the correct amount was deposited. This happened one time during FY17. We will discuss with DAS to see if there is any further procedures we can implement.*

*During the audit we did learn that one employee had an old version of the ARCI database. This version was not on the main licensing computer. The IT person from the Commission vendor discovered that an older version was on the computer which was used to run reports for the audit. This issue has been corrected and everything balances to the penny for FY17.*

*The Commission strongly disagrees that \$594,005 of revenues were at risk. This revenue is from the pari-mutuel tax placed on each wager made in Nebraska. This tax is sent to the Commission headquarters office in Lincoln by check from each racetrack. The Commission receives the checks and handle reports for the racetrack each month. The Commission audits those reports and compares with the tote company report. One employee deposits the checks remotely and prints the transmittal of the deposit from the bank. The employee enters the documents in E1 and attaches all documentation. The employee then gives the director the E1 document (the Director can see all attached docs in E1) including the bank transmittal report. The Director then reviews all documents, signs and dates the deposit document and approves it in E1.*

NEBRASKA STATE RACING COMMISSION

COMMENTS AND RECOMMENDATIONS

(Continued)

1. **Lack of Controls Over Revenues** (Concluded)

**APA Response:** The pari-mutuel taxes are processed through the same procedures as those outlined in the comment. Consequently, the tax revenues are also at risk of undetected error or theft due to the lack of an adequate segregation of duties and detailed independent reviews. The Director was one of the three individuals able to perform all procedures without a secondary review.

2. **Lack of Controls Over Expenditures**

During testing of employee access to the State's accounting system, we noted a lack of segregation of duties over the expenditure process, as one employee had access to prepare, approve, and post her own transactions. This access would allow the employee to process a disbursement from beginning to end without the involvement of a secondary person. This issue was also discussed during the prior attestation for the period ended December 31, 2011.

We reviewed the accounting system and noted no transactions were prepared, approved, and posted by the same individuals during the fiscal year ended June 30, 2017. Therefore, the access for the employee appeared unreasonable and unnecessary.

Aside from costs for personal services, Commission expenditures totaled \$280,552 during the fiscal year tested.

A good internal control plan requires an adequate segregation of duties or compensating procedures to ensure no one individual is in a position both to perpetrate and to conceal errors or irregularities when processing expenditure transactions.

A lack of segregation of duties increases the risk of errors and/or fraud occurring and remaining undetected.

We recommend the Commission implement a proper segregation of duties and restrict employee access to the accounting system, so no one individual has the ability to process expenditure transactions from beginning to end.

*Commission Response: The Commission is a small agency with only two present in the headquarter office including the Director. One employee creates the expenditures in E1. The director then reviews the documents and approves them in E1. All expenditures are then sent to DAS Accounting to be pre-audited and then approved. All documents are then reviewed by the Racing Commissioners and made a part of the record of each Commission meeting. The Commission will discuss this finding with DAS Accounting.*

**APA Response:** The Racing Commissioners receive summary-level detail, such as budget status reports and general ledger detail reports, during their review of expenditures. Detailed documentation, such as invoices, is not provided for review during the Commission meetings.

NEBRASKA STATE RACING COMMISSION

COMMENTS AND RECOMMENDATIONS

(Continued)

**3. Payroll Issues**

The State's accounting system does not have an established segregation of duties for payroll processing. Therefore, employees with access to process payroll are able to perform all procedures without a secondary individual being required to approve transactions.

Accordingly, the Commission should have compensating procedures in place, such as a detailed documented review of the payroll register by an individual without payroll access, to ensure no one individual is able to conceal errors or irregularities. The Commission had one individual who was able to perform all payroll processes and reviewed reports to ensure expenditures were accurate and proper. The Director reviewed the payroll register but admitted the review was not detailed enough to identify all changes made. The individual who processed payroll provided the payroll register and copies of all changes made to wages, benefits, etc., for the Director's review. If a copy were not provided, but a change was made, there is a likelihood the change would not be identified.

Furthermore, the Director did not document his review of the individual's timesheets or approval of leave usage. We tested one pay period and noted no documented supervisory approval or approval for the use of 24 hours of sick leave totaling \$473.

The Commission had \$289,350 in personal service expenditures during the fiscal year ended June 30, 2017.

A good internal control plan requires an adequate segregation of duties to ensure no one individual is in a position both to perpetrate and to conceal errors or irregularities. This would require someone without payroll access to perform a documented review of the payroll to ensure that it is proper, including review of timesheets and leave usage. Without an adequate segregation of duties, there is an increased risk of errors or irregularities occurring and not being detected.

We recommend the Commission implement procedures for someone without payroll access to perform a documented review of the payroll register, timesheets, and leave usage for accuracy and reasonableness.

*Commission Response: The Commission is a very small agency and does not have the staff or the positions to allow for all segregation of duties. The Commission agrees with the finding that a change in hourly rate may be changed and the director may miss that change in his review. When this was brought to the attention of the Commission, procedures were put in place to correct this oversight.*

*We disagree with the finding that "the director did not document his review of the individual's timesheets or approval of leave." Every payroll term, the director reviews the payroll registry. Attached to the payroll registry is the individual timesheets. The director reviews these documents, signs the payroll registry and then sends a payroll certification to payroll, via email.*

NEBRASKA STATE RACING COMMISSION

COMMENTS AND RECOMMENDATIONS

(Continued)

3. **Payroll Issues** (Concluded)

**APA Response: The individual who processes payroll did not have an approved timesheet or documentation of her leave. As noted in the comment, moreover, the Director admitted during the examination that he did not review payroll in sufficient detail to ensure all changes were accurate and proper.**

4. **Capital Asset Issues**

During our review of capital asset procedures, we noted a lack of segregation of duties over the processing of capital assets in the accounting system. One individual was able to add assets to the inventory records, to surplus and dispose of assets, and to perform the annual inventory. Additionally, no documented secondary review of capital asset reports was performed by an independent person without capital asset access to ensure that the additions and retirements were appropriate and accurate.

During testing of expenditures, we noted one payment for \$3,037 was incorrectly capitalized. It should have been recorded as an operating expenditure. The expense was for a maintenance agreement on the Commission's fingerprinting system and was added to the existing capital asset improperly. An adjustment was made to the financial schedule and capital asset footnote.

As of June 30, 2017, the Board had nine assets with an adjusted total purchase value of \$21,259; however, due to depreciation, the current combined book value is only \$3,335.

A good internal control plan requires an adequate segregation of duties to ensure no one individual is able both to perpetrate and to conceal errors or irregularities. Furthermore, good internal controls require policies and procedures to ensure accounting records are accurate.

Without an adequate segregation of duties, there is an increased risk of fraud and misuse of State property. When transactions are not appropriately recorded, there is an increased risk of materially misstating the financial schedule.

We recommend the Commission establish an adequate segregation of duties to ensure no one individual is able to perpetrate and/or conceal errors and irregularities. This would include a documented secondary review of capital asset reports by someone without accounting system access to maintain capital assets. We also recommend the Commission work with DAS to correct the improper capital asset addition in the accounting system.

*Commission Response: The Commission is a very small agency and does not have the staff or the positions to allow for all segregation of duties. The Commission has very few Capital Assets. We do acknowledge that one item, which was a service agreement, was coded incorrectly. This was corrected.*

NEBRASKA STATE RACING COMMISSION

**COMMENTS AND RECOMMENDATIONS**  
(Continued)

**5. Racetrack Bonds**

Neb. Rev. Stat. § 2-1206 (Reissue 2012) requires the Commission to obtain a bond from each racetrack corporation or association, as follows:

*Every corporation or association licensed under sections 2-1201 to 2-1218 shall, before said license is issued, give bond to the State of Nebraska in such reasonable sum as the commission shall fix, with surety or sureties to be approved by the commission, conditioned to faithfully make the payments prescribed by said sections, to keep its books and records and make reports as herein provided, and to conduct its racing in conformity with the provisions of said sections and the rules and regulations prescribed by the commission.*

(Emphasis added.) Despite the above statutory directive, the Commission maintains no documentation of having formally approved any bond amounts.

Additionally, a bond required under § 2-1206 is supposed to be fixed in a “reasonable sum.” However, the Commission also lacks documentation or other support for how amounts were determined. This appears problematic in light of the disparity between the various bond amounts set by the Commission. For instance, a comparison of the different bonds required by the Commission shows little, if any, correlation between their amounts and the handles or wagers of the racetracks from which they are received.

The following table illustrates the wide divergence between the various bond amounts set by the Commission, especially with regard to the corresponding handles of the racetracks:

<b>Racetrack</b>	<b>Bond Amount</b>	<b>Calendar Year 2016 Pari-Mutuel Handles</b>
Columbus	\$ 50,000	\$ 4,003,514
Fonner	\$ 10,000	\$ 14,044,922
Atokad	\$ 5,000	\$ 2,156
Hastings	\$ 1,000	\$ 70
Omaha/Lincoln	\$ 1,000	\$ 53,029,932

Without documentation supporting not only the Commission’s formal approval of all bond amounts fixed but also a reliable basis for determining the reasonableness of those amounts, compliance with § 2-1206 cannot be confirmed, and Commission funds may be placed at risk of loss.

A similar finding was noted in the last two reports for the periods ended June 30, 2005, and December 31, 2011.

We recommend the Commission implement policies and procedures to ensure compliance with § 2-1206 through the documentation of both formal approval of all bond amounts and the basis for determining the reasonableness of those amounts.

NEBRASKA STATE RACING COMMISSION

COMMENTS AND RECOMMENDATIONS

(Continued)

5. **Racetrack Bonds** (Concluded)

*Commission Response: The Commission disagrees with the auditor's conclusion that "Commission funds may be at risk of loss." There was no explanation as to how funds would be at risk. We will be seeking the advice from the Attorney General's Office.*

**APA Response: The language of Neb. Rev. Stat. § 2-1206 (Reissue 2012) is clear that the bond requirement serves to ensure against failure to perform specific duties prescribed in State law or rules and regulations, including faithfully making certain payments. Insufficient bond amounts necessarily increase the risk that missed payments will result in the loss of Commission revenues. The Commission should be knowledgeable of not only the purpose of the bonds but also the risks posed by bonds that are not set at reasonable amounts, as required by State law.**

6. **Personal Use of State-Owned Property**

The Commission owns two firearms, one of which is used by the Director not only for his Commission-related duties but also personally for his separate, private sector employment. In 1997, the Commission Chair authorized the Director to use the firearm while working off duty at various locations. However, both using and granting permission to use State property for a public employee's personal financial gain conflicts with Neb. Rev. Stat. § 49-14,101.01(2) (Reissue 2010), which says the following:

*A public official or public employee shall not use or authorize the use of personnel, resources, property, or funds under his or her official care and control other than in accordance with prescribed constitutional, statutory, and regulatory procedures or use such items, other than compensation provided by law, for personal financial gain.*

Given that the State-owned firearm is being carried for an off-duty job, its use is unquestionably for personal financial gain, which appears to conflict with State law.

We recommend the Commission refrain from permitting State-owned property to be used for personal gain. Because the present comment addresses an apparent violation of State statute, we are forwarding this information to the Nebraska Accountability and Disclosure Commission for further review.

*Commission Response: The Racing Commission acknowledges this finding. The Commission employee nor the Chairman were aware of the State Statute cited in the Auditor's report. Upon being notified by the Auditors, regarding this finding, the practice was immediately discontinued.*

7. **Unsupported Fees**

The Commission licenses all persons engaged in or employed by those engaged in racing. The fees for licenses range from \$10 to \$100, as established in the Commission's rules and regulations (Title 294 NAC 10.007). However, the Commission had no documentation to support how the amounts were established and whether they are reasonable. Furthermore, the fees were last updated in 2007.

NEBRASKA STATE RACING COMMISSION

COMMENTS AND RECOMMENDATIONS  
(Continued)

7. **Unsupported Fees** (Concluded)

Neb. Rev. Stat. § 2-1203.01(2) (Cum. Supp. 2016) directs the Commission to do the following:

*License racing industry participants, racing officials, mutual employees, concessionaries, and such other persons as deemed necessary by the commission if the license applicants meet eligibility standards established by the commission.*

Good internal controls require policies and procedures to ensure not only a periodic review of fees but also the maintenance of supporting documentation for how the fees were established to ensure they are reasonable, necessary, and sufficient to cover the costs of the Commission's operations.

Without such policies and procedures, there is an increased risk fees will be inadequate to cover costs, which could lead to a loss of State funds.

We recommend the Commission ensure fees are reviewed periodically, and documentation is maintained for how they were established.

*Commission Response: The Racing Commission's licensing fees are in Rule Title 294 NAC 10.007. The Commission has been working on the rule making process since 2015. As part of the rule making process the Commission reviewed licensing costs and is seeking an increase in licensing fees of \$5.00 across the board. The rules are stalled and have been in the Governor's office since January 13, 2017.*

8. **Travel Expenditure Issues**

We tested seven travel-related expenditures and noted the following issues:

- Five reimbursements tested lacked detailed receipts for nine meals, totaling \$138, and a written acknowledgement of after-the-fact documentation was not provided in accordance with the State Accounting Manual.

<b>Travel Reimbursement</b>	<b>Description</b>	<b>Amount</b>
#1	Three receipts were not detailed. One was only a credit card copy, and two were not legible in order to decipher what was ordered.	\$ 51
#2	Three receipts were not detailed; only credit card copies were provided.	\$ 31
#3	One meal lacked a detailed receipt; only a credit card copy was provided.	\$ 24

NEBRASKA STATE RACING COMMISSION

COMMENTS AND RECOMMENDATIONS  
(Continued)

8. Travel Expenditure Issues (Continued)

Travel Reimbursement	Description	Amount
#4	One meal lacked a detailed receipt; only a handwritten note was provided explaining what was ordered and the amount.	\$ 20
#5	One meal lacked a detailed receipt; only a credit card copy was provided.	\$ 12
<b>TOTAL</b>		<b>\$ 138</b>

Neb. Rev. Stat. § 81-1174 (Reissue 2014) requires expense reimbursements to be “duly verified and supported by receipts for all of such expenditures . . . .”

Furthermore, the Nebraska State Accounting Manual, AM-005, “Travel Expense Policies,” Section 8, states the following:

*Detailed receipts are required as support for all expenditures except immaterial items identified by the Director of Administrative Services . . . . The requirement to provide detailed receipts includes, but is not limited to, food/meals, lodging, car rental, commercial travel, and registration fees. The requirement is an internal control feature to guard against duplicate payment of claims.*

*Detailed receipt is defined as a receipt that shows a list of each item purchased and the related cost. Detailed receipt does **not** include the receipt copy that only identifies an amount is being charged to the employee’s credit card.*

\* \* \* \*

*In the absence of **detailed** receipts supporting an employee’s claim, State Accounting will require a **written** acknowledgement that after-the-fact documentation will be provided. This documentation may be a copy of:*

- *Cancelled check;*
  - *Charge card slip and signed written explanation; or*
  - *Subsequently acquired receipt and signed written explanation.*
  - *If receipts have been lost, or where a receipt was not provided (such as when only one meal receipt is provided per table), the employee should create and present an affidavit.*
- One reimbursement had an unreasonable airline expense. The employee flew from Omaha, Nebraska, to Seattle, Washington, on Southwest Airlines with a “Wanna Get Away” ticket. On the return trip, the employee flew on a “Business Select” ticket, which appears to have been comparable to a first-class ticket. When the Auditor of Public Accounts (APA) questioned the “Business Select” ticket, the employee stated a lesser ticket was not available for the return flight; however, there was no documentation on file to support the claim. The roundtrip flight cost \$886, which appears excessive. The APA researched the cost difference between a “Wanna Get Away” ticket versus a “Business Select” ticket for a similar flight in the current period and determined an approximate difference of \$400 between the two ticket classes. It is unknown what the actual difference would have been during the timeframe of the travel.

NEBRASKA STATE RACING COMMISSION

COMMENTS AND RECOMMENDATIONS

(Concluded)

8. **Travel Expenditure Issues** (Concluded)

Good internal controls require policies and procedures to ensure travel expenditures are reasonable, necessary, and adequately supported.

Without such policies and procedures, there is an increased risk of inappropriate reimbursements causing a loss of State funds.

We recommend the Commission implement policies and procedures to ensure detailed receipts are obtained and reviewed and travel expenditures are reasonable and necessary.

*Commission Response: The Racing Commission is a small agency and is required by State Statute 81-1111.01 that all expenditures be pre-audited by State Accounting. All expenditures noted in the Auditor's report were pre-audited by State Accounting. Issues addressed in this audit were identified and documentation was revised or provided to allow these items to be reimbursed.*

*The Racing Commission does not agree with this finding.*

**APA Response: Despite performing the statutorily required pre-audit for the Commission, DAS failed to abide by its own accounting policies when permitting reimbursement of the expenditures noted. DAS policies mandate either detailed receipts or the appropriate after-the-fact documentation, including an employee's affidavit. Without either of these, payment should have been denied.**



## NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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### NEBRASKA STATE RACING COMMISSION

### INDEPENDENT ACCOUNTANT'S REPORT

Nebraska State Racing Commission  
Lincoln, Nebraska

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, 2017. The Commission's management is responsible for the Schedule of Revenues, Expenditures, and Changes in Fund Balances based on the accounting system and procedures set forth in Note 1. Our responsibility is to express an opinion on the Schedule of Revenues, Expenditures, and Changes in Fund Balances based on our examination.

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. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the Schedule of Revenues, Expenditures, and Changes in Fund Balances is based on the accounting system and procedures set forth in Note 1, in all material respects. An examination involves performing procedures to obtain evidence about the Schedule of Revenues, Expenditures, and Changes in Fund Balances. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of the Schedule of Revenues, Expenditures, and Changes in Fund Balances, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

In our opinion, the Schedule of Revenues, Expenditures, and Changes in Fund Balances for the fiscal year ended June 30, 2017, is based on the accounting system and procedures prescribed by the State of Nebraska's Director of the Department of Administrative Services, as set forth in Note 1, in all material respects.

In accordance with *Government Auditing Standards*, we are required to report findings of significant deficiencies and material weaknesses in internal control; instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the subject matter or an assertion about the subject matter and any other instances that warrant the attention of those charged with governance; noncompliance with provisions of contracts or grant agreements that has a material effect on the subject matter or an assertion about the subject matter of the examination engagement; and abuse that has a material effect on the subject matter or an assertion about the subject matter of the examination engagement. We are also required to obtain the views of management on those matters. We performed our examination to express an opinion on whether the Schedule of Revenues, Expenditures, and Changes in Fund Balances is presented in accordance with the criteria described above and not for the purpose of expressing an opinion on the internal control over the Schedule of Revenues, Expenditures, and Changes in Fund Balances or on compliance and other matters; accordingly, we express no such opinions. Our examination disclosed a certain finding that is required to be reported under *Government Auditing Standards*, and the finding, along with the views of management, are described in the Comments Section of the report.

This report is intended solely for the information and use of management, the Commission, others within the Commission, and the appropriate Federal and regulatory agencies, and it is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

A handwritten signature in cursive script, appearing to read "C. J. Janssen", with a long horizontal flourish extending to the right.

Charlie Janssen  
Auditor of Public Accounts  
Lincoln, Nebraska

November 17, 2017

**NEBRASKA STATE RACING COMMISSION**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
For the Fiscal Year Ended June 30, 2017

	Racing Commission Cash Fund 23610	Track Distribution Fund 23620	Common School Fund 61270	<b>Totals (Memorandum Only)</b>
<b>REVENUES:</b>				
Taxes	\$ 440,949	\$ 105,036	\$ -	\$ 545,985
Sales & Charges	45,720	-	-	45,720
Miscellaneous	5,720	366	2,300	8,386
<b>TOTAL REVENUES</b>	<b>492,389</b>	<b>105,402</b>	<b>2,300</b>	<b>600,091</b>
<b>EXPENDITURES:</b>				
Personal Services	289,350	-	-	289,350
Operating	124,212	-	-	124,212
Travel	51,304	-	-	51,304
Government Aid	-	105,036	-	105,036
<b>TOTAL EXPENDITURES</b>	<b>464,866</b>	<b>105,036</b>	<b>-</b>	<b>569,902</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	27,523	366	2,300	30,189
<b>OTHER FINANCING SOURCES (USES):</b>				
Deposit to/from Common Fund	-	-	(2,300)	(2,300)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>-</b>	<b>-</b>	<b>(2,300)</b>	<b>(2,300)</b>
Net Change in Fund Balances	27,523	366	-	27,889
FUND BALANCES, July 1, 2016	264,084	14,999	-	279,083
FUND BALANCES, June 30, 2017	<u>\$ 291,607</u>	<u>\$ 15,365</u>	<u>\$ -</u>	<u>\$ 306,972</u>
<b>FUND BALANCES CONSIST OF:</b>				
General Cash	\$ 293,407	\$ 15,365	\$ -	\$ 308,772
Petty Cash	150	-	-	150
Deposits with Vendors	177	-	-	177
Due to Vendors	(2,127)	-	-	(2,127)
<b>TOTAL FUND BALANCES</b>	<b><u>\$ 291,607</u></b>	<b><u>\$ 15,365</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 306,972</u></b>

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, 2017

### 1. Criteria

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

Per Neb. Rev. Stat. § 81-1107(2) (Reissue 2014), the duties of the State of Nebraska's Director of DAS 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[.]*

In accordance with Neb. Rev. Stat. § 81-1111(1) (Reissue 2014), the State Accounting Administrator has prescribed the system of accounts and accounting to be maintained by the State and its departments and agencies and has developed necessary accounting policies and procedures. The prescribed accounting system currently utilizes EnterpriseOne, an accounting resource software, to maintain the general ledger and all detailed accounting records. Policies and procedures are detailed in the Nebraska State Accounting Manual published by DAS State Accounting Division (State Accounting) and are available to the public.

The financial information used to prepare the Schedule of Revenues, Expenditures, and Changes in Fund Balances was obtained directly from the general ledger and fund balance information maintained on EnterpriseOne. EnterpriseOne is not an accrual accounting system; instead, accounts are maintained on a modified cash basis. As revenue transactions occur, the agencies record the accounts receivable and related revenues in the general ledger. As such, certain revenues are recorded when earned, regardless of the timing of related cash flows. State Accounting does not require the Commission to record all accounts receivable and related revenues in EnterpriseOne; as such, the Commission's schedule does not include all accounts receivable and related revenues. In a like manner, expenditures and related accounts payable are recorded in the general ledger as transactions occur. As such, the schedule includes those expenditures and related accounts payable posted in the general ledger as of June 30, 2017, and not yet paid as of that date. The amount recorded as expenditures on the schedule, as of June 30, 2017, **does not** include amounts for goods and services received before June 30, 2017, which had not been posted to the general ledger as of June 30, 2017.

The Commission had no accounts receivable at June 30, 2017. Liabilities for accrued payroll and compensated absences are not recorded in the general ledger.

The fund types established by the State 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.

NEBRASKA STATE RACING COMMISSION

**NOTES TO THE SCHEDULE**  
(Continued)

1. **Criteria** (Concluded)

**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.

The major revenue account classifications established by State Accounting and 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 consist of pari-mutuel gross sum wagering taxes and exotic wagering taxes.

**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 and fines for violations of the Commission’s rules and regulations.

The major expenditure account classifications established by State Accounting and 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.

**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 accounting classifications and procedures established by State Accounting 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 in the general ledger.

**Liabilities** – Legal obligations arising out of transactions in the past that must be liquidated, renewed, or refunded at some future date. Accounts payable transactions are recorded as expenditures, resulting in a decrease to fund balance.

**Other Financing Sources** – Deposits of fines into the Common School Fund. See additional information in Note 6.

# NEBRASKA STATE RACING COMMISSION

## NOTES TO THE SCHEDULE

(Continued)

### 2. Reporting Entity

The 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 included in the general ledger.

The 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. General Cash

General cash accounts are under the control of the State Treasurer or other administrative bodies, as determined by law. All cash deposited with the State Treasurer is initially maintained in a pooled cash account. On a daily basis, the State Treasurer invests cash not needed for current operations with the State’s Investment Council, which maintains an operating investment pool for such investments. Interest earned on those investments is allocated to funds based on their percentage of the investment pool.

### 5. Capital Assets

Capital assets include land, buildings, equipment, improvements to buildings, construction in progress, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items). Under State Accounting policies, expenditures for such capital assets are not capitalized as an asset in the funds used to acquire or construct them. Rather, costs of obtaining the capital assets are reflected as expenditures in the general ledger and are reported as such on the Schedule.

However, State Accounting does adjust such expenditures and reports the capital assets as assets for the State of Nebraska in the Comprehensive Annual Financial Report (CAFR). In addition, the Commission takes an annual inventory, recording in the State Accounting System all equipment that has a cost of \$1,500 or more at the date of acquisition.

For the CAFR, the State requires the Commission to value 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 \$5,000 or more at the date of acquisition and has an expected useful life of more than one year is capitalized. Depreciation expenses are 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 the asset’s life is not capitalized.

NEBRASKA STATE RACING COMMISSION

**NOTES TO THE SCHEDULE**  
(Concluded)

**5. Capital Assets** (Concluded)

Equipment is depreciated in the CAFR using the straight-line method with estimated useful lives of 3 to 10 years.

Capital asset activity of the Commission recorded in the State Accounting System for the fiscal year ended June 30, 2017, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets				
Equipment	\$ 21,259	\$ -	\$ -	\$ 21,259
Less accumulated depreciation for:				
Equipment				<u>17,924</u>
Total capital assets, net of depreciation				<u>\$ 3,335</u>

**6. Deposits to Common Funds**

As defined in Nebr. Const. Art VII 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.

**7. Track Distribution Fund – 23620**

Neb. Rev. Stat. § 2-1208.04 (Reissue 2012), states each racetrack shall withhold an amount equal to one-fourth of one percent of their gross exotic daily receipts and remit the amount withheld to the Commission. The Commission records these payments in the Track Distribution Fund – 23620 as taxes. The following month, the Commission then distributes the taxes to those recipient racetracks which conduct wagering by the pari-mutuel method on thoroughbred horseracing. A recipient racetrack is a racetrack with a total annual pari-mutuel handle of less than twelve million dollars. This distribution is recorded as aid in the Track Distribution Fund.

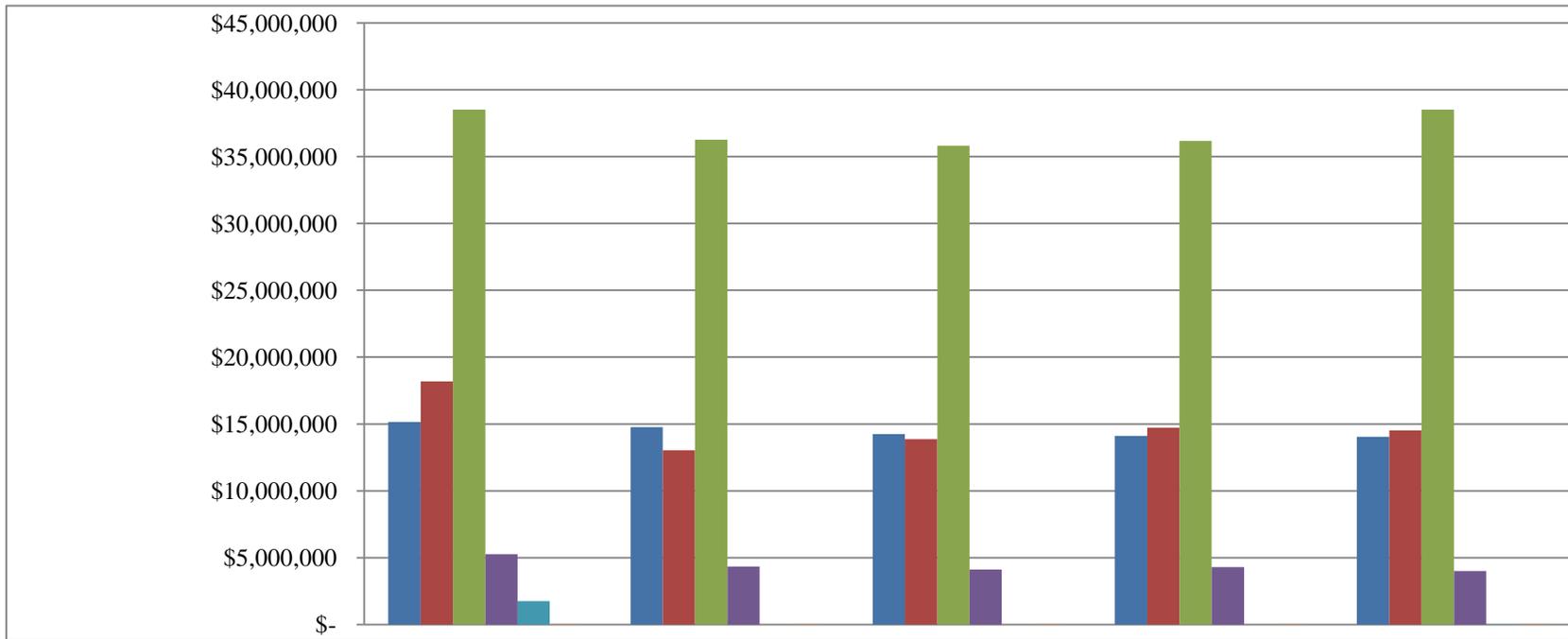
NEBRASKA STATE RACING COMMISSION

**SUPPLEMENTARY INFORMATION**

Our examination was conducted for the purpose of forming an opinion on the Schedule of Revenues, Expenditures, and Changes in Fund Balances. Supplementary 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 PARIMUTUEL HANDLES BY RACETRACK**  
 For Calendar Years 2012 through 2016

**Exhibit A**

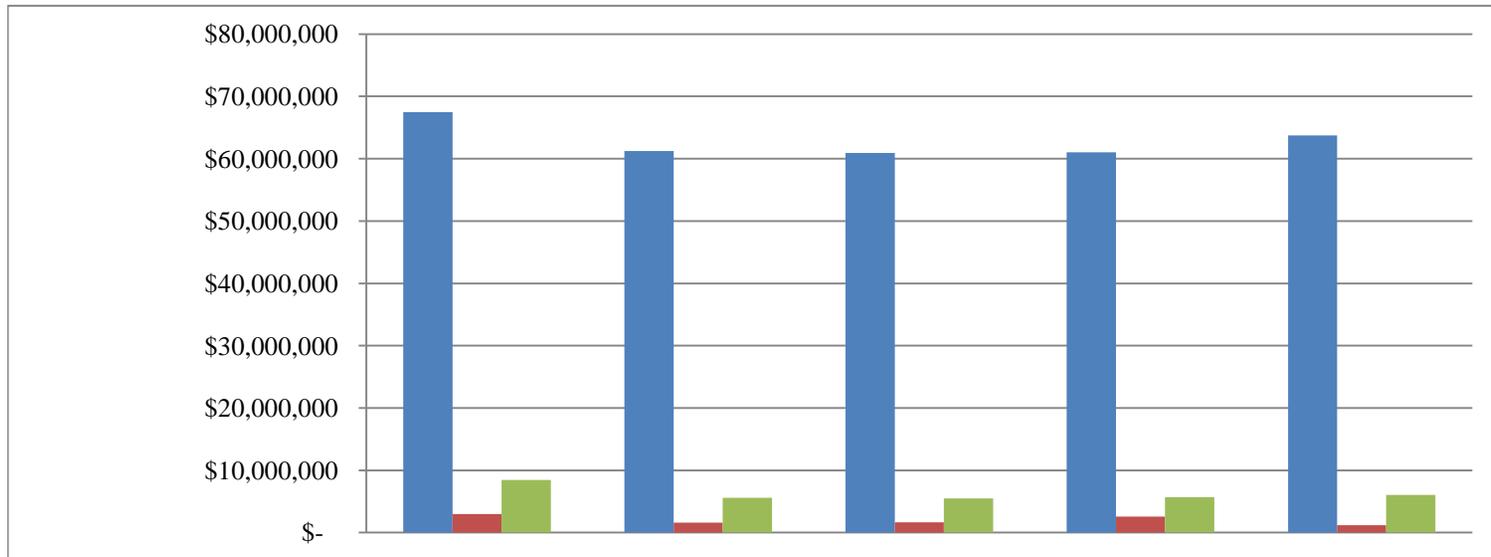


	2012	2013	2014	2015	2016
Fonner	\$ 15,157,198	\$ 14,774,480	\$ 14,242,894	\$ 14,109,008	\$ 14,044,922
Lincoln	\$ 18,186,950	\$ 13,020,484	\$ 13,854,938	\$ 14,707,760	\$ 14,515,033
Horsemen's Park Omaha	\$ 38,524,922	\$ 36,268,213	\$ 35,826,578	\$ 36,181,893	\$ 38,514,899
Columbus	\$ 5,250,798	\$ 4,336,687	\$ 4,102,212	\$ 4,302,339	\$ 4,003,514
Horsemen's Atokad	\$ 1,756,242	\$ -	\$ -	\$ -	\$ 2,156
Hasting Quarter Horses	\$ 80	\$ 480	\$ 483	\$ 184	\$ 70

Source: TOTE Systems

NEBRASKA STATE RACING COMMISSION  
**ANNUAL PARIMUTUEL HANDLES BY RACE TYPE**  
 For Calendar Years 2012 through 2016

Exhibit B

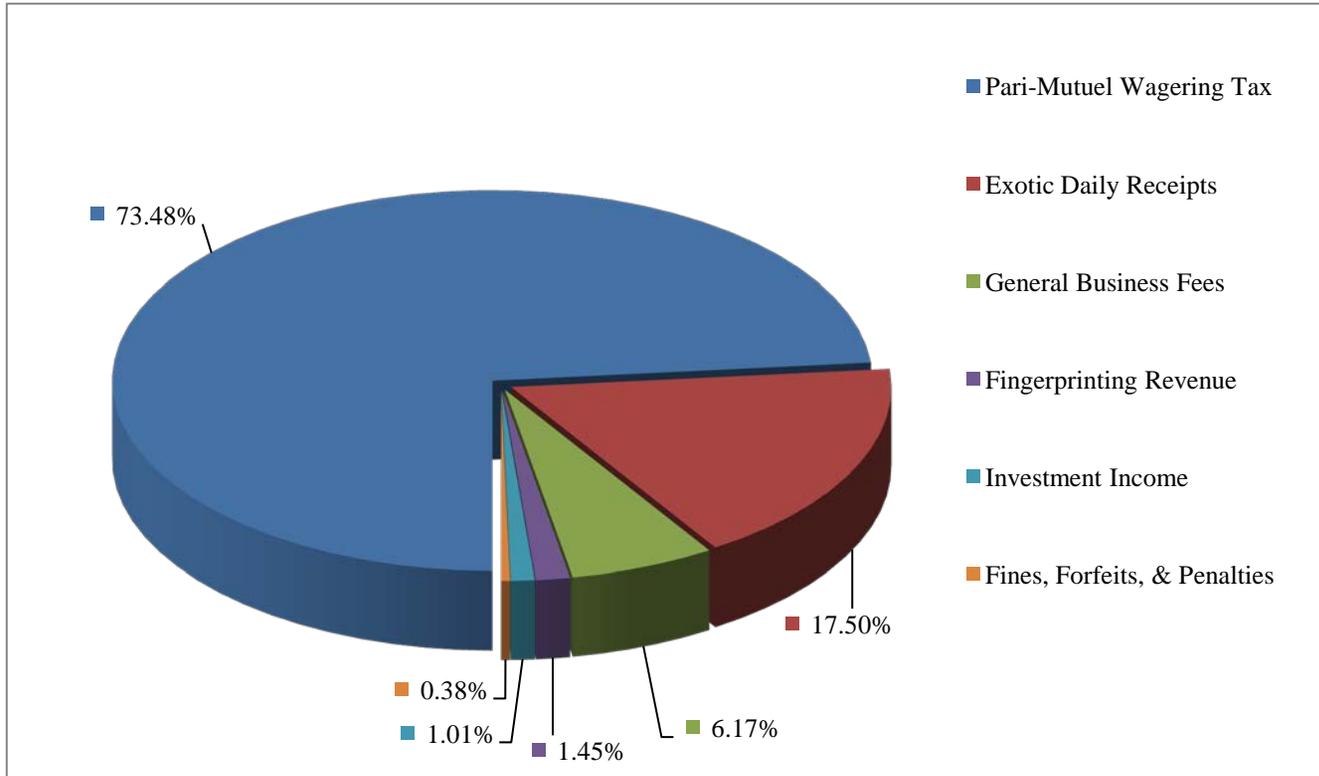


	2012	2013	2014	2015	2016
■ Interstate Simulcasting	\$ 67,478,291	\$ 61,214,579	\$ 60,911,861	\$ 61,051,628	\$ 63,721,873
■ Intrastate Simulcasting	\$ 2,952,357	\$ 1,594,355	\$ 1,623,164	\$ 2,553,018	\$ 1,203,277
■ Live Meets	\$ 8,445,542	\$ 5,591,409	\$ 5,492,079	\$ 5,696,538	\$ 6,021,271

Source: TOTE Systems

NEBRASKA STATE RACING COMMISSION  
**REVENUE SOURCES**  
For Fiscal Year Ended June 30, 2017

**Exhibit C**



Source: State Accounting System