

# North Dakota Racing Commission

BISMARCK, NORTH DAKOTA

## **Audit Report**

For the Biennium  
June 30, 2017

**Joshua C. Gallion**  
State Auditor

Office of the State Auditor  
Division of State Audit

# Report Highlights

**Internal Control:** We evaluated and tested high-risk areas including: revenues, expenditures (including correcting entries and purchase card transactions), safeguarding assets, and payroll.

- We did not note any deficiencies that are required to be brought to the attention of those charged with governance.

**Legislative intent:** We evaluated and tested high-risk areas including: the collection of bonds or letters of credit, statutory revenue rates (fees), proper use of special funds, and appropriation laws.

- We concluded there was compliance with the legislative intent.

**Financial:**

- We did not note any significant changes to revenues or expenditures from the prior biennium.
- Fund balances have steadily increased and have enough revenue to cover expenditures.

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
<b><u>Breeders Fund:</u></b>					
Beginning Fund Balance	\$ 719,789	\$ 732,576	\$ 841,396	\$ 958,528	\$ 987,749
Revenue	155,985	256,893	311,000	313,789	310,796
Expenses	143,198	148,073	193,868	284,568	234,255
Ending Fund Balance	<u>\$ 732,576</u>	<u>\$ 841,396</u>	<u>\$ 958,528</u>	<u>\$ 987,749</u>	<u>\$ 1,064,290</u>
<b><u>Purse Fund:</u></b>					
Beginning Fund Balance	\$ 172,208	\$ 110,271	\$ 191,925	\$ 262,520	\$ 305,859
Revenue	168,603	256,654	310,595	313,339	310,346
Expenses	230,540	175,000	240,000	270,000	290,000
Ending Fund Balance	<u>\$ 110,271</u>	<u>\$ 191,925</u>	<u>\$ 262,520</u>	<u>\$ 305,859</u>	<u>\$ 326,205</u>
<b><u>Racing Promotion Fund:</u></b>					
Beginning Fund Balance	\$ 143,280	\$ 190,847	\$ 452,537	\$ 488,329	\$ 595,120
Revenue	263,906	673,564	631,868	657,265	730,153
Expenses	216,339	411,874	596,076	550,474	703,700
Ending Fund Balance	<u>\$ 190,847</u>	<u>\$ 452,537</u>	<u>\$ 488,329</u>	<u>\$ 595,120</u>	<u>\$ 621,573</u>
 Total Funds	 <u>\$ 1,033,694</u>	 <u>\$ 1,485,858</u>	 <u>\$ 1,709,377</u>	 <u>\$ 1,888,728</u>	 <u>\$ 2,012,068</u>

Source: ConnectND amounts.

**LEGISLATIVE AUDIT AND FISCAL REVIEW  
COMMITTEE MEMBERS**

**Senator Jerry Klein – Chairman  
Representative Chet Pollert – Vice Chairman**

**Representatives**

**Bert Anderson  
Patrick Hatlestad  
Mary Johnson  
Keith Kempenich  
Gary Kreidt  
Andrew G. Maragos  
Mike Nathe  
Marvin E. Nelson  
Wayne A. Trottier**

**Senators**

**Dwight Cook  
Judy Lee  
Richard Marcellais**

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STATE OF NORTH DAKOTA  
**OFFICE OF THE STATE AUDITOR**  
STATE CAPITOL  
600 E. BOULEVARD AVENUE - DEPT. 117  
BISMARCK, NORTH DAKOTA 58505

## *Transmittal Letter*

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February 16, 2018

The Honorable Doug Burgum, Governor  
Members of the North Dakota Legislative Assembly  
Mr. Gunner laCour, Director

We are pleased to submit this audit of the North Dakota Racing Commission for the biennium ended June 30, 2017. This audit resulted from the statutory responsibility of the State Auditor to audit or review each state agency once every two years. The same statute gives the State Auditor the responsibility to determine the contents of these audits.

In determining the contents of the audits of state agencies, the primary consideration was to determine how we could best serve the citizens of the state of North Dakota. Naturally, we determined financial accountability should play an important part of these audits. Additionally, operational accountability is addressed whenever possible to increase efficiency and effectiveness of state government.

The in-charge auditor for this audit was Elizabeth Rogers. Paul Welk, CPA, was the audit manager. Inquiries or comments relating to this audit may be directed to the audit manager by calling (701) 328-2241. We wish to express our appreciation to Director laCour and his staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

/S/

Joshua C. Gallion  
State Auditor

# *Executive Summary*

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## ***Introduction***

The North Dakota Racing Commission is the regulatory body in charge of regulating live and simulcast racing in North Dakota and administers three special funds for the benefit of the horse racing industry in North Dakota. The Breeders' Fund was established to financially reward breeders or owners of North Dakota bred horses. The Purse Fund was established to supplement and improve purses offered at racetracks in the state. The Racing Promotion Fund was established to assist in improving and upgrading racetracks in the state, promoting horse racing in the state, and developing new racetracks in the state as necessary. The Commission is made up of five members appointed by the Governor and the office staff consists of a Director of Racing and an Administrative Assistant.

The Legislative Audit and Fiscal Review Committee (LAFRC) requests that certain items be addressed by auditors performing audits of state agencies. Those items and the Office of the State Auditor's responses are noted below.

## ***Responses to LAFRC Audit Questions***

### *1. What type of opinion was issued on the financial statements?*

Financial statements were not prepared by the North Dakota Racing Commission in accordance with generally accepted accounting principles so an opinion is not applicable. The agency's transactions were tested and included in the state's basic financial statements on which an unmodified opinion was issued.

### *2. Was there compliance with statutes, laws, rules, and regulations under which the agency was created and is functioning?*

Yes.

### *3. Was internal control adequate and functioning effectively?*

Yes.

### *4. Were there any indications of lack of efficiency in financial operations and management of the agency?*

No.

### *5. Has action been taken on findings and recommendations included in prior audit reports?*

There were no recommendations included in the prior audit report.

### *6. Was a management letter issued? If so, provide a summary below, including any recommendations and the management responses.*

No, a management letter was not issued.

## **LAFRC Audit Communications**

7. *Identify any significant changes in accounting policies, any management conflicts of interest, any contingent liabilities, or any significant unusual transactions.*

There were no significant changes in accounting policies, management conflicts of interest, contingent liabilities, or significant unusual transactions identified.

8. *Identify any significant accounting estimates, the process used by management to formulate the accounting estimates, and the basis for the auditor's conclusions regarding the reasonableness of those estimates.*

The North Dakota Racing Commission's financial statements do not include any significant accounting estimates.

9. *Identify any significant audit adjustments.*

Significant audit adjustments were not necessary.

10. *Identify any disagreements with management, whether or not resolved to the auditor's satisfaction relating to a financial accounting, reporting, or auditing matter that could be significant to the financial statements.*

None.

11. *Identify any serious difficulties encountered in performing the audit.*

None.

12. *Identify any major issues discussed with management prior to retention.*

This is not applicable for audits conducted by the Office of the State Auditor.

13. *Identify any management consultations with other accountants about auditing and accounting matters.*

None.

14. *Identify any high-risk information technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission, or whether any exceptions identified in the six audit report questions to be addressed by the auditors are directly related to the operations of an information technology system.*

ConnectND Finance and Human Resource Management System (HRMS) are high-risk information technology systems critical to the North Dakota Racing Commission.

# ***Audit Objectives, Scope, and Methodology***

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## **Audit Objectives**

The objectives of this audit of the North Dakota Racing Commission for the biennium ended June 30, 2017, were to provide reliable, audited financial statements and to answer the following questions:

1. What are the highest risk areas of the North Dakota Racing Commission's operations and is internal control adequate in these areas?
2. What are the significant and high-risk areas of legislative intent applicable to the North Dakota Racing Commission and are they in compliance with these laws?
3. Are there areas of the North Dakota Racing Commission's operations where we can help to improve efficiency or effectiveness?

## **Audit Scope**

This audit of the North Dakota Racing Commission is for the biennium ended June 30, 2017. We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The North Dakota Racing Commission's sole location is its Bismarck office which was included in the audit scope.

## **Audit Methodology**

To meet the objectives outlined above, we:

- Prepared financial statements from the legal balances on the state's accounting system tested as part of this audit and the audit of the state's Comprehensive Annual Financial Report.
- Performed detailed analytical procedures including computer-assisted auditing techniques. These procedures were used to identify high-risk transactions and potential problem areas for additional testing.
- Tested internal control and compliance with laws and regulations which included selecting representative samples to determine if controls were operating effectively and to determine if laws were being followed consistently. Non-statistical sampling was used and the results were projected to the population. Where applicable, populations were stratified to ensure that particular groups within a population were adequately represented in the sample, and to improve efficiency by gaining greater control on the composition of the sample.
- Interviewed appropriate agency personnel.



- Queried the ConnectND (PeopleSoft) system. Significant evidence was obtained from ConnectND.
- Observed the North Dakota Racing Commission's processes and procedures.

In aggregate, there were no significant limitations or uncertainties related to our overall assessment of the sufficiency and appropriateness of audit evidence.

# Financial Statements

## Statement of Revenues and Expenditures

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
<b>Revenues:</b>		
Racing Tax	\$1,304,051	\$1,161,420
Breakage	365,871	248,338
Licenses and Registration Fees	79,735	70,545
Purged Out / Unclaimed Tickets	20,357	16,622
Interest and Investment Earnings	831	744
<b>Total Revenues</b>	<u>\$1,770,845</u>	<u>\$1,497,669</u>
<b>Expenditures:</b>		
Racing Promotion Grants	\$ 611,379	\$ 590,735
Purse Supplements	290,000	270,000
Breeder Award Payments	275,382	182,540
Salaries and Benefits	190,234	183,059
Professional Fees and Services	62,253	65,731
Operating Fees and Services	31,479	18,117
Travel	16,265	12,562
Professional Development	15,644	16,450
IT Data Processing/Communications	11,971	8,200
Rentals/Leases – Building/Land	7,692	8,696
Miscellaneous Expenses	2,450	7,894
Postage	1,612	1,465
Office Supplies	1,252	1,364
<b>Total Expenditures</b>	<u>\$1,517,613</u>	<u>\$1,366,813</u>

**Statement of Appropriations**

**For the Biennium Ended June 30, 2017**

<b>Expenditures by Line Item:</b>	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Racing Commission	\$ 546,551		\$ 546,551	\$ 509,330	\$ 37,221
<b>Totals</b>	<u>\$ 546,551</u>		<u>\$ 546,551</u>	<u>\$ 509,330</u>	<u>\$ 37,221</u>
<b>Expenditures by Source:</b>					
General Fund	\$ 387,821		\$ 387,821	\$ 387,251	\$ 570
Other Funds	158,730		158,730	122,079	36,651
<b>Totals</b>	<u>\$ 546,551</u>		<u>\$ 546,551</u>	<u>\$ 509,330</u>	<u>\$ 37,221</u>

**Expenditures without Appropriations of Specific Amounts:**

The Breeder’s Fund has a continuing appropriation authorized by North Dakota Century Code section 53-06.2-11 (\$481,317 of expenditures this biennium).

The Purse Fund has a continuing appropriation authorized by North Dakota Century Code section 53-06.2-11 (\$560,000 of expenditures this biennium).

The Racing Promotion Fund has a continuing appropriation authorized by North Dakota Century Code section 53-06.2-11 (\$1,333,780 of expenditures this biennium).

## ***Internal Control***

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In our audit for the biennium ended June 30, 2017, we identified the following areas of the North Dakota Racing Commission's internal control as being the highest risk:

### ***Internal Controls Subjected to Testing:***

- Controls surrounding the processing of revenues.
- Controls surrounding the processing of expenditures.
- Controls relating to compliance with legislative intent.
- Controls surrounding the ConnectND (PeopleSoft) system.
- Controls surrounding the processing of payroll.

The criteria used to evaluate internal control is published in the publication *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States (Green Book, GAO-14-704G). Agency management must establish and maintain effective internal control in accordance with policy of the Office of Management and Budget (OMB Policy 216).

We gained an understanding of internal control surrounding these areas and concluded as to the adequacy of their design. We also tested the operating effectiveness of those controls we considered necessary based on our assessment of audit risk. We concluded internal control was adequate.

Auditors are required to report deficiencies in internal control that are significant within the context of the objectives of the audit. 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: misstatements in financial or performance information, violations of laws and regulations or impairments of effectiveness or efficiency of operations, on a timely basis. Considering both qualitative and quantitative factors, we did not identify any significant deficiencies in internal control.

## *Compliance with Legislative Intent*

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In our audit for the biennium ended June 30, 2017, we identified and tested North Dakota Racing Commission's compliance with legislative intent for the following areas we determined to be significant and of higher risk of noncompliance:

- Proper collection and deposit of taxes on pari-mutuel racing (North Dakota Century Code 53-06.2-11).
- Compliance with the limit of racing promotion funds used for operating expenses (North Dakota Century Code 53-06.2-11(6)).
- Proper collection of bonds or letters of credit payable to the state of North Dakota for all license applicants (North Dakota Century Code 53-06.2-08(3)).
- Proper use of the following legally restricted funds:
  - Breeder's Fund (North Dakota Century Code 53-06.2-01)
  - Purse Fund (North Dakota Century Code 53-06.2-01)
  - Racing Promotion Fund (North Dakota Century Code 53-06.2-01)
- Proper use of the State Treasurer (State Constitution, article X, section 12).
- Compliance with appropriations and related transfers (2015 North Dakota Session Laws chapter 23)
- Compliance with OMB's Purchasing Procedures Manual.
- Adequate blanket bond coverage of employees (NDCC section 26.1-21-08).
- Compliance with fixed asset requirements including record-keeping and inventory.
- Compliance with payroll-related laws including statutory salaries for applicable elected and appointed positions, and certification of payroll.

The criteria used to evaluate legislative intent are the laws as published in the *North Dakota Century Code* and the *North Dakota Session Laws*.

*Government Auditing Standards* require auditors to report all instances of fraud and illegal acts unless they are inconsequential within the context of the audit objectives. Further, auditors are required to report significant violations of provisions of contracts or grant agreements, and significant abuse that has occurred or is likely to have occurred.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. Thus, we concluded there was compliance with the legislative intent identified above.

## *Operations*

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This audit did not identify areas of the North Dakota Racing Commission's operations where we determined it was practical at this time to help to improve efficiency or effectiveness.

You may obtain audit reports on the internet at:

[www.nd.gov/auditor/](http://www.nd.gov/auditor/)

or by contacting the  
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