

**STATE OF NEW HAMPSHIRE
PARI-MUTUEL COMMISSION**

**AUDIT REPORT
FOR THE YEAR ENDED
JUNE 30, 1995**

**STATE OF NEW HAMPSHIRE
PARI-MUTUEL COMMISSION**

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STATE OF NEW HAMPSHIRE PARI-MUTUEL COMMISSION

INTRODUCTION

BACKGROUND

The New Hampshire Pari-Mutuel Commission (PMC) was established in 1982 by Chapter 42:140, Laws of 1982, which amended RSA 284 by combining the former State Racing Commission, established in 1933 to regulate horse racing, and the State Greyhound Racing Commission, established in 1971 to regulate dog racing, into one State department charged with regulating both classes of racing in New Hampshire. RSA 284:6-a provides the authority for the PMC to assume the powers, rights, duties and responsibilities of the two former racing Commissions.

In 1991, RSA 284:22-a provided the authority, subject to certain PMC approvals, for those entities licensed to conduct live races in New Hampshire to simulcast and sell pari-mutuel pools on thoroughbred and harness horse and greyhound dog races held at racetracks other than the racetrack at which the licensee conducts its race meet.

ORGANIZATION

The Pari-Mutuel Commission consists of six part-time Commissioners appointed by the Governor and Council. Each Commissioner holds the office for a term of three years and until a successor has been appointed. Annually, one Commissioner is chosen chairman by the Commission and one is chosen to serve as secretary in accordance with RSA 284:6-a.

The daily administration of the PMC is the responsibility of a full-time director who is assisted by three administrative staff at the PMC office on North Main Street in Concord. In addition to the administrative office and staff, the PMC has a racing laboratory at the Health & Human Services building on Hazen Drive in Concord that is staffed by nine PMC employees.

Located at the four licensed racetracks, and state fairs that have race meets, are approximately forty full and part-time employees of the PMC responsible for regulating the horse and dog races and collecting fees as required by RSA 284.

RESPONSIBILITIES

The PMC regulates thoroughbred and harness horse racing and greyhound dog racing through the licensing of those entities that conduct the races and those individuals that are directly involved with the animals, including owners, trainers, jockeys, etc.

INTRODUCTION (Continued)

RESPONSIBILITIES (Continued)

The PMC provides further regulation of the horse and dog racing industry in New Hampshire through the operation of the State racing laboratory. The laboratory performs tests to determine that race results are not influenced by the administration of drugs prohibited by the PMC.

The PMC collects the taxes imposed on the entities licensed to conduct horse and dog racing in New Hampshire pursuant to RSA 284:23, as well as license fees and racing fines. In addition, the PMC collects all unclaimed pari-mutuel ticket monies annually. After the unclaimed ticket monies are remitted by the entities that conducted the races, the PMC has the responsibility of paying the holders of winning tickets who request payment during the next calendar year.

FUNDING

Both the administrative and regulatory functions of the PMC are funded by appropriations from the General Fund. Payments are made by the entities licensed to conduct pari-mutuel races in the State to reimburse the PMC for the cost of operating the racing laboratory. These reimbursements are budgeted and recognized as restricted General Fund revenue. Reimbursements are also made by the racetracks for the cost incurred by the PMC to employ the state steward, judges and veterinarians. These reimbursements are budgeted and recognized in part as unrestricted revenue and in part as a reduction of expenditures. All other revenue collected by the PMC is estimated and recorded as unrestricted General Fund revenue.

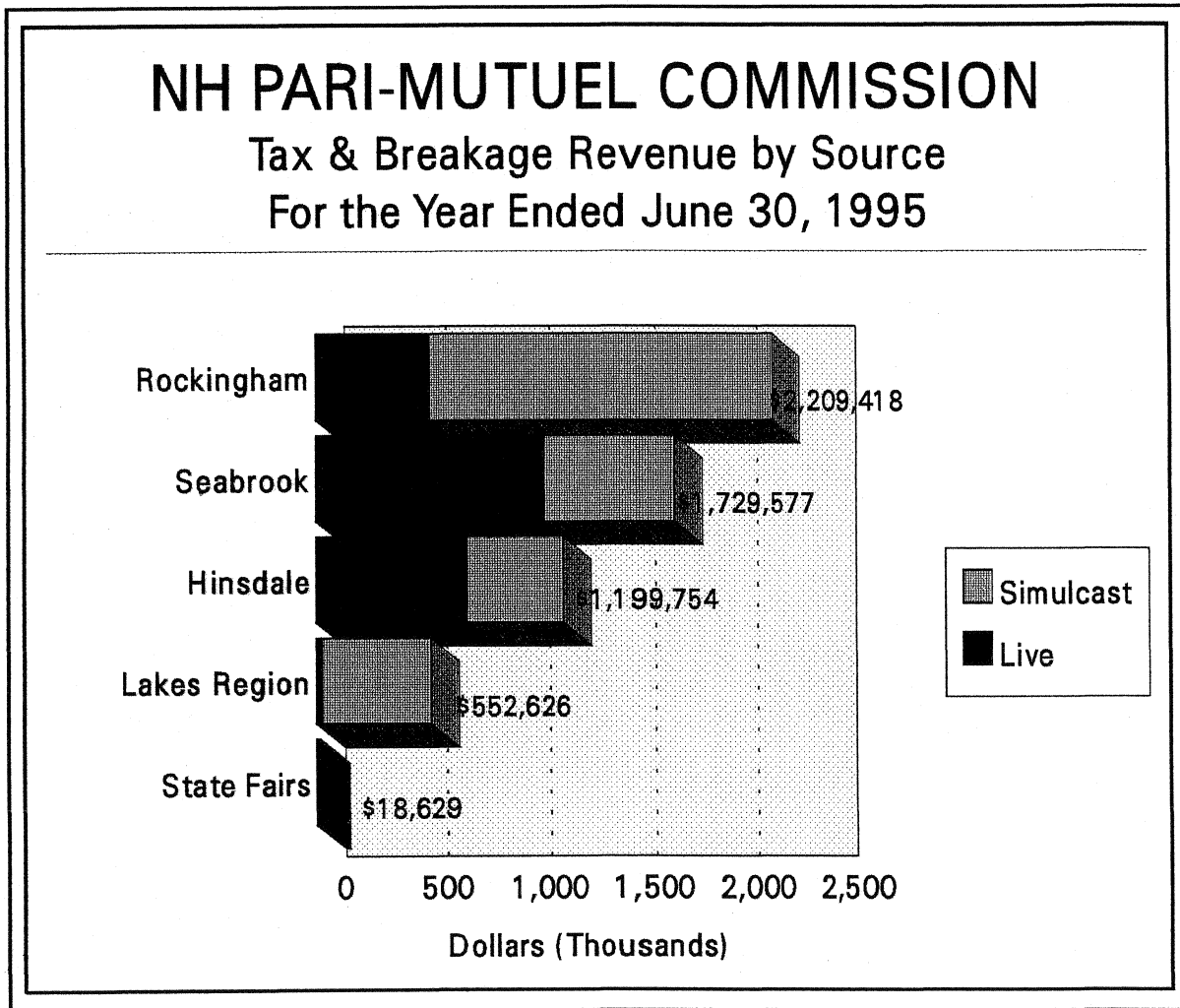
The following chart summarizes the financial activity of the PMC for the year ended June 30, 1995. Budget amounts represent original operating budget and supplemental appropriations or estimated revenue, adjusted for balances forward and transfers.

GENERAL FUND	BUDGET	ACTUAL
Expenditures	\$ 1,713,211	\$ 1,612,963
Unrestricted Revenue:		
Operating Revenue	\$ 7,321,700	\$ 6,655,173
Other Revenue	-0-	3,260,000
Total	\$ 7,321,700	\$ 9,915,173
Restricted Revenue	\$ 404,817	\$ 359,835

INTRODUCTION (Continued)

FUNDING (Continued)

The tax and breakage paid by entities licensed to conduct live and simulcast races in New Hampshire accounts for 86 percent of the actual unrestricted operating revenue recorded for the year ended June 30, 1995. RSA 284:23 requires entities licensed to conduct horse and dog races in the State to pay taxes on all pari-mutuel pools sold, whether from live or simulcast races. The tax rates vary depending on the type of race and the type of bet placed. RSA 284:22 requires those entities to also pay one-half of the breakage associated with those pari-mutuel pools to the state treasurer. Breakage is the money accrued by a racetrack from calculating the pay-off to winning bettors in multiples of dimes for each dollar bet. The graph below illustrates the tax and breakage revenue reported by the PMC by source.



INTRODUCTION (Continued)

OTHER AUDITS

The most recent prior audit of the Pari-Mutuel Commission was for the eighteen months ended December 31, 1987. The appendix to this report on page forty-one contains a summary of the current status of the observations contained in that prior audit report.

**STATE OF NEW HAMPSHIRE
PARI-MUTUEL COMMISSION**

AUDIT OBJECTIVES AND SCOPE

The primary objective of our audit is to express an opinion on the fairness of the presentation of the financial statement. As part of obtaining reasonable assurance about whether the financial statement is free from material misstatement, we considered the effectiveness of the internal control structure in place at the Pari-Mutuel Commission and tested the Pari-Mutuel Commission's compliance with certain provisions of applicable state laws and regulations. Major accounts or areas subject to our examination included, but were not limited to the following:

- Internal control structure
- Appropriations and revenues
- Expenditures and encumbrances
- Equipment
- State compliance.

Our reports on internal control structure, state compliance, and management issues, the related observations and recommendations, our independent auditor's report, and the financial statement are contained in the report that follows.

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AUDITOR'S REPORT ON INTERNAL CONTROL STRUCTURE

TO THE FISCAL COMMITTEE OF THE GENERAL COURT:

We have audited the STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL - GENERAL FUND of the New Hampshire Pari-Mutuel Commission for the year ended June 30, 1995, and have issued our qualified report thereon dated September 1, 1995.

We conducted our audit in accordance with generally accepted auditing standards and *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 statement is free of material misstatement.

The management of the New Hampshire Pari-Mutuel Commission is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statement of the New Hampshire Pari-Mutuel Commission, for the year ended June 30, 1995, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed

in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgement, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

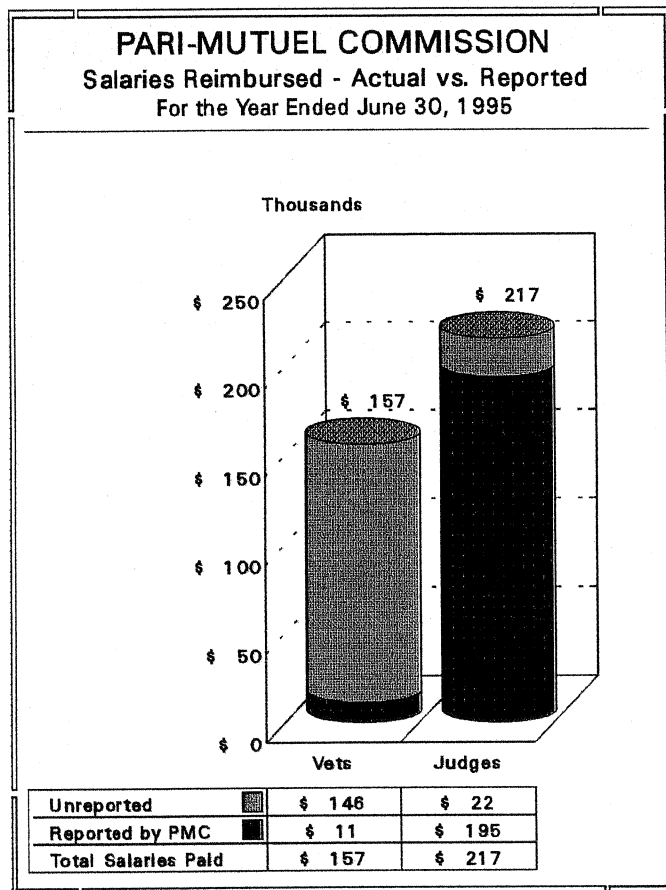
Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted the following matter involving the internal control structure and its operation that we consider to be a material weakness as defined above. This condition was considered in determining the nature, timing and extent of the procedures to be performed in our audit of the financial statement of the New Hampshire Pari-Mutuel Commission for the year ended June 30, 1995. Those matters that we consider to be reportable conditions, including the one we consider to be a material weakness, are presented on the following pages.

MATERIAL WEAKNESS

OBSERVATION NO. 1 - ACCOUNTING FOR SALARY REIMBURSEMENTS

RSA 284:20-d requires the tracks to reimburse to the Pari-Mutuel Commission (PMC) monthly the cost of salaries, including the employer's share of federal payroll taxes, of the PMC veterinarians, official state steward and judges. Notes in the operating budget require that the reimbursements for these salaries be recorded as unrestricted revenue up to the amount appropriated "...and any **additional amounts** paid [reimbursed] for this purpose over the sums appropriated ... shall be credited to the appropriation for 'other personal services'." [emphasis added] The following graph illustrates the amount of salaries reported by the PMC on its financial statement on page thirty-one for its veterinarians and its steward and judges and the actual amounts of salaries paid by the PMC related to these positions.

OBSERVATION:



- The method of accounting for reimbursements of salary expenses as required in the operating budget understates both revenues and expenditures of the PMC by \$168,140 for the year ended June 30, 1995. Such understatement causes the budget and actual financial statement to not accurately report the actual costs incurred and revenues generated from the operation of the PMC. For example, the financial statement for the PMC for the year ended June 30, 1995 reports salary expenditures for veterinarians to be \$11,264. The actual amount paid for veterinarians was \$156,803. The difference between the reported and the actual is the amount of reimbursements that were recorded as negative expenditures.

OBSERVATION NO. 1 - ACCOUNTING FOR SALARY REIMBURSEMENTS (Continued)

RECOMMENDATION:

- The PMC should request appropriations to cover the full amount of anticipated salaries for its veterinarians, steward and judges and budget estimated restricted revenue from the racetracks as the funding source for the appropriations. This would be similar to the PMC's budget request related to the expenditures and reimbursements for the PMC lab testing and this would provide an accurate reporting of the costs of operating the PMC and the revenue that is generated from operations.

AUDITEE RESPONSE:

- The Pari-Mutuel Commission shall discuss this issue with its business supervisor. To comply with the Governor's budget guidelines we were unsuccessful in previous years attempts to change the accounting method.

REPORTABLE CONDITIONS

OBSERVATION NO. 2 - DAILY RECEIPTS COLLECTED BY THE PMC EMPLOYEES STATIONED AT THE TRACKS

OBSERVATION:

- The procedures in place during the audit period for collecting, safeguarding, depositing and recording license fee and racing fine revenue collected by the PMC counter clerks at each of the four racetracks do not minimize the risk that an error or irregularity could occur and not be detected timely.

Monies are collected by the counter clerks who prepare a "deposit" at the end of the business day. The deposit is placed in an envelope and given to a PMC messenger who takes it to Concord later in the day (or evening) when racing is complete. There is no receipt issued by the messenger to the counter clerk to document that the messenger is now responsible for the deposit. The PMC messenger does not leave for Concord until specimens are ready to be taken to the racing lab in Concord. Each PMC messenger has different procedures for securing the deposit between the time the deposit envelope is ready and the time the last specimen is ready.

Each PMC messenger has a key to the Concord office and leaves the deposit at the office after hours. Again, there are no specific procedures for the placement of the deposit. Some deposits are put in a locked filing cabinet and others are placed in briefcases in the office.

On the next business day, Concord office personnel prepare the receipts to be brought to the State Treasury for deposit and record the revenue in the state accounting system and in the PMC's manual ledgers.

The type of problems that can occur with the procedures in use during the audit period is illustrated in the following situation.

- On August 4, 1995 the PMC detected that the deposit from one racetrack for June 17 and 18, 1995, totalling \$5,060, was missing, seven weeks after the receipts should have been deposited and recorded. An investigation was conducted and on August 24, 1995, almost ten weeks after the amounts were collected by the counter clerks, the deposit was found in the back of a desk in the Concord office. It had been placed in the desk by a PMC messenger who was unable to leave it in the file cabinet on the night it was delivered because the cabinet was locked.

OBSERVATION NO. 2 - DAILY RECEIPTS COLLECTED BY THE PMC EMPLOYEES STATIONED AT THE TRACKS (Continued)

RECOMMENDATION:

- The PMC has since, in conjunction with the State Treasury, taken steps to better safeguard and expedite the depositing of the license fee and fine revenue and should continue in its efforts.

AUDITEE RESPONSE:

- The Pari-Mutuel Commission agrees with the auditor's recommendations and had begun the process before the audit began. The Commission will continue to "stream line" fiscal operations.

OBSERVATION NO. 3 - SEGREGATION OF DUTIES

OBSERVATION:

- The PMC does not have adequate segregation of duties over the preparation and approval of receipt, expenditure and payroll documents because the individual who is often responsible for preparing the documents has final online-approval access to the state's accounting system, NHIFS, and the state's payroll system, GHRS.

The individual responsible for preparing documentation should also not be responsible for the approval of the documentation.

RECOMMENDATION:

- While it is recognized that the PMC Concord office is currently understaffed due to a vacancy in the deputy director position, the PMC should reassign responsibilities for document preparation and online-approval access to NHIFS and GHRS, where appropriate, when the position is filled.

AUDITEE RESPONSE:

- The Pari-Mutuel Commission agrees with the auditor's recommendations to review who assigns approval codes when the agency office vacancy is filled.

OBSERVATION NO. 4 - CHARGES TO INCORRECT ACCOUNTING CODES

In the State's accounting and budgeting system, class code 50, entitled Personal Services - Temporary, is defined by the Department of Administrative Services to be "used for the payment of salaries of part-time employees, board members and overtime (if not budgeted in class 019). Persons paid from these accounts shall not accrue benefits outlined in the collective bargaining agreement."

OBSERVATIONS:

- For fiscal year 1995, class 50 appropriations (Personal Services - Temporary) for the PMC racing lab and the PMC administration organizations were \$4,322 and \$196,712, respectively. The following charges were inappropriately made to the class 50 appropriation for PMC administration during fiscal year 1995.
 - A portion of the salary of a part-time lab employee totalling \$1,093 was charged to the PMC administration account, rather than to the racing lab, apparently because there were insufficient funds available in the class 50 lab appropriation.
 - Two payments totalling \$990 for professional services related to computer programming were charged to class 50. Such services are appropriate charges to class 46 - Consultants in the state accounting system. However, the PMC did not have an appropriation in class 46.

RECOMMENDATION:

- The PMC should charge expenditures to the appropriate accounts and should expend only those amounts authorized by law or other proper authority. When appropriations are not available to meet expenditures, requests for transfers or supplemental appropriations should be made through the Department of Administrative Services. If supplemental appropriations or transfers are not available, then the PMC should not bypass budgetary controls by charging expenditures to inappropriate budget and appropriation classes.

AUDITEE RESPONSE:

- The Pari-Mutuel Commission agrees with the auditor's recommendations. The Pari-Mutuel Commission notes that the expenditures were necessary to insure efficient state government and to protect the integrity of racing.

OBSERVATION NO. 5 - EQUIPMENT RECORDKEEPING

OBSERVATIONS:

- At June 30, 1995, the reported balance of equipment owned by the PMC was \$295,672. The following issues were noted related to PMC's equipment records.
 - A. The PMC destroys all payment vouchers and invoices every four years and reports such destruction to Records Management & Archives in accordance with the state's record retention schedule. Accordingly, documentation to support the cost of equipment purchased prior to fiscal year 1992 was unavailable to audit.
 - B. The PMC does not use appropriate procedures when performing its physical equipment inventories. The physical inventory is performed by referring to the recorded list of equipment. Equipment items that have been erroneously omitted from the recorded list are not likely to be detected and included on the list during the taking of the inventory.
 - C. A \$7,650 upgrade to laboratory equipment made during fiscal year 1995 was not added to the equipment inventory reported by the PMC to the Department of Administrative Services (DAS).

RECOMMENDATIONS:

- In order to accurately report and properly safeguard its equipment, PMC should:
 - A. Maintain invoices or other documentation to support the reported cost of all equipment until such time as the equipment is surplus.
 - B. Establish adequate procedures for performing annual physical equipment inventories. The physical inventory should be performed independently from the recorded equipment list, with an individual independent of the recordkeeping function responsible for reconciling the physical list to the recorded list.
 - C. Report to DAS all upgrades and other improvements to existing equipment as an added cost of the respective equipment item.

AUDITEE RESPONSE:

- The Pari-Mutuel Commission agrees with the auditor's recommendations. It notes that the agency does maintain a file called "Capital PV'S" where, since 1992 purchase vouchers of a capital nature are kept.

This report is intended for the information of the management of the New Hampshire Pari-Mutuel Commission and the Fiscal Committee of the General Court. This restriction is not intended to limit the distribution of this report, which upon its acceptance by the Fiscal Committee, is a matter of public record.

Office of Legislative Budget Assistant
OFFICE OF LEGISLATIVE BUDGET ASSISTANT

September 1, 1995

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AUDITOR'S REPORT ON STATE COMPLIANCE

TO THE FISCAL COMMITTEE OF THE GENERAL COURT:

We have audited the STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL - GENERAL FUND of the New Hampshire Pari-Mutuel Commission for the year ended June 30, 1995, and have issued our qualified report thereon dated September 1, 1995.

We conducted our audit in accordance with generally accepted auditing standards and *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 statement is free of material misstatement.

Compliance with state laws, regulations, and contracts applicable to the New Hampshire Pari-Mutuel Commission is the responsibility of the Commission's management. As part of obtaining reasonable assurance about whether the financial statement is free of material misstatement, we performed tests of the New Hampshire Pari-Mutuel Commission's compliance with certain provisions of laws, regulations, and contracts. However, the objective of our audit of the financial statement was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance required to be reported herein under *Government Auditing Standards*. However, we have noted on pages eighteen through twenty instances of noncompliance with state statutes, while not material to the financial statement, we believe to be worthy of report mention.

This report is intended for the information of the management of the New Hampshire Pari-Mutuel Commission and the Fiscal Committee of the General Court. This restriction is not intended to limit the distribution of this report, which upon its acceptance by the Fiscal Committee, is a matter of public record.

Office of Legislative Budget Assistant
OFFICE OF LEGISLATIVE BUDGET ASSISTANT

September 1, 1995

STATE COMPLIANCE

OBSERVATION NO. 6 - REVISED STATUTES ANNOTATED (RSA) - OUTDATED SECTIONS AFFECTING THE PMC

OBSERVATIONS:

- The following statutes appear to be outdated considering the current state and PMC accounting and budgeting procedures.

- RSA 284:2 discusses the state treasurer keeping three separate funds, 1) the running horse fund, 2) the harness race fund, and 3) the greyhound race fund, into which taxes on pari-mutuel pools are credited. The statute requires that after the PMC expenditures are paid from those funds that amounts be "...covered at intervals of 3 months into the general funds of the state."

The PMC expenditures are currently made from General Fund appropriations and taxes on pari-mutuel pools are credited as unrestricted General Fund revenue when received. Therefore, this statute appears outdated.

- RSA 284:10 states that disbursements made for compensation of the PMC Commissioners and employees, equipment, supplies, and other necessary expenses of the Commission shall be paid out of funds received by the PMC.

As discussed in the item above, the PMC expenditures are currently made from General Fund appropriations and monies are credited as unrestricted General Fund revenue when received. Therefore, this statute appears outdated.

- RSA 284:32 requires those conducting races in the state to submit a complete audit of its accounts, certified by a public accountant within 60 days after the conclusion of the race meet. RSA 284:32 was passed in 1935 and has not been amended since.

RSA 284:32-a, passed in 1977 and last amended in 1983, requires those licensed to conduct races in the state to submit an annual financial report audited by a certified public accountant in accordance with generally accepted auditing standards.

The PMC requires that audited annual financial statements be filed by the racetracks by June 1, but does not request the certified audit of accounts as required by RSA 284:32.

OBSERVATION NO. 6 - REVISED STATUTES ANNOTATED (RSA) - OUTDATED SECTIONS AFFECTING THE PMC (Continued)

RECOMMENDATION:

- The PMC should review all of its governing statutes to determine whether the statutes continue to be applicable to current state and PMC practices. Based on this review, the PMC should recommend to the legislature that statutes be amended or repealed, as appropriate.

AUDITEE RESPONSE:

- The Pari-Mutuel Commission agrees with the auditor's recommendations. The Commission will work with the Governor's Office and the Legislature to resolve these issues at the earliest opportunity.

OBSERVATION NO. 7 - RULES RELATIVE TO HARNESS RACING

OBSERVATION:

- RSA 284:12 requires that the PMC adopt rules pursuant to RSA 541-A relative to holding running or harness horse races and dog races for public exhibition.

N.H. Admin. Rules, Ra- 400 adopted by the PMC relative to harness horse racing expired in 1989.

RECOMMENDATION:

- The PMC should submit rules for harness horse racing to the Joint Legislative Committee on Administrative Rules for adoption.

AUDITEE RESPONSE:

- The Pari-Mutuel Commission agrees with the auditor's recommendations. It notes that the Rules of Thoroughbred and Greyhound racing were adopted at great fiscal expense and at great labor hours. The agency will seek funding for staff in the next budget process to get the rules repromulgated. The agency also notes that these rules apply to only 10 calendar days of racing per year.

OBSERVATION NO. 8 - FILING OF STATEMENTS OF FINANCIAL INTEREST

OBSERVATION:

- RSA 21-G:5-a requires that "Every member of every executive branch board, commission...shall file by July 1 of each year a verified written statement of financial interests...." This form is to be filed with the Secretary of State.

One of the five Pari-Mutuel Commissioners required to file a statement of financial interests with the Secretary of State by July 1, 1995 had not done so as of July 28, 1995. [NOTE: While there are six Commissioners by statute, one position has been vacant since January 1995.]

The PMC does not have procedures in place to monitor the filing of these statements by the Commissioners. According to RSA 21:G:5-a, "No member shall be allowed to enter into or continue the member's duties..." unless the statement has been filed. The Commissioner who had not filed as of July 28, 1995 has been allowed to continue with his official duties.

RECOMMENDATION:

- To prevent the possibility that a Commission decision may be questioned due to the participation of a Commissioner who has not filed a statement of financial interests, the PMC administration should monitor the filing of the statements of financial interests by its Commissioners and notify the chairman of the PMC when forms are not filed timely in accordance with the statute.

AUDITEE RESPONSE:

- The Pari-Mutuel Commission agrees with the auditor's recommendations. It does note that all commissioners are now in compliance.

AUDITOR'S REPORT ON MANAGEMENT ISSUES

TO THE FISCAL COMMITTEE OF THE GENERAL COURT:

We have audited the STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL - GENERAL FUND of the New Hampshire Pari-Mutuel Commission for the year ended June 30, 1995, and have issued our qualified report thereon dated September 1, 1995.

We conducted our audit in accordance with generally accepted auditing standards and *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 statement is free of material misstatement.

In planning and performing our audit of the financial statement of the New Hampshire Pari-Mutuel Commission for the year ended June 30, 1995 we noted certain issues related to the operation of the Commission that merit management consideration but do not meet the definition of a reportable condition as defined by the American Institute of Certified Public Accountants, and were not issues of noncompliance with laws, rules or regulations.

Those issues that we believe are worthy of management consideration but do not meet the criteria of reportable conditions or noncompliance are included on pages twenty-two through twenty-eight.

This report is intended for the information of the management of the New Hampshire Pari-Mutuel Commission and the Fiscal Committee of the General Court. This restriction is not intended to limit the distribution of this report, which upon its acceptance by the Fiscal Committee, is a matter public record.

Office of Legislative Budget Assistant
OFFICE OF LEGISLATIVE BUDGET ASSISTANT

September 1, 1995

MANAGEMENT ISSUES

OBSERVATION NO. 9 - AUTOMATION OF PROCEDURES

OBSERVATIONS:

- The PMC has many procedures in its operation that could be made more efficient and effective with the use of computer applications. Examples of these procedures are noted below.

(a) *Amtote, Information on Race Results*

At each of the four racetracks, at the conclusion of every live and simulcast racing performance for which there is a pari-mutuel pool, a state calculator (a PMC employee) manually completes a calculator form indicating the amounts wagered and the tax and breakage owed to the state by the track. The source of the information on this form is a report run at the track from the AMTOTE computer system, a national pari-mutuel on-track computer service utilized by the four tracks in the state. These manual calculator forms are faxed to the PMC office in Concord at the end of each day and are used to post the tax and breakage revenue to manual ledgers.

The state calculator then sends a diskette of similar information to the Concord office that is loaded into a database application as time permits. This database is currently not used for the recording of tax and breakage revenue because it does not contain complete and timely data.

This process could be automated by either having the Concord office have a direct link to the AMTOTE system or by having the AMTOTE reports sent directly to the Concord office where they could be input into the PMC database directly without being summarized by the calculator at the track. Either approach would provide timely and reliable information to the PMC management as well as for the recording of tax and breakage revenue. This would eliminate the manual calculator form and the posting to the manual ledger.

(b) *Accounting for Licenses and Fines*

The PMC employs clerks at each of the four racetracks during the live racing season to issue licenses and collect the associated fees and payment for racing fines. The prenumbered licenses are issued manually. These counter clerks write the license number, licensee, type of license, etc. on a listing that is used before the start of each race to determine whether the owner, trainer, etc. of every animal racing is properly licensed. The payment of

OBSERVATION NO. 9 - AUTOMATION OF PROCEDURES (Continued)

OBSERVATIONS (Continued):

(b) *Accounting for Licenses and Fines (Continued)*

racing fines is also tracked and accounted for manually. All receipt information is then sent to the Concord office where it is posted to a manual ledger.

All individual license information is keyed into a database application by someone at the Concord office as time permits. With current procedures, the license database maintained in Concord seldom contains up-to-date information on all licensees, in fact all licensee information for one of the tracks is not keyed until the end of the live racing season.

This process could be automated by having the counter clerks issue licenses from an automated system that could track the prenumbered licenses, record the amounts collected, maintain all license information for ensuring proper licensing, track those licensees that have been fined and which fines are outstanding, and again, could be linked to Concord to provide timely information for recording of revenue and adequate monitoring of licensees.

(c) *Unclaimed Tickets*

In accordance with RSA 284:31, on or before January 31st of each year every person, association or corporation conducting racing in the state shall remit "...to the state treasurer all moneys collected during the previous year of pari-mutuel pool tickets which have not been redeemed. The books or records...which clearly show the tickets entitled to reimbursement...shall be forwarded to the commission." The PMC pays holders of winning tickets that are presented for payment within the calendar year.

The books or records currently provided to the PMC by the racetracks to "clearly show the tickets entitled to reimbursement" are multiple large volumes of computer printouts. Prior to making payment, PMC employees refer to these volumes of computer printouts to determine whether a ticket holder requesting payment does in fact hold a winning ticket.

This process could be automated by requiring the racetracks to provide the record of outstanding tickets in computer file form, either on diskette or electronically transmitted to the PMC. The PMC could then maintain the outstanding ticket information in a database that could be used to not only determine whether ticket holders are valid winners, but also provide management information on outstanding tickets in a form that is easily used.

OBSERVATION NO. 9 - AUTOMATION OF PROCEDURES (Continued)

RECOMMENDATION:

- The PMC should discuss with the racetracks and with AMTOTE the possibility of having online tax and breakage and computerized outstanding ticket information provided to the PMC. It should also review all its procedures and determine where automation could improve efficiency and effectiveness.

AUDITEE RESPONSE:

- The Pari-Mutuel Commission agrees with the auditor's recommendations and has begun the process. The Pari-Mutuel Commission will need to budget monies for software and software development in the next budget cycle.

OBSERVATION NO. 10 - COMPENSATION PAID TO THE PMC EMPLOYEES

OBSERVATION:

- The PMC has over 40 full and part-time employees that work at the four racetracks in the state. RSA 284:8 requires these employees to be paid "...per racing program as the commission may prescribe, **subject to regulations of the state personnel commission**" [emphasis added].
 - (a) *Classified Employees (salaries not reimbursed by tracks)*

To determine the biweekly compensation of the PMC employees stationed at the tracks, the PMC calculates a daily rate of pay for each of these employees based upon their labor grade. The PMC track employees then receive a day's pay for each racing program that is worked. Based upon time sheets reviewed at the PMC, a racing program is usually 4.5 to 6 hours of work, however these individuals are receiving pay for 7.5 hours worked. In addition, when the racetracks have "doubleheaders", or two racing programs on one day, the PMC track employees receive two day's pay if both programs are worked.

According to the Division of Personnel the classified pay scale, state personnel rules, leave accrual and deduction, termination pay, etc. are all based on hourly rates. There are no daily pay rates established in the classified system and there are no provisions to pay employees for more hours than are actually worked. Therefore, the method the PMC uses to calculate the pay of its 40 track employees appears to be inconsistent with, if not contradictory to, state personnel rules and the collective bargaining agreement between the state and its classified employees.

OBSERVATION NO. 10 - COMPENSATION PAID TO THE PMC EMPLOYEES (Continued)

OBSERVATION (Continued):

The table below presents actual pay received during fiscal year 1995 by individuals in certain classified positions selected for audit testing as compared to the salary as stated in the collective bargaining agreement for those positions/labor grades.

The difference is primarily due to PMC employees working more than five days (performances) per week. It is important to note that very little of this difference is caused by overtime (working greater than 40 hours in any week) as the PMC tightly controls overtime and only paid \$8,329 in overtime during fiscal year 1995. Of the total \$43,049 difference noted for these four employees, \$3,195 related to holiday pay and the remainder represents payment for working more than five performances per week. However, none of these individuals was paid for work in excess of 40 hours per week during fiscal year 1995.

POSITION	LABOR GRADE, STEP	SALARY PER COLLECTIVE BARGAINING	ACTUAL FY 95 PAY	DIFFERENCE	
				\$	%
Counter Clerk	6, MAX	\$17,355	\$ 23,485	\$6,130	35%
Calculator	9, MAX	\$20,085	\$ 33,052	\$12,967	65%
Calculator	9, MAX	\$20,085	\$ 33,009	\$12,924	64%
Calculator	9, 1	\$17,882	\$ 28,910	\$11,028	62%
Total for Sample Items		\$75,407	\$118,456	\$43,049	57%

(b) *Nonclassified Employees (salaries reimbursed by tracks)*

In addition to the classified positions discussed above, the PMC establishes salary rates by performance for the state steward (thoroughbred) and judges (greyhound) according to RSA 284:20-d. This statute does not specify that these salaries are subject to rules established by state personnel, however the full-time judges receive state benefits and contribute to the NH Retirement System. In addition, the state pays federal payroll taxes for the full and part-time steward and judges. Therefore, as state employees it appears that they also should be paid on an hourly basis, consistent with all other state employees.

OBSERVATION NO. 10 - COMPENSATION PAID TO THE PMC EMPLOYEES (Continued)

RECOMMENDATION:

- The PMC should consult with the Department of Justice and the Division of Personnel to determine whether its current practices of compensating its track employees are consistent with both statute and state personnel rules. Appropriate changes should be made to the PMC payroll procedures if it is determined that they are not consistent with statute and state personnel rules.

The PMC should request changes to statute as appropriate to make the PMC compensation practices consistent with state payroll procedures and personnel rules.

AUDITEE RESPONSE:

- The Pari-Mutuel Commission agrees with the auditor's recommendations. It notes that while the agency feels it is compensating its employees correctly under RSA 284, the language needs clarification by the Department of Justice, and an opinion should be rendered as to the proper payment method of Pari-Mutuel Commission employees.

OBSERVATION NO. 11 - TIMING OF REMITTANCE OF TAX AND BREAKAGE

The PMC collects tax and breakage on all pari-mutuel pools sold in the state under the provisions of RSA 284.

- RSA 284:22 requires one-half of the breakage be paid to the state treasurer.
- RSA 284:23 requires the tax to be paid to the state treasurer
- RSA 284:24 requires that payments made under RSA 284:23 (i.e., tax payments) be made within three calendar days of the race. RSA 284 has no requirement for the timing of the payments of breakage.

OBSERVATION:

- Three of the racetracks in the state remit breakage and tax payments by check to the PMC within the three calendar day requirement. One track remits the breakage separately from the tax, with PMC receiving the breakage up to two weeks after the race day. This causes inconsistency in the procedures performed by the PMC for the accounting and recording of revenue and makes reconciling breakage as reported by the PMC state calculator to the breakage remitted by the racetrack difficult.

OBSERVATION NO. 11 - TIMING OF REMITTANCE OF TAX AND BREAKAGE (Continued)

RECOMMENDATION:

- In order to standardize its accounting and to expedite collections of amounts owed to the state, we recommend that the PMC review the current legislation setting the timing of payments and propose revised legislation to require a standard payment policy for the amounts collected under RSA 284:22 (breakage).

We further recommend that the PMC consider whether this time period required by RSA 284:24 continues to be appropriate in today's accounting and banking environment. The PMC should consider such options such as:

- Requesting a change in the statutory three calendar day requirement to a one day requirement,
- Receiving tax and breakage remittances via electronic funds transfers directly from the racetracks to the state treasurer, or
- Requiring racetracks to deposit tax and breakage amounts directly into the state treasurer accounts that were recently opened as depositories for the PMC license receipts at banks physically located near each of the four racetracks.

AUDITEE RESPONSE:

- The Pari-Mutuel Commission agrees with the auditor's recommendations. The Commission will work with the Governor's Office and the Legislature to resolve these issues at the earliest opportunity.

OBSERVATION NO. 12 - EMPLOYMENT CLASSIFICATION OF STATE VETERINARIANS

OBSERVATION:

- RSA 284:20-c requires a veterinarian appointed by the Commission be present at each live race at which pari-mutuel pools are sold. This statute also requires the Governor and Council (G&C) approve a rate per racing performance to be paid to the state veterinarians and further states that the veterinarians shall not be eligible for state fringe benefits. By requiring G&C to set the rate of pay and prohibiting the eligibility of state fringe benefits, the language in this statute leads the reader to conclude that state veterinarians are not intended to be state employees.

OBSERVATION NO. 12 - EMPLOYMENT CLASSIFICATION OF STATE VETERINARIANS
(Continued)

OBSERVATION (Continued):

RSA 284:20-d discusses the compensation of state veterinarians, including the employer's share of federal payroll taxes, is to be reimbursed by the racetracks. By referring to the employer's share of federal payroll taxes related to the veterinarians' compensation, the language in this statute leads the reader to conclude that these PMC veterinarians are state employees. Also, the PMC treats its veterinarians as employees when state employee raises are granted. The PMC veterinarians receive the same percentage increase to their pay per racing performance without requiring subsequent approval by G&C.

The two statutes cited above appear to be contradictory in determining whether the state veterinarians should be considered employees or contractors of the state.

RECOMMENDATION:

- The PMC should review the statutes cited above and consult with the Department of Justice and the Division of Personnel, if necessary, to determine the proper employment classification of the state veterinarians. Based on the results of consultation with outside agencies, requests should be made to clarify the veterinarians' status in the PMC statute and changes should be made to PMC procedures, where appropriate.

AUDITEE RESPONSE:

- The Pari-Mutuel Commission agrees with the auditor's recommendations. The Pari-Mutuel Commission will refer this matter to the Division of Personnel and to the Department of Justice. It notes that in previous audits the agency was cited for paying a veterinarian as contract labor. It also notes that approximately five years ago the agency asked the Attorney General for an opinion as to whether or not Pari-Mutuel Commission veterinarians were covered under the state umbrella of liability insurance for state employees. It was the opinion of the Attorney General's Office they did.

INDEPENDENT AUDITOR'S REPORT

TO THE FISCAL COMMITTEE OF THE GENERAL COURT:

We have audited the accompanying STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL - GENERAL FUND of the New Hampshire Pari-Mutuel Commission for the year ended June 30, 1995. The financial statement is the responsibility of the management of the New Hampshire Pari-Mutuel Commission. Our responsibility is to express an opinion on the financial statement based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and *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 statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. 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 more fully described in NOTE 3, the New Hampshire Pari-Mutuel Commission does not have complete financial records to support the amounts included in the General Fixed Assets Account Group. Accordingly, we were unable to examine sufficient evidential matter to support such amounts.

As more fully discussed in NOTE 1, the financial statement referred to in paragraph one is not intended to present the financial position of the New Hampshire Pari-Mutuel Commission.

As more fully discussed in NOTE 1, the method used by the New Hampshire Pari-Mutuel Commission to account for salary reimbursements of certain of its employees understated both unrestricted revenues and expenditures by \$168,140 for the year ended June 30, 1995.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had our audit not been limited in scope as discussed in the third paragraph and the matters discussed in the fourth and fifth paragraphs, the financial statement referred to in the first paragraph presents fairly, in all material respects, certain financial activity of the New Hampshire Pari-Mutuel Commission for the year ended June 30, 1995 in conformity with generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the financial statement referred to in the first paragraph. The accompanying Schedule of Budgetary Components-General Fund is presented on page thirty-nine for the purpose of additional analysis and is not a required part of the financial statement of the New Hampshire Pari-Mutuel Commission. Such information has been subjected to the auditing procedures applied in our audit of the financial statement referred to in the first paragraph and, in our opinion, is fairly presented in all material respects in relation to the financial statement taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 1, 1995 on our consideration of the New Hampshire Pari-Mutuel Commission's internal control structure and a report dated September 1, 1995 on its compliance with laws and regulations.

Office of Legislative Budget Assistant
OFFICE OF LEGISLATIVE BUDGET ASSISTANT

September 1, 1995

**STATE OF NEW HAMPSHIRE
PARI-MUTUEL COMMISSION**

**STATEMENT OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 1995**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>FAVORABLE/ (UNFAVORABLE) VARIANCE</u>
<u>UNRESTRICTED REVENUE</u>			
TAX & BREAKAGE	\$6,640,500	\$5,710,004	\$ (930,496)
UNCLAIMED TICKETS	450,000	761,429	311,429
SALARY REIMBURSEMENTS	91,500	90,470	(1,030)
LICENSE FEES	123,500	81,753	(41,747)
RACING FINES	16,000	9,365	(6,635)
OTHER	<u>200</u>	<u>2,152</u>	<u>1,952</u>
TOTAL OPERATING REVENUE	\$7,321,700	\$6,655,173	\$ (666,527)
ROCKINGHAM LUMP SUM PAYMENT (NOTE 2)	<u>-0-</u>	<u>\$3,260,000</u>	<u>\$3,260,000</u>
TOTAL UNRESTRICTED REVENUE	<u>\$7,321,700</u>	<u>\$9,915,173</u>	<u>\$2,593,473</u>
<u>RESTRICTED REVENUE</u>			
RACING LAB REIMBURSEMENTS	<u>\$ 404,817</u>	<u>\$ 359,835</u>	<u>\$ (44,982)</u>
TOTAL RESTRICTED REVENUE	<u>\$ 404,817</u>	<u>\$ 359,835</u>	<u>\$ (44,982)</u>
<u>EXPENDITURES</u>			
SALARIES			
RACING ASSISTANTS	\$ 544,682	\$ 527,903	\$ 16,779
RACING LAB	237,404	228,636	8,768
STEWARDS & JUDGES	196,712	194,757	1,955
ADMINISTRATION	139,387	139,329	58
COMMISSIONERS	47,762	44,431	3,331
VETERINARIANS	<u>26,500</u>	<u>11,264</u>	<u>15,236</u>
TOTAL SALARIES	1,192,447	1,146,320	46,127
BENEFITS	286,335	251,942	34,393
CURRENT EXPENSES	62,575	60,760	1,815
OFFICE & LAB RENT	64,461	58,334	6,127
EQUIPMENT	50,158	39,948	10,210
UNCLAIMED TICKETS	34,640	34,640	-0-
IN-STATE TRAVEL	19,100	17,910	1,190
OTHER	<u>3,495</u>	<u>3,109</u>	<u>386</u>
TOTAL EXPENDITURES	<u>\$1,713,211</u>	<u>\$1,612,963</u>	<u>\$ 100,248</u>

The accompanying notes are an integral part of this financial statement.

**STATE OF NEW HAMPSHIRE
PARI-MUTUEL COMMISSION**

NOTES TO THE FINANCIAL STATEMENT

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. FINANCIAL REPORTING ENTITY

The Pari-Mutuel Commission (PMC) is an organization of the primary government of the State of New Hampshire established under RSA 284. The financial activity of the PMC is accounted for in the General Fund of the State of New Hampshire's Comprehensive Annual Financial Report (CAFR). Assets, liabilities and fund balances are reported by fund for the State as a whole in the CAFR. The PMC, as an organization of the primary government, accounts for only a small portion of the General Fund and those assets, liabilities and fund balances as reported in the CAFR that are attributable to the PMC cannot be determined. Accordingly, the accompanying financial statement is not intended to show the financial position of the PMC in the General Fund and the change in this fund balance is not reported on the accompanying financial statement.

B. BASIS OF PRESENTATION - FUND ACCOUNTING

Financial Statement

The financial statement of the PMC has been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Fund Accounting

The State of New Hampshire and the PMC use funds and account groups to report on financial position and the results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

NOTES TO THE FINANCIAL STATEMENT (Continued)

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GOVERNMENTAL FUND TYPES

General Fund

The General Fund accounts for all financial transactions not specifically accounted for in any other fund. By law, and with certain exceptions, all revenues of governmental funds are paid daily into the State Treasury. All such revenues, other than certain designated revenues, are credited to the General Fund. Annual expenditures that are not allocated by law to other funds are charged to the General Fund.

ACCOUNT GROUPS

General Fixed Assets (Unaudited)

General fixed assets acquired by the PMC for the performance of its operations are reflected in the General Fixed Assets Account Group at the time of acquisition. As of June 30, 1995, the PMC had recorded in the General Fixed Assets Account Group the cost of general fixed assets based on available historical cost records. Donated fixed assets are recorded at fair market value at the time donated.

General Long-Term Debt

Activities related to the PMC cumulative liability for compensated absences are reflected in the General Long-Term Debt Account Group.

C. BASIS OF ACCOUNTING

The State of New Hampshire accounts for its financial transactions related to the General Fund on the modified accrual basis of accounting, under which revenues are recognized when measurable and available to finance operations during the year. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay obligations of the current period. Expenditures are recognized in the period in which obligations are incurred as a result of the receipt of goods or services.

D. BUDGETARY DATA

General Budget Policies

The statutes of the State of New Hampshire require the Governor to submit a biennial budget to the Legislature. This budget consists of three parts: part I is the Governor's program for meeting all expenditure needs as well as estimating revenues to be received; part II is a detailed breakdown of

NOTES TO THE FINANCIAL STATEMENT (Continued)

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

the budget at the department level for appropriations to meet the expenditure needs of the government; part III consists of draft appropriation bills for the appropriations made in the proposed budget. The operation of the PMC is included in the General Fund budget.

The New Hampshire biennial budget is composed of the initial operating budget and supplemented by additional appropriations. These additional appropriations and estimated revenues from various sources are authorized by Governor and Council action, annual session laws, and existing statutes which require appropriations under certain circumstances. As shown on the Schedule of Budgetary Components-General Fund on page thirty-nine, the final budgeted amount includes the initial operating budget plus supplemental appropriation warrants, balances brought forward and transfers.

A Statement of Revenues and Expenditures-Budget and Actual-General Fund is presented as the PMC's financial statement.

Encumbrances

Contracts and purchasing commitments are recorded as encumbrances when the contract or purchase order is executed. Upon receipt of goods or services the encumbrance is liquidated and the expenditure and liability are recorded. The PMC's unliquidated encumbrance balance at June 30, 1995 was \$10,581.

E. UNRESTRICTED REVENUES AND EXPENDITURES

Salary Reimbursements

RSA 284:20-d requires that the salaries, including the State's share of federal payroll taxes, of the veterinarians, official State steward and judges employed by the PMC be reimbursed monthly by the racetracks in the State. The State's operating budget requires the reimbursements for such compensation to be recorded as unrestricted revenue up to the amount appropriated for such compensation. The reimbursements for any compensation paid to these PMC employees in excess of the appropriation is to be recorded as a reduction of expenditures.

The accounting for the salary reimbursements as a reduction of expenditures as provided in the State's operating budget understates both unrestricted revenues and expenditures. As a result, PMC unrestricted revenue and expenditures were understated by \$168,140 for the year ended June 30, 1995.

NOTES TO THE FINANCIAL STATEMENT (Continued)

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. FIXED ASSETS - GENERAL (Unaudited)

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition costs are reflected as expenditures 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 in the General Fixed Assets Account Group are not depreciated. Presently, the PMC does not have complete financial records to support the amounts included in the General Fixed Asset Account Group.

G. COMPENSATED ABSENCES

Full-time employees of the PMC are entitled to annual and sick leave with full pay on the basis of the employee's scheduled work week and years of service. Annual and sick leave is computed at the end of each completed month of service. Employees rendering seasonal or temporary service in excess of six months are entitled to annual and sick leave at the same rate for time actually worked. Certain permanent full-time employees are entitled to receive bonus leave. At the end of each fiscal year, additional annual leave (bonus days) is computed based on the amount of sick time taken during the year. The maximum annual accrual for bonus days is four days.

The PMC's compensated absences liability of \$122,302 at June 30, 1995 represents the total liability for the cumulative balance of PMC employees' annual, bonus, compensatory and sick leave based on years of service rendered. The accrued liability for annual leave does not exceed the maximum cumulative balance allowed which ranges from 30 to 48 days based on years of service. There is no maximum limit in the amount of bonus and compensatory leave which may be accrued. The sick leave liability is estimated based on the years of service rendered by the employee in accordance with GASB Statement No. 16.

H. INTERFUND AND INTRAFUND TRANSACTIONS

The State accounts for interfund and intrafund transactions as described below:

Reimbursements - Various departments charge fees on a user basis for such services as centralized data processing, accounting and auditing, purchasing, personnel and maintenance. In addition, the Department of Administrative Services charges rent to those departments that are housed in state-owned buildings. These fees and rent are not considered material and are recorded as revenue by the servicing department and as expenditures

NOTES TO THE FINANCIAL STATEMENT (Continued)

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

by the user department. The PMC made rental payments of \$37,634 to the Department of Administrative Services during the year ended June 30, 1995 for the space occupied by the PMC racing laboratory.

NOTE 2 -- ROCKINGHAM PARK LUMP SUM PAYMENT

During the year ended June 30, 1995, Rockingham Park, the state's thoroughbred racetrack located in Salem, New Hampshire, made a single lump sum payment to the State Treasurer in the amount of \$3,260,000 in lieu of paying increased tax rates during calendar years 1995, 1996 and 1997 as provided by Chapter 5, Laws of 1994.

The increased tax rates for calendar years 1995, 1996 and 1997 were imposed on Rockingham Park pursuant to Chapter 4, Laws of 1986, as repayment for contributions made by the State to Rockingham Park's purse fund in calendar years 1986, 1987 and 1988.

The \$3,260,000 amount stated in Chapter 5, Laws of 1994, was not budgeted as estimated revenue for the year ended June 30, 1995 and such payments will not recur in future years.

NOTE 3 -- GENERAL FIXED ASSETS ACCOUNT GROUP (Unaudited)

The following is a schedule of changes in equipment balances, as reported by the PMC, in the General Fixed Assets Account Group for the year ended June 30, 1995. Equipment purchases are funded through budgeted appropriations.

	<u>Balance</u> <u>7/1/94</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>6/30/95</u>
Equipment	<u>\$ 283,874</u>	<u>\$12,871</u>	<u>\$1,073</u>	<u>\$ 295,672</u>

Changes in the PMC's equipment balances are reported to the Department of Administrative Services, Bureau of Purchase and Property at the end of each fiscal year for inclusion in the State's Comprehensive Annual Financial Report. Presently, the PMC does not have complete financial records to support the amounts reported in the General Fixed Asset Account Group.

NOTES TO THE FINANCIAL STATEMENT (Continued)

NOTE 4 -- EMPLOYEE BENEFIT PLANS

New Hampshire Retirement System

The PMC as an organization of State government participates in the New Hampshire Retirement System (the Plan). The Plan is a defined benefit plan and covers substantially all full-time employees of the PMC. The Plan qualifies as a tax-exempt organization under Sections 401(a) and 501(a) of the Internal Revenue Code. New Hampshire Revised Statutes Annotated (RSA), Chapter 100-A established the Plan and the contribution requirements. The Plan, which is a cost-sharing, multiple-employer Public Employees Retirement System (PERS), is divided into two membership groups. Group I consists of employees and teachers. Group II consists of firefighters and police officers. All employees of the PMC who are members of the Plan are members of Group I.

Group I - Members contributing through age 60 qualify for a normal service retirement allowance based on years of creditable service. The yearly pension amount is $1/60$ (1.67%) of average final compensation (AFC), multiplied by years of creditable service. AFC is defined as the average of the three highest salary years. At age 65 the yearly pension amount is recalculated at $1/66$ (1.5%) of AFC multiplied by years of creditable service. Members in service with 10 or more years of creditable service who are between age 50 and 60 are entitled to a retirement allowance with appropriate graduated reduction based on years of creditable service. In addition, any Group I member who has completed at least 20 years of creditable service that, when combined with his or her age equals at least 70, is entitled to retire and have benefits commence immediately at a reduced service retirement allowance.

Group II - After attaining the age of 45, members with 20 years of creditable service qualify to receive a retirement allowance at a rate of 2.5% of AFC for each year of creditable service, not to exceed 40 years. Members in service at age 60 qualify to receive a prorated retirement allowance.

Members of both groups are entitled to disability allowances and also death benefit allowances subject to various requirements and rates based on AFC or earnable compensation.

The Plan is financed by contributions from the members, the State and local employers, and investment earnings. During the year ended June 30, 1995, Group I and II members were required to contribute 5% and 9.3%, respectively, of gross earnings. The State funds 100% of the employer cost for all of the PMC's employees enrolled in the Plan. The annual contribution required to cover any normal cost beyond the employee contribution is determined every two years by the Plan's actuary.

NOTES TO THE FINANCIAL STATEMENT (Continued)

NOTE 4 -- EMPLOYEE BENEFIT PLANS (Continued)

The PMC's payments for normal contribution costs for the year ended June 30, 1995 amounted to 2.65% of the covered payroll. The Plan does not make separate measurements of assets and pension benefit obligation for individual employers. The New Hampshire Retirement System Comprehensive Annual Financial Report contains detailed information regarding the Plan as a whole, including information on payroll, contributions, actuarial assumptions and funding method, pension benefit obligation and ten year historical trend data. The New Hampshire Retirement System operates on a fiscal year ending June 30.

Deferred Compensation Plan

The PMC as an organization of State government offers its employees a deferred compensation plan (the Plan) created in accordance with Internal Revenue Code Section 457. The Plan, available to all State employees, permits them to defer a portion of their salaries until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the Plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights, are (until paid or made available to the employees or other beneficiaries) solely the property and rights of the State (without being restricted to the provisions of benefits under the Plan), subject only to the claims of the State's general creditors. Participants' rights under the Plan are equal to those of general creditors of the State in an amount equal to the fair market value of the deferred account for each participant.

Postemployment Health Care Benefits

In addition to the benefits described above, the PMC as an organization of State government provides postemployment health care benefits, in accordance with RSA 21-I:30, to all retired employees and their spouses on a non-contributory basis, as authorized by state statute.

During the year ended June 30, 1995, the PMC paid for the full cost of health insurance premiums for the retired employees and spouses of the PMC racing laboratory on a pay-as-you-go basis. The cost of the health insurance for the PMC racing laboratory employees and spouses is a budgeted amount and is paid from an appropriation of the PMC. Accordingly, the cost of health insurance benefits for the retired PMC racing lab employees is included in the PMC's financial statement.

The full cost of the health care benefits provided to all other retired PMC employees and their spouses is paid from an appropriation of the State department that administers the plan on a pay-as-you-go basis and is not included as part of the PMC's financial statement.

**STATE OF NEW HAMPSHIRE
PARI-MUTUEL COMMISSION**

**SCHEDULE OF BUDGETARY COMPONENTS - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 1995**

	<u>OPERATING BUDGET</u>	<u>SUPPLEMENTAL WARRANTS</u>	<u>BALANCES FORWARD/ TRANSFERS</u>	<u>BUDGET</u>
<u>UNRESTRICTED REVENUE</u>				
TAX & BREAKAGE	\$6,640,500	\$ -0-	\$ -0-	\$6,640,500
UNCLAIMED TICKETS	450,000	-0-	-0-	450,000
SALARY REIMBURSEMENTS	91,500	-0-	-0-	91,500
LICENSE FEES	123,500	-0-	-0-	123,500
RACING FINES	16,000	-0-	-0-	16,000
OTHER	200	-0-	-0-	200
TOTAL OPERATING REVENUE	<u>\$7,321,700</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$7,321,700</u>
ROCKINGHAM LUMP SUM PAYMENT	-0-	-0-	-0-	-0-
TOTAL UNRESTRICTED REVENUE	<u>\$7,321,700</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$7,321,700</u>
<u>RESTRICTED REVENUE</u>				
RACING LAB REIMBURSEMENTS	\$ 419,817	\$(10,608)	\$(4,392)	\$ 404,817
TOTAL RESTRICTED REVENUE	<u>\$ 419,817</u>	<u>\$(10,608)</u>	<u>\$(4,392)</u>	<u>\$ 404,817</u>
<u>EXPENDITURES</u>				
SALARIES				
RACING ASSISTANTS	\$ 590,389	\$(45,707)	\$ -0-	\$ 544,682
RACING LAB	239,704	-0-	(2,300)	237,404
STEWARDS & JUDGES	203,274	(6,562)	-0-	196,712
ADMINISTRATION	125,387	-0-	14,000	139,387
COMMISSIONERS	48,690	-0-	(928)	47,762
VETERINARIANS	26,500	-0-	-0-	26,500
TOTAL SALARIES	<u>1,233,944</u>	<u>(52,269)</u>	<u>10,772</u>	<u>1,192,447</u>
BENEFITS	310,236	4,392	(28,293)	286,335
CURRENT EXPENSES	58,000	-0-	4,575	62,575
OFFICE & LAB RENT	64,461	-0-	-0-	64,461
EQUIPMENT	40,000	-0-	10,158	50,158
UNCLAIMED TICKETS	1	34,639	-0-	34,640
IN-STATE TRAVEL	22,150	-0-	(3,050)	19,100
OTHER	3,495	-0-	-0-	3,495
TOTAL EXPENDITURES	<u>\$1,732,287</u>	<u>\$(13,238)</u>	<u>\$(5,838)</u>	<u>\$1,713,211</u>

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APPENDIX - STATUS OF PRIOR AUDIT REPORT OBSERVATIONS

The following is a summary of the September 1, 1995 status of the reportable conditions contained in the report on the examination of the Pari-Mutuel Commission (PMC) for the eighteen months ended December 31, 1987. A copy of the prior report can be obtained from the Office of Legislative Budget Assistant, Audit Division, Room 102, State House, Concord, N.H. 03301.

INTERNAL CONTROL

STATUS

- | | |
|--|--------------|
| <p>1. Reimbursements for salaries of PMC judges and veterinarians were recorded as negative expenditures causing both revenues and expenditures to be understated under generally accepted accounting principles. (see current year Observation No. 1)</p> | <p>○ ○ ○</p> |
| <p>2. One of the PMC veterinarians was treated as an independent contractor rather than a state employee. (see related current year Observation No. 12)</p> | <p>● ● ●</p> |

STATE COMPLIANCE

- | | |
|---|--------------|
| <p>3. Reimbursements for salaries of PMC judges and veterinarians were recorded inconsistently as both restricted and unrestricted revenues and negative expenditures in violation of the footnote to the operating budget.</p> | <p>● ● ●</p> |
| <p>4. One employee of PMC was reimbursed for personal miles driven in excess of the 15,000 miles per year allowed by the Department of Administrative Services' <u>Manual of Procedures</u>.</p> | <p>● ● ●</p> |

STATUS KEY

- | | |
|------------------------|-------|
| Fully resolved | ● ● ● |
| Substantially resolved | ● ● ○ |
| Partially resolved | ● ○ ○ |
| Unresolved | ○ ○ ○ |

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