



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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December 18, 2024

Ms. Casey Ricketts, Director
Nebraska Racing and Gaming Commission
3401 Village Drive, Suite 100
Lincoln, Nebraska 68516

Dear Ms. Ricketts:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Nebraska (State), as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the State's basic financial statements, and have issued our report thereon dated December 18, 2024. In planning and performing our audit of the financial statements, we considered the State's system of internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control. Accordingly, we do not express an opinion on the effectiveness of the State's internal control.

In connection with our audit as described above, we noted certain internal control or compliance matters related to the activities of the Nebraska Racing and Gaming Commission (Commission) or other operational matters that are presented below for your consideration. The comment and recommendation, which has been discussed with the appropriate members of the Commission's management, is intended to improve internal control or result in other operating efficiencies.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following comment (Gaming License Fee Accrual) to be a material weakness.

This comment will also be reported in the State of Nebraska's Statewide Single Audit Report Schedule of Findings and Questioned Costs.

Draft copies of this management letter were furnished to the Commission to provide management with an opportunity to review and to respond to the comment and recommendation contained herein. The formal response received has been incorporated into this management letter. *Government Auditing Standards* require the auditor to perform limited procedures on the responses. The response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it. A response that indicates corrective action has been taken was not verified at this time, but it will be verified in the next audit.

The following is our comment and recommendation for the year ended June 30, 2024.

Gaming License Fee Accrual

Authorized gaming operators are required to obtain an Authorized Gaming Operator License from the Commission, which requires a fee of \$5 million. As of June 30, 2024, the Commission had issued four Authorized Gaming Operator Licenses, requiring \$20 million in fees, but had received only \$7 million, leaving \$13 million still owed to the Commission. The Commission failed to report this \$13 million to State Accounting as an accounts receivable accrual. Therefore, the Auditor of Public Accounts proposed, and State Accounting posted, a \$13 million adjustment to the financial statements.

Title 296 NAC 3.002.02A states, in relevant part, the following:

Authorized Gaming Operator License authorizes an Authorized Gaming Operator or Management Company to conduct Authorized Games as defined by the Act under the regulation, implementation, and enforcement of the Commission. The License authorizes the approved Authorized Gaming Operator to acquire, own, lease, possess, and operate Gaming Devices at a Licensed Racetrack Enclosure. The term of a Gaming Operator License is a minimum of twenty (20) years for a fee of five million dollars (\$5,000,000) on each authorized gaming operator for each licensed racetrack enclosure payable to the Commission. The license fee may be paid over a period of five years with one million dollars due at the time the license is issued.

A proper system of internal control requires procedures to ensure accurate reporting of the year-end accruals, including all accounts receivable, to State Accounting. Without such procedures, there is an increased risk the financial statements will be materially misstated.

We recommend the Commission implement procedures to ensure all amounts owed to the State are reported appropriately to State Accounting for inclusion in the financial statements.

Commission Response: The Nebraska Racing and Gaming Commission has established a process to track payments received from the Authorized Gaming Operators, as well as the outstanding fee balances. We have collaborated with State Accounting to identify all fees that should be reported on an annual basis.

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It should be noted that this letter is critical in nature, as it contains only our comment and recommendation and does not include our observations on any strengths of the Commission.

Our audit procedures were designed primarily to enable us to form an opinion on the Basic Financial Statements. Our audit procedures were also designed to enable us to report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards* and, therefore, may not bring to light all weaknesses in policies or procedures that may exist. Our objective is, however, to use our knowledge of the Commission and its interaction with other State agencies and administrative departments gained during our work to make comments and suggestions that we hope will be useful to the Commission.

The purpose of this letter is solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of State's internal control over financial reporting or compliance.

This communication is intended solely for the information and use of management, the Governor and State Legislature, others within the Commission, Federal awarding agencies, pass-through entities, and management of the State of Nebraska and is not suitable for any other purposes. However, this communication is a matter of public record, and its distribution is not limited.

A handwritten signature in blue ink that reads "Kris Kucera". The signature is written in a cursive style with a large initial 'K'.

Kris Kucera, CPA, CFE
Assistant Deputy Auditor