

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

JULY 1, 1999 THROUGH JUNE 30, 2000

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.

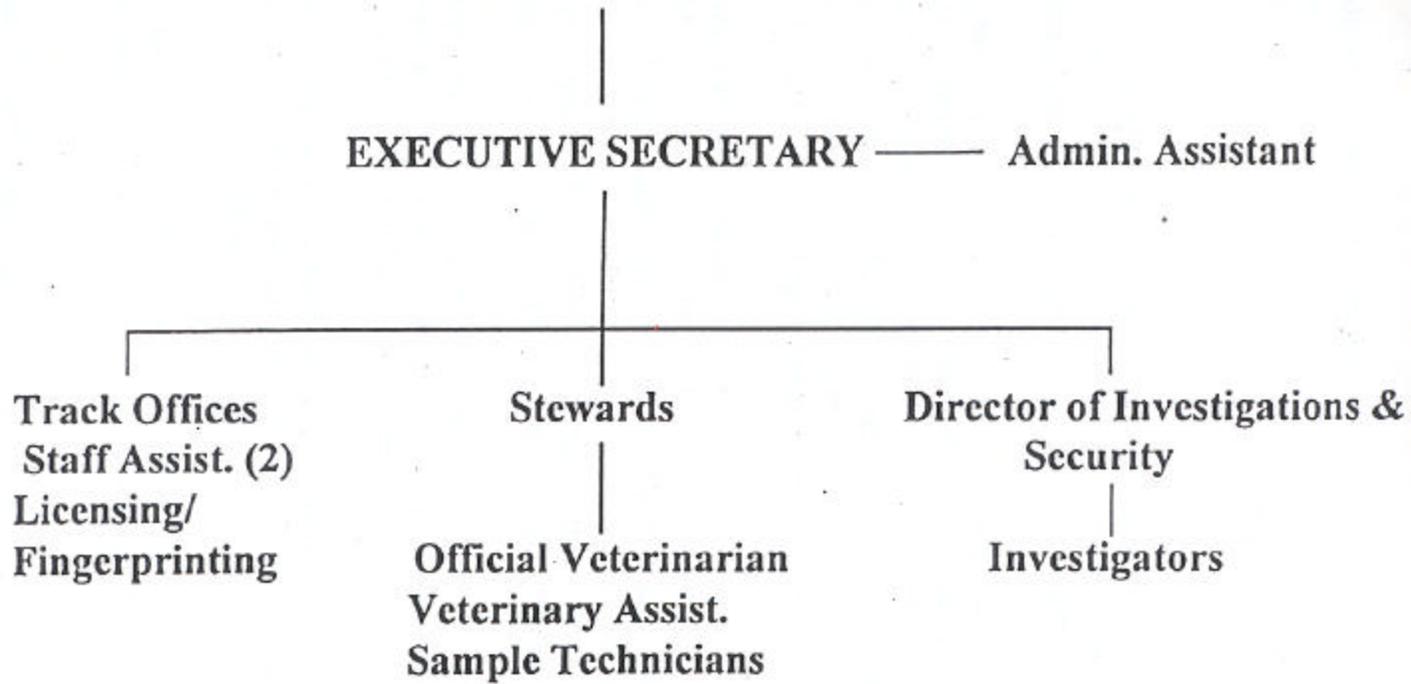
The Commission consists of three members appointed by the Governor for three-year terms. They meet approximately three times per year to approve licenses for live horse racing and simulcasting, adopt administrative rules, and conduct administrative hearings. The members are not paid, but are reimbursed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

The operations of the State Racing Commission are financed from daily track license fees, admission taxes, and occupational license fees. In addition, each licensed racetrack is required to pay the Commission two-tenths of one percent of the gross sum wagered. This percentage changed to four-tenths of one percent effective August 28, 1999.

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.

THE NEBRASKA STATE RACING COMMISSION



NEBRASKA STATE RACING COMMISSION

SUMMARY OF COMMENTS

During our audit 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. Comments and recommendations are intended to improve the internal control over financial reporting, ensure compliance, or result in operational efficiencies.

1. ***Internal Control Over Receipts:*** One person had the ability to perform all phases of the receipts and receivables processes at the racetracks. Internal control over receipts and receivables should also be improved in the Commission's office in Lincoln.
2. ***Contractual Services:*** The Commission paid approximately \$90,000 to the Department of Administrative Services – Information Management Services (DAS - IMS) for contractual services. The contract for the services did not stipulate the total dollar amount of the contract. The dollar amount paid by the Commission did not agree to the dollar amount stated in the work order between the vendor and DAS – IMS. Also, there was no documentation to support the payment of lodging for a DAS - IMS employee.
3. ***Drug Abuse Program Fund:*** Neb. Rev. Stat. Section 2-1203, R.R.S. 1997, requires fines assessed for violations of Racing Commission rules or regulations be paid into a fund for alcohol and drug rehabilitation services for horseracing industry participants. Nebraska Constitution Article VII, Section 5 requires such fines be paid over to respective counties and be appropriated for the use and support of the common schools. The fund balance of the Drug Abuse Program Fund 2364 as of June 30, 2000 totaled \$52,196.
4. ***Spending Authority Exceeded:*** The Commission's expenditures exceeded their appropriations by \$63,561. One document incorrectly identified a disbursement in the amount of \$13,810 for the prior fiscal year.
5. ***Track Distribution Fund Payments:*** Two payments for the fiscal year ending June 30, 2000 were not distributed monthly as required by State Statute. The total untimely distributions were \$34,030.
6. ***License Costs:*** The Commission did not have supporting documentation for the basis for the fees charged. Costs related to the issuance of the licenses were not included in the fees.
7. ***Internal Control Over Fixed Assets:*** Only one person maintained the fixed asset records, added and deleted items, prepared surplus property forms, performed the annual physical inventory, and reviewed the "Account Code 4800 Expenditures Not on Inventory" listing. There was no additional review by another person who was independent of the process.

NEBRASKA STATE RACING COMMISSION

SUMMARY OF COMMENTS

(Concluded)

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

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. 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 audit.

We appreciate the cooperation and courtesy extended to our auditors during the course of the audit.

NEBRASKA STATE RACING COMMISSION

COMMENTS AND RECOMMENDATIONS

1. Internal Control Over Receipts

Good internal control requires a plan of organization, procedures, and records designed to safeguard assets and provide reliable financial records. A system of internal control should include an adequate segregation of duties so no one person can handle all phases of a transaction from beginning to end.

During our audit, we noted one person had the ability to perform all phases of the receipts and receivables processes at the racetracks. This individual received money, entered information into the computer system, issued licenses, prepared the General Document, and made the deposit. The Lincoln Office did not compare amounts received in the computer system to amounts deposited. Therefore, they were unable to determine whether all amounts received were deposited. That individual was also able to delete records from the computer system with no independent review of the activity reports.

We also noted internal control could be improved over receipts and receivables processes in the Commission office as one person opened the mail, prepared the billing, received payments, deposited funds, and compared Commission records to the Nebraska Accounting System (NAS) records. There was no independent review of salary amounts billed to racetracks compared to the amounts actually received. A similar comment was noted in our prior audit.

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 implement procedures to include compensating controls or an independent review of receipts and receivables to ensure all monies received are receipted and deposited.

Commission's Response: Your report states "one person had the ability to perform all phases of the receipts and receivables processes at the racetracks. The individual received money, entered information into the computer system, issued licenses, prepared the General Document, and made the deposit. The Lincoln Office did not compare amounts received in the computer system to the amounts deposited. That individual was also able to delete records from the computer system with no independent review of the activity reports".

We have, during much of the year, only one person staffing the track offices. During periods when there is a higher volume of license activity we do have two people involved in receipt of money, entry of information into the license system, and issuing licenses, and preparing deposits. To have additional staff available during other periods would be too inefficient and expensive.

NEBRASKA STATE RACING COMMISSION

COMMENTS AND RECOMMENDATIONS

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

Commission's Response, Concluded:

To compensate for the single person responsibility at the track offices all General Documents are carefully monitored and processed with two authorized signatures. General Documents are accompanied by license system reports and other receipts that support the amounts shown on the General Document.

When license system reports accompany the General Document they are noted with the beginning and ending license transactions numbers. To further our "compensating controls" we will specifically verify that the license number sequence and the number of transactions reflected on the license system reports are consistent. We will indicate this with a check mark notation at the time the verification is made.

If this does not sufficiently resolve this issue, we would be anxious to meet with you to determine specifically what a sufficient compensating control would be.

You also state "...There was no independent review of salary amounts billed to racetracks compared to the amounts actually received. A similar comment was noted in our prior audit."

With respect to salary amounts billed compared to the amounts received, the General Document that reflects receipt of salary reimbursements includes a copy of the invoice, which details the basis for the bill. The General Document required two authorized signatures. To satisfy this requirement, we would propose to specifically initial and date the invoice when it is processed with the General Document.

With the following sentence "...A similar comment was noted in our prior audit," it is not clear what comment is being referenced. We could not find any comment in the prior audit with respect to an independent review of salary amount billed to racetracks compared to amounts actually received." We assume then that this comment is in reference to the need to segregate responsibilities and/or to implement "compensating controls".

Several controls were implemented pursuant to the prior report. And we are certainly willing to do whatever is practical to address any items that may still be a concern.

We feel this comment is unclear and unfairly infers a disregard for prior recommendations.

Auditor's Response: Prior to the implementation of the new licensing system, beginning and ending license transaction numbers were noted on the General Document. However, General Documents beginning January 1, 2000 did not have the beginning and ending license transaction numbers. Attached to the General Documents were computer reports stating the total amount received. These reports did not contain any detail regarding the

NEBRASKA STATE RACING COMMISSION

COMMENTS AND RECOMMENDATIONS

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

Auditor's Response, Concluded:

money received, who the money was received from, and the license number assigned. The reports detailing this information were kept at the track office, and were not reviewed by a second individual.

The similar comment noted in our prior audit related to the lack of segregation of duties over receipts and receivables. In our opinion, the procedures implemented as a result of the prior year comment and recommendation were not sufficient to compensate for the lack of segregation of duties.

2. **Contractual Services**

Good internal control requires a plan of organization, procedures, and records designed to safeguard assets and provide reliable financial records. Good internal control also includes the proper use of work orders and contracts to support payments made by the Commission. Work orders and contracts should include terms of the contract, such as the total dollar amount and length of the contract. The Commission contracted with the Department of Administrative Services – Information Management Services (DAS – IMS) for computer services. Work orders were assigned to the contracted employees conducting State business. The work orders specified the start date, end date, and pay rate for the contractor. The contract for the services was between the vendor and DAS – IMS. The contract stated, where travel for contractor personnel was approved on the work order by the State, all necessary and reasonable travel expenses by contractor personnel directly related to State projects would be billed to the State.

During our audit we noted the following related to this contractual service:

- The contract for computer services did not stipulate the total dollar amount of the contract.
- The dollar amount paid by the Commission did not agree to the dollar amount stated in the work order between the vendor and DAS – IMS. The work order stipulated a rate of \$70 per hour. Per review of the DAS – IMS billing, the rate actually paid was \$89 per hour.
- Lodging for the contractor and a DAS – IMS employee was paid by the Commission. The work order for the contractor did not stipulate travel expenses were authorized. There was no documentation to support the payment of lodging for the DAS – IMS employee.

NEBRASKA STATE RACING COMMISSION

COMMENTS AND RECOMMENDATIONS

2. Contractual Services (Concluded)

During the fiscal year the Commission paid approximately \$90,000 to DAS – IMS for this project. The risk of loss or misuse of State funds greatly increases without adequate contract procedures.

We recommend the Commission implement procedures to ensure:

- All contracts contain specific terms, including the total dollar amount of the contract.
- The amount paid by the Commission agrees to the work order.
- Travel is authorized and documented in work orders.

Commission's Response: This comment relates to a contract for development of a license system and database. After extensive analysis of system requirements, an initial decision was made to begin by obtaining a system from the State of Indiana, and modifying the system to meet the initial requirements for the Nebraska Racing Commission. The plan was to then begin an ongoing process of upgrading the Indiana system to meet additional Nebraska requirements.

After a work order was put in effect, and DAS-IMS retained the services of a contractor to do the software development, the contractor made the recommendation that the Nebraska Racing Commission project go directly to writing their own programs because the version of the FoxPro software that the Indiana system was written in was outdated.

Based on the assurances made that the system would be done in time for the calendar year 2000 license year, and that it would be more efficient in the long run for the system to be written in the current version of FoxPro, the Commission agreed to the change.

The cost estimates for the system development, although somewhat higher than the Commission had budgeted for the fiscal year, would have been within the Commission expenditure authority.

As it turned out, having made the decision to proceed with a system written in a current version of FoxPro, we were committed to the completion of a mission critical system even though we incurred significantly more cost than we anticipated when we made the decision.

Having consulted extensively with DAS-IMS in the planning and execution of this project, it was not our understanding that it was our place to become involved directly in the contractual relationship that DAS-IMS entered into for the software development.

We do not disagree with the audit report, and will review our DAS-IMS relationship for ongoing support and development.

NEBRASKA STATE RACING COMMISSION

COMMENTS AND RECOMMENDATIONS

3. Drug Abuse Program Fund

Neb. Rev. Stat. Section 2-1203 R.R.S. 1997 states, in part, “The commission may revoke or suspend licenses issued to racing industry participants and may, in lieu of or in addition to such suspension or revocation, impose a fine in an amount not to exceed one thousand dollars upon a finding that a rule or regulation has been violated by a licensed racing industry participant . . . All fines shall be paid into a fund for alcohol and drug rehabilitation services for horseracing industry participants, which fund is hereby created.”

The Commission has deposited these funds in a separate fund since this law became effective on May 5, 1994. On May 31, 1996, the Commission petitioned the Attorney General for direction on disbursing these funds. Fines accumulated in the account as of June 30, 2000 total \$52,196. The paragraph that follows outlines the Attorney General’s response:

Nebraska Constitution Article VII, Section 5, provides that, “. . . all fines, penalties, and license money arising under the general laws of the state, . . . shall belong and be paid over to the counties respectively where the same may be levied or imposed . . . All such fines, penalties, and license money shall be appropriated exclusively to the use and support of the common schools in the respective subdivisions where the same may accrue . . .”

During our audit, we noted the Commission continues to deposit revenue from fines in this fund. No disbursements have been made from this fund. This comment was also noted in our prior audit.

LB 977 (2000) was introduced in the Legislature, but was not passed. The Commission testified in favor of the bill. The legislation would have amended Neb. Rev. Stat. Section 2-1203, R.R.S. 1997, to allow penalty fines to be remitted to the permanent school fund pursuant to the requirements of the Nebraska Constitution.

LB 224 (2001) has been introduced in the Legislature in the current session. It also would amend Neb. Rev. Stat. Section 2-1203, R.R.S. 1997, to allow penalty fines to be remitted to the permanent school fund pursuant to the Nebraska Constitution.

We recommend the Commission continue to support Legislation that would amend the Statute to comply with provisions of the Nebraska Constitution. We also recommend the Commission request another legal opinion from the Attorney General in the event LB 224 does not become law.

Commission’s Response: LB 295, which amends the Statute to comply with provisions of the Nebraska Constitution, passed in February 2001. That will finally resolve this issue.

NEBRASKA STATE RACING COMMISSION

COMMENTS AND RECOMMENDATIONS

3. **Drug Abuse Program Fund** (Concluded)

Commission's Response, Concluded:

This has been included in proposed legislation for several years at the request of the Racing Commission. It was the Racing Commission that initiated correspondence with the Attorney General that first determined that the proposed fund was unconstitutional. The Racing Commission has continually supported these bills.

Auditor's Response: We acknowledge the Commission testified in favor of LB 977 (2000) and 2001 Neb. Laws LB 295. We recommend the Commission remit the penalty fines pursuant to the Nebraska Constitution Article VII, Section 5.

4. **Spending Authority Exceeded**

An appropriation is an authorization to make expenditures and incur obligations. This authority is granted by the Legislature and each agency is expected to operate within those limits. Nebraska Accounting System Procedure 173 requires documents for goods or services received in the prior fiscal year be identified.

During our audit, it was noted the Commission's expenditures exceeded their appropriations by \$63,561 for the fiscal year ending June 30, 2000. This includes expenses for fiscal year 2000 that were not paid until fiscal year 2001.

During our review of disbursements paid in July and August 2000, we noted three documents for goods or services received in fiscal year 2000 that were not properly identified. The three documents totaled \$49,321. We also noted one document incorrectly identified as a prior year disbursement. This document totaled \$13,810.

We recommend the Commission implement procedures to ensure their expenditures do not exceed appropriations established by the Legislature. We also recommend the Commission follow procedures to identify disbursements to the proper fiscal year.

Commission's Response: We agree with the audit comments.

When it was apparent that the cost of the mission critical systems development project was over budget, a decision was made to defer certain payments until the next fiscal year.

5. **Track Distribution Fund Payments**

Neb. Rev. Stat. Section 2-1208.04(2) R.R.S. 1997, regarding the Track Distribution Fund, states, "The fund shall be distributed monthly to recipient racetracks which conduct wagering by the parimutuel method on thoroughbred racing."

NEBRASKA STATE RACING COMMISSION

COMMENTS AND RECOMMENDATIONS

5. Track Distribution Fund Payments (Concluded)

During our audit, we noted the last two Track Distribution Fund payments for the fiscal year ending June 30, 2000 were not made until the beginning of the next fiscal year. Contributions received in April 2000 should have been distributed in May 2000. The amount of this distribution was \$17,247. Contributions received in May 2000 should have been distributed in June 2000. The amount of this distribution was \$16,783. The above two distributions were made July 5, 2000. The total amount not distributed in a timely manner was \$34,030. The Commission did not make the distribution timely in order to have funds available for other expenses.

Distributions were not made in compliance with the State Statute.

We recommend the Commission make the fund disbursement payments monthly in order to comply with State Statutes.

Commission's Response: The May and June payments for the track distribution fund were paid on July 6, 2001. The funds required for these payments were not used for other expenses.

The monies remained in the track distribution fund account.

The payment was deferred until after July 1, 2001 to allow the Commission to meet system development expenses without exceeding the fiscal year appropriations.

6. 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 for 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.

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: The schedule of license fees has remained unchanged for many years, and has been changed only once in more than twenty years. During this period many audit reports have been completed without mention of this as an issue. Therefore we do not feel it should be formally cited as an audit issue.

NEBRASKA STATE RACING COMMISSION

COMMENTS AND RECOMMENDATIONS

6. License Costs (Concluded)

Commission's Response, Concluded:

The Commission does not consider the direct cost related to issuance of a license to be the only appropriate basis for license fees. The issuance of a license is interconnected to many other regulatory services, including a database that provides for many operational benefits. Many of these benefits are more appropriately funded through other revenue sources.

The Commission will make a determination of the actual cost of issuance of a license, and consider that information with respect to adjustments.

7. Internal Control Over Fixed Assets

Good internal control requires an adequate segregation of duties so no one person is in a position to handle all phases of a transaction from beginning to end. If proper segregation of duties is not possible, controls should be implemented to compensate for the lack of segregation.

During our audit of the fixed assets, we noted the same person maintained the fixed asset records, added and deleted items on the fixed asset listing, prepared surplus property forms, performed the annual physical inventory, and reviewed the "Account Code 4800 Expenditures Not on Inventory" listing from the Statewide Inventory System. There were no procedures for an independent review to ensure errors were not made. A similar comment was noted in our prior audit.

Without an adequate segregation of duties, or compensating controls, the possibility for undetected errors and for the loss or misuse of state assets greatly increases.

We recommend the Commission implement procedures to compensate for the lack of segregation of duties. Specifically, a history report should be reviewed by an individual independent of the maintenance process at least annually.

Commission's Response: We agree with the recommendation and will implement the recommendation.

STATE OF NEBRASKA
Auditor of Public Accounts



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NEBRASKA STATE RACING COMMISSION

INDEPENDENT AUDITORS' REPORT

We have audited the financial statements of the Nebraska State Racing Commission as of and for the fiscal year ended June 30, 2000, as listed in the Table of Contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

Also as discussed in Note 1, the financial statements present only the Nebraska State Racing Commission, and are not intended to present fairly the fund balances and the receipts and disbursements of the State of Nebraska in conformity with the cash receipts and disbursements basis of accounting.

In our opinion, the financial statements referred to above present fairly, in all material respects, the fund balances of the Nebraska State Racing Commission as of June 30, 2000, and the receipts and disbursements for the fiscal year then ended, on the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated February 5, 2001, 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 grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying combining statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

February 5, 2001

Pat Reding, CPA
Manager

NEBRASKA STATE RACING COMMISSION
**COMBINED STATEMENT OF ASSETS AND FUND BALANCES
AND OTHER CREDITS ARISING FROM CASH TRANSACTIONS
ALL FUND TYPES AND GENERAL FIXED ASSETS ACCOUNT GROUP**

June 30, 2000

	Governmental		Totals (Memorandum Only)
	<u>Fund Type</u>	<u>Account Group</u>	
	Special Revenue	General Fixed Assets	
<u>Assets</u>			
Cash in State Treasury	\$ 471,073	\$ -	\$ 471,073
Deposit with Vendors	177	-	177
Property, Plant, and Equipment (Note 5)	-	72,601	72,601
 Total Assets	 <u>\$ 471,250</u>	 <u>\$ 72,601</u>	 <u>\$ 543,851</u>
<u>Fund Balances and Other Credits</u>			
Other Credits,			
Investment in Fixed Assets	\$ -	\$ 72,601	\$ 72,601
Fund Balances:			
Reserved For Postage	177	-	177
Unreserved, Undesignated	471,073	-	471,073
 Total Fund Balances and Other Credits	 <u>\$ 471,250</u>	 <u>\$ 72,601</u>	 <u>\$ 543,851</u>

See Notes to Financial Statements.

NEBRASKA STATE RACING COMMISSION
**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND BALANCES**
For the Fiscal Year Ended June 30, 2000

	<u>Governmental</u> <u>Fund Type</u> Special <u>Revenue</u>
RECEIPTS:	
Taxes:	
Parimutuel Wagering Taxes	\$ 553,661
Admission Taxes	45,703
Sales and Charges:	
Licensing Fees	54,747
Other Fees	15,959
Miscellaneous:	
Miscellaneous Adjustments	119,086
Reimbursement From Non-Governmental Sources	60,858
Other Miscellaneous	<u>36,567</u>
TOTAL RECEIPTS	<u>886,581</u>
 DISBURSEMENTS:	
Personal Services	372,576
Operating	151,171
Travel	77,354
Capital Outlay	27,739
Government Aid	<u>231,978</u>
TOTAL DISBURSEMENTS	<u>860,818</u>
Excess of Receipts Over (Under) Disbursements	25,763
 FUND BALANCE, JULY 1, 1999	 <u>445,487</u>
 FUND BALANCE, JUNE 30, 2000	 <u><u>\$ 471,250</u></u>

See Notes to Financial Statements.

NEBRASKA STATE RACING COMMISSION
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 Cash Fund
 For the Year Ended June 30, 2000

	CASH FUND		
	BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE FAVORABLE (UNFAVORABLE)
RECEIPTS:			
Taxes:			
Parimutuel Wagering Taxes		\$ 553,661	
Admission Taxes		45,703	
Sales and Charges:			
Licensing Fees		54,747	
Other Fees		15,959	
Miscellaneous:			
Miscellaneous Adjustments		119,086	
Reimbursement From Non-Governmental Sources		60,858	
Other Miscellaneous		36,567	
TOTAL RECEIPTS		886,581	
 DISBURSEMENTS:			
Personal Services	\$ 393,735	372,576	\$ 21,159
Operating	75,222	151,171	(75,949)
Travel	70,725	77,354	(6,629)
Capital Outlay	27,830	27,739	91
Government Aid	299,086	231,978	67,108
TOTAL DISBURSEMENTS	866,598	860,818	5,780
Excess of Receipts Over (Under) Disbursements		25,763	
FUND BALANCES, JULY 1, 1999		445,487	
FUND BALANCES, JUNE 30, 2000		\$ 471,250	

See Notes to Financial Statements.

NEBRASKA STATE RACING COMMISSION

NOTES TO FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2000

1. **Summary of Significant Accounting Policies**

The accounting policies of the Nebraska State Racing Commission are on the basis of accounting as described in the Nebraska Accounting System Manual.

- A. Reporting Entity.** The Nebraska State Racing Commission (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 financial statements include all funds of the Commission. The Commission has also considered all potential component units for which it is financially accountable, and other organizations which are fiscally dependent on the Commission, or the significance of their relationship with the Commission are such that exclusion would be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Commission to impose its will on that organization, or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the Commission.

These financial statements present the Nebraska State Racing Commission. No component units were identified. The Nebraska State Racing Commission is part of the primary government for the State of Nebraska's reporting entity.

- B. Basis of Accounting.** The accounting records of the Commission are maintained and the Commission's financial statements were prepared on the basis of cash receipts and disbursements. Under this method, revenues are recognized when received and expenditures are recognized when paid. This presentation differs from governmental generally accepted accounting principles (GAAP), which requires the use of the modified accrual basis for governmental fund types. Under the modified accrual basis of accounting, revenues are recognized when they are considered susceptible to accrual and expenditures are recognized when the liability is incurred.

- C. Fund Accounting.** The accounts and records of the Commission are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a self-balancing set of accounts which records receipts, disbursements, and the fund balance. The fixed asset account group is a financial reporting device designed to provide accountability over fixed assets. The fund types and account group presented on the financial statements are those required by GAAP, and include:

NEBRASKA STATE RACING COMMISSION

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. **Summary of Significant Accounting Policies (Continued)**

Special Revenue Funds. Reflect transactions related to resources received and used for restricted or specific purposes.

General Fixed Assets Account Group. Used to account for general fixed assets of the Commission.

This fund type classification differs from the budgetary fund types used by the Nebraska Accounting System.

The fund type established by the Nebraska Accounting System that is used by the Commission is:

2000 - Cash Funds - account for receipts generated by specific activities from sources outside of State government and the disbursements directly related to the generation of the receipts.

- D. Budgetary Process.** The State's biennial budget cycle ends on June 30 of the odd-numbered years. By September 15, prior to a biennium, the Commission and all other State agencies must submit their budget request for the biennium beginning the following July 1. The requests are submitted on forms that show estimated funding requirements by programs, sub-programs, and activities. The Executive Branch reviews the requests, establishes priorities, and balances the budget within the estimated resources available during the upcoming biennium.

The Governor's budget bill is submitted to the Legislature in January. The Legislature considers revisions to the bill and submits the revised appropriations bill to the Governor for signature. The Governor may: a) approve the appropriations bill in its entirety, b) veto the bill, or c) line item veto certain sections of the bill. Any vetoed bill or line item can be overridden by a three-fifths vote of the Legislature.

The appropriations that are approved will generally set spending limits for a particular program within the agency. Within the agency or program, the Legislature may provide funding from one to five budgetary fund types. Thus, the control is by fund type, within a program, within an agency. The central accounting system maintains this control. A separate publication entitled "Annual Budgetary Report" shows the detail of this level of control. This publication is available from the Department of Administrative Services, Accounting Division.

NEBRASKA STATE RACING COMMISSION

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. **Summary of Significant Accounting Policies (Continued)**

Appropriations are usually made for each year of the biennium with unexpended balances being reappropriated at the end of the first year of the biennium. For most appropriations, balances lapse at the end of the biennium.

All State budgetary disbursements for the cash fund type are made pursuant to the appropriations which may be amended by the Legislature, upon approval by the Governor. State agencies may reallocate the appropriations between major object of expenditure accounts, except that the Legislature's approval is required to exceed the personal service limitations contained in the appropriations bill. Increases in total general, cash, construction, and revolving fund appropriations must also be approved by the Legislature as a deficit appropriations bill. Appropriations for programs funded in whole or in part from federal funds may be increased to the extent that receipts of federal funds exceed the original budget estimate.

The Commission utilizes encumbrance accounting to account for purchase orders, contracts, and other disbursement commitments. However, State law does not require that all encumbrances be recorded in the State's centralized accounting system, and, as a result, the encumbrances that were recorded in the accounting system have not been included in the accompanying financial statements, except for the impact as described below.

Under State budgetary procedures, appropriation balances related to outstanding encumbrances at the end of the biennium are lapsed and reappropriated in the first year of the next biennium. The effect of the Commission's current procedure is to include in the budget columns, Total Disbursements line, of the Statement of Receipts, Disbursements, and Changes in Fund Balances - Budget and Actual the current year's appropriations plus the amounts reappropriated for encumbrances outstanding at the end of the prior biennium. This procedure indicates the Commission's intention to honor the encumbrances at the end of a biennium. The disbursements columns of the Statement include cash payments related to the appropriated and reappropriated amounts. For the year ended June 30, 2000, there were no budgetary funds in which disbursements exceeded appropriations.

Budgets for object of expenditure accounts are included in the Nebraska Department of Administrative Services Budget Status Report.

Receipts are not budgeted. Therefore, there are no budgeted amounts shown on the Budget and Actual Statement.

NEBRASKA STATE RACING COMMISSION

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. **Summary of Significant Accounting Policies (Continued)**

There is no difference between the fund balance of the Budgetary Statement and the Financial Statement. The cash fund on the Budgetary Statement is appropriately classified as a special revenue fund for Financial Statement purposes.

- E. Fixed Assets.** General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisitions are reflected as disbursements in governmental funds, and the related assets are reported in the general fixed assets account group. All purchased fixed assets are valued at cost, where historical records are available, and at an estimated historical cost, where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received. Assets on hand as of June 30, 2000 have been recorded at cost by the Commission. Generally, equipment which has a cost in excess of \$300 at the date of acquisition and has an expected useful life of two or more years is capitalized.

Assets in the general fixed assets account group are not depreciated. Fixed assets do not include infrastructure, such as roads and bridges, as these assets are immovable and of value only to the government. The cost of normal maintenance and repairs that does not add to the value of the asset or extend asset life is not capitalized.

- F. Cash in State Treasury.** Cash in the State Treasury represents the cash balance of a fund as reflected on the Nebraska Accounting System. Investment of all available cash is made by the State Investment Officer, on a daily basis, based on total bank balances. Investment income is distributed based on the average daily book cash balance of funds designated for investment. Determination of whether a fund is considered designated for investment is done on an individual fund basis. All of the funds of the Commission were designated for investment during fiscal year 2000.
- G. Compensated Absences.** All permanent employees working for the Commission earn sick and annual leave and are allowed to accumulate compensatory leave rather than being paid overtime. Temporary and intermittent employees and Board and Commission members are not eligible for paid leave. Under GAAP, the vested portion of the employee's compensated absences is recorded in the Long Term Debt Account Group for governmental funds. Under the receipts and

NEBRASKA STATE RACING COMMISSION

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. **Summary of Significant Accounting Policies (Continued)**

disbursements basis of accounting, the balances which would otherwise be reported in the Long Term Debt Account Group are not reported since they do not represent balances arising from Cash Transactions.

H. Receipts. The major account titles and descriptions as established by the Nebraska Accounting System that are used by the Commission are:

Taxes. Compulsory charges levied by a government for the purpose of financing services performed for the common benefit.

Parimutuel Wagering Tax. The Commission collected a parimutuel tax of two-tenths of one percent of the gross sum wagered by the parimutuel method at each licensed racetrack enclosure. Effective August 28, 1999, the tax changed to four-tenths of one percent. The Commission also collected a parimutuel tax of one-quarter of one percent of gross exotic daily receipts from each track to subsidize the operations of the smaller recipient tracks.

Admission Tax. The Commission collected thirty cents per person entering the grounds or enclosure per admission ticket. The admission tax was no longer collected effective August 28, 1999.

Sales and Charges. Income derived from sales of merchandise and commodities, compensation for services rendered, and charges for various licenses, permits, and fees. The Commission collected fees for the various types of licenses issued. The Commission also collected other fees for daily licensing from the host tracks, fingerprinting and criminal history record checks, and other administrative services fees.

Miscellaneous. Receipts from sources not covered by other major categories.

Miscellaneous Adjustments. Used for amounts originally recorded as an expenditure in a prior fiscal year and would have been recorded as a reduction of expenditures had the entries occurred in the same fiscal year. Track Distribution Fund payments were being paid from fund 2361 in the fiscal year ended June 30, 1999, when the payments should have been paid from fund 2362.

NEBRASKA STATE RACING COMMISSION

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. **Summary of Significant Accounting Policies (Concluded)**

Reimbursement From Non-Governmental Sources. The Commission receives salary reimbursements from the tracks for the State Steward, Official Veterinarian, Test Barn Supervisor, and Test Barn Assistants.

Other Miscellaneous. The Commission receives investment interest from the State of Nebraska's short-term investment pool. The Commission also receives fines for violations of racing industry rules and regulations.

I. Disbursements. The major account titles and descriptions as established by the Nebraska Accounting System that are used by the Commission are:

Personal Services. Salaries, wages, and related employee benefits provided for all persons employed by a government.

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

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

Capital Outlay. Disbursements which result in the acquisition of or an addition to fixed assets. Fixed 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.

J. Fund Balance Reservations. Reservations of fund balances are established to identify the existence of assets that have been legally segregated for specific purposes. Reservations of fund balances are also established for assets which are not current in nature, such as postage.

NEBRASKA STATE RACING COMMISSION

NOTES TO FINANCIAL STATEMENTS

(Continued)

2. **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 since interfund balances and transactions have not been eliminated.

3. **Contingencies and Commitments**

Risk Management. The Commission is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors or omissions, injuries to employees, natural disasters, and health care insurance. The Commission, as part of the primary government for the State, participates in the State's risk management program. The Nebraska Department of Administrative Services (DAS) Division of Risk Management is responsible for maintaining the insurance and self-insurance programs for the State. The State generally self-insures for general liability and workers compensation. The State has chosen to purchase insurance for:

1. Motor vehicle liability, which is insured for the first \$5 million of exposure per accident. Insurance is also purchased for medical payments, physical damage, and uninsured and underinsured motorists with various limits and deductibles.
2. Health care insurance for employees selecting certain coverage options. All health care insurance was purchased.
3. Crime coverage, with a limit of \$1 million for each loss, and a \$10,000 retention per incident.
4. Real and personal property on a blanket basis for losses up to \$250,000,000, with a self-insured retention of \$100,000 per loss occurrence. The perils of flood and earthquake are covered up to \$9,000,000. Newly-acquired properties are covered up to \$1,000,000 for 60 days or until the value of the property is reported to the insurance company.

No settlements exceeded commercial insurance coverage in any of the past three fiscal years. Health care insurance is funded in the Risk Management Internal Service Fund through a combination of employee and State contributions. Worker's compensation is also funded in the Risk Management Internal Service Fund through assessments on each agency based on total agency payroll and past experience. Tort claims, theft of, damage to, or destruction of assets, errors or omissions, and natural disasters would be funded through the State General Fund or by individual agency assessments as directed by the Legislature, unless covered by purchased insurance. No amounts for estimated claims have been reported in the Nebraska Racing Commission's financial statements.

NEBRASKA STATE RACING COMMISSION

NOTES TO FINANCIAL STATEMENTS

(Continued)

3. **Contingencies and Commitments (Concluded)**

Litigation. The potential amount of liability involved in litigation pending against the Commission, if any, could not be determined at this time. However, it is the Commission's opinion that final settlement of those matters should not have an adverse effect on the Commission's ability to administer current programs. Any judgment against the Commission would have to be processed through the State Claims Board and be approved by the Legislature.

4. **State Employees Retirement Plan (Plan)**

The Plan is a single-employer defined contribution plan administered by the Public Employees Retirement Board in accordance with the provisions of the State Employees Retirement Act and may be amended by legislative action. In the defined contribution plan, retirement benefits depend on total contributions, investment earnings, and the investment options selected. Membership in the Plan is required of all permanent full-time employees on reaching the age of thirty and completion of twenty-four months of continuous service, and voluntary participation is permitted for all permanent full-time or part-time employees upon reaching age twenty and completion of twelve months of service within a five-year period, except any individual appointed by the Governor may elect to not become a member of the Plan.

Employees contribute 4.33% of their monthly compensation until such time as they have paid during any calendar year a total of eight hundred sixty four dollars, after which time they shall pay a sum equal to 4.8% of their monthly compensation for the remainder of such calendar year. The Commission matches the employee's contribution at a rate of 156% of the employee's contribution.

The employee's account is fully vested. The employer's account is vested 100% after five years participation in the plan or at retirement.

For the Fiscal Year Ended June 30, 2000, employees contributed \$12,137 and the Commission contributed \$18,934.

5. **Fixed Assets**

The following is a summary of changes in the general fixed assets account group during the fiscal year:

	Balance July 1, 1999	Additions	Retirements	Balance June 30, 2000
Equipment	\$ 56,957	\$ 22,568	\$ 6,924	\$ 72,601

NEBRASKA STATE RACING COMMISSION
COMBINING STATEMENT OF ASSETS AND FUND BALANCES
ARISING FROM CASH TRANSACTIONS
 ALL SPECIAL REVENUE FUNDS
 June 30, 2000

	Racing Commission Cash Fund 2361	Track Distribution Fund 2362	Drug Abuse Program Fund 2364	Totals Special Revenue Funds
<hr/> Assets <hr/>				
Cash in State Treasury	\$ 369,556	\$ 49,321	\$ 52,196	\$ 471,073
Deposit with Vendors	<u>177</u>	<u>-</u>	<u>-</u>	<u>177</u>
 Total Assets	 <u>\$ 369,733</u>	 <u>\$ 49,321</u>	 <u>\$ 52,196</u>	 <u>\$ 471,250</u>
 <hr/> Fund Balances <hr/>				
Fund Balances:				
Reserved For Postage	\$ 177	\$ -	\$ -	\$ 177
Unreserved, Undesignated	<u>369,556</u>	<u>49,321</u>	<u>52,196</u>	<u>471,073</u>
 Total Fund Balances	 <u>\$ 369,733</u>	 <u>\$ 49,321</u>	 <u>\$ 52,196</u>	 <u>\$ 471,250</u>

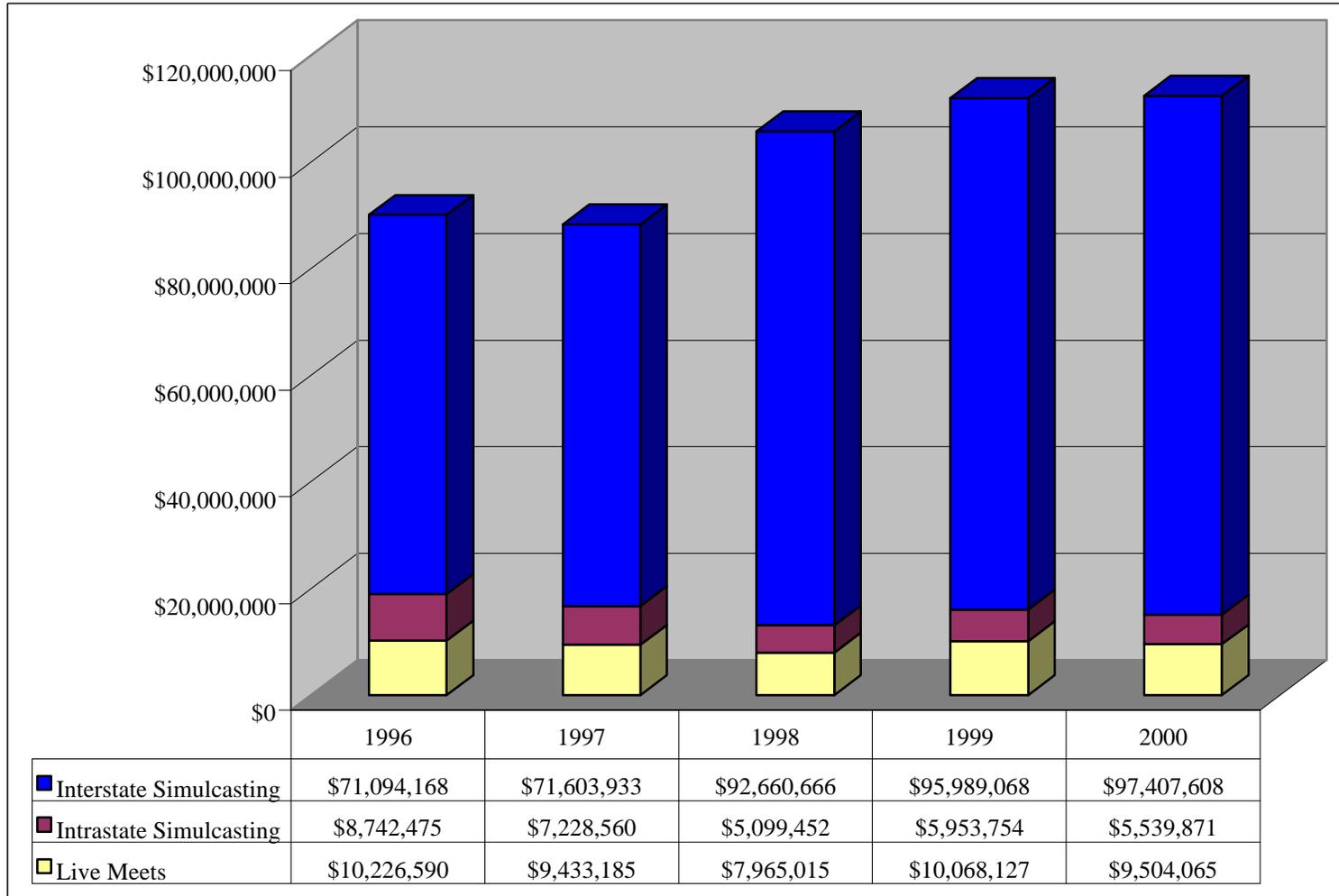
See Notes to Financial Statements.

NEBRASKA STATE RACING COMMISSION
**COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND BALANCES**
SPECIAL REVENUE FUNDS
For the Fiscal Year Ended June 30, 2000

	Racing Commission Cash Fund 2361	Track Distribution Fund 2362	Drug Abuse Program Fund 2364	Total Special Revenue Funds
RECEIPTS:				
Taxes:				
Parimutuel Wagering Taxes	\$ 393,480	\$ 160,181	\$ -	\$ 553,661
Admission Taxes	45,703	-	-	45,703
Sales and Charges:				
Licensing Fees	54,747	-	-	54,747
Other Fees	15,959	-	-	15,959
Miscellaneous:				
Miscellaneous Adjustments	119,086	-	-	119,086
Reimbursement From Non-Governmental Sources	60,858	-	-	60,858
Other Miscellaneous	21,564	2,032	12,971	36,567
TOTAL RECEIPTS	<u>711,397</u>	<u>162,213</u>	<u>12,971</u>	<u>886,581</u>
 DISBURSEMENTS:				
Personal Services	372,576	-	-	372,576
Operating	151,171	-	-	151,171
Travel	77,354	-	-	77,354
Capital Outlay	27,739	-	-	27,739
Government Aid	-	231,978	-	231,978
TOTAL DISBURSEMENTS	<u>628,840</u>	<u>231,978</u>	<u>-</u>	<u>860,818</u>
 Excess of Receipts Over (Under) Disbursements				
	82,557	(69,765)	12,971	25,763
 FUND BALANCE, JULY 1, 1999	<u>287,176</u>	<u>119,086</u>	<u>39,225</u>	<u>445,487</u>
 FUND BALANCE, JUNE 30, 2000	<u>\$ 369,733</u>	<u>\$ 49,321</u>	<u>\$ 52,196</u>	<u>\$ 471,250</u>

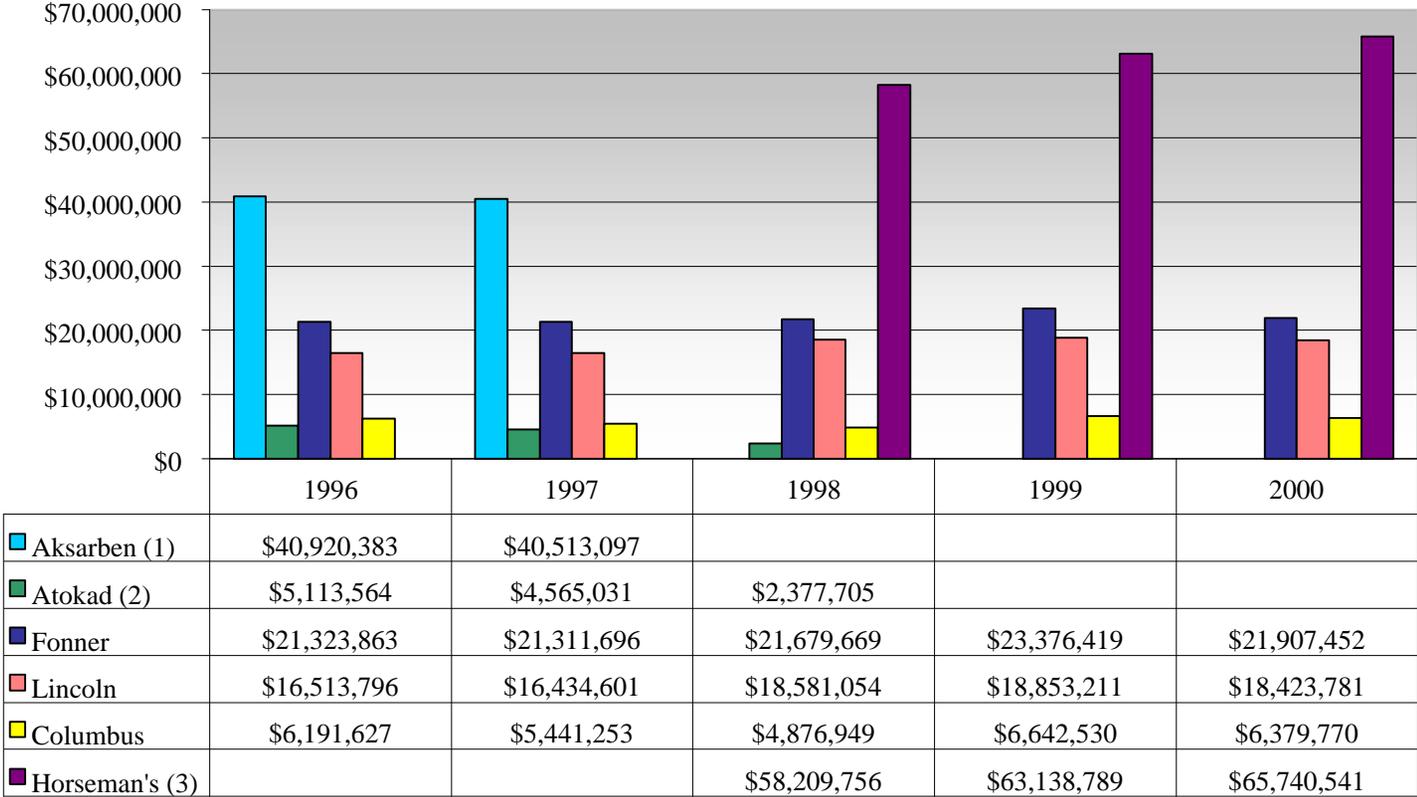
See Notes to Financial Statements.

NEBRASKA STATE RACING COMMISSION
ANNUAL HANDLES BY RACE TYPE
For Calendar Years 1996 through 2000



Note: Handles means the gross sum wagered by parimutuel method.

NEBRASKA STATE RACING COMMISSION
ANNUAL HANDLES BY RACETRACK
For Calendar Years 1996 through 2000



- (1) Closed December 1997
- (2) Closed July 1998
- (3) Opened January 1998

STATE OF NEBRASKA
Auditor of Public Accounts



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NEBRASKA STATE RACING COMMISSION
**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

We have audited the financial statements of the Nebraska State Racing Commission as of and for the year ended June 30, 2000, and have issued our report thereon dated February 5, 2001. The report notes the financial statements were prepared on the basis of cash receipts and disbursements and was modified to emphasize that the financial statements present only the funds of the Nebraska State Racing Commission. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Nebraska State Racing Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards, and are described in the Comments Section of our report as Comment Number 3 (Drug Abuse Program Fund) and Comment Number 4 (Spending Authority Exceeded). We also noted a certain immaterial instance of noncompliance that we have reported to management of the Nebraska State Racing Commission in the Comments Section of this report as Comment Number 5 (Track Distribution Fund Payments).

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Nebraska State Racing Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance 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 statements. Reportable conditions are described in the Comments Section of the report as Comment Number 1 (Internal Control Over Receipts) and Comment Number 2 (Contractual Services).

A material weakness is a 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 in amounts that would be material in relation to the financial statements being audited 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 is a material weakness. We also noted other matters involving internal control over financial reporting that we have reported to management of the Nebraska State Racing Commission in the Comments Section of the report as Comment Number 6 (License Costs) and Comment Number 7 (Internal Control Over Fixed Assets).

This report is intended solely for the information and use of the agency, the appropriate Federal and regulatory agencies, and citizens of the State of Nebraska, and is not intended to be and should not be used by anyone other than these specified parties.

February 5, 2001

Pat Reding, CPA
Manager