STATE OF NEW HAMPSHIRE
PARI-MUTUEL COMMISSION

FINANCIAL AND COMPLIANCE AUDIT REPORT
FOR THE NINE MONTHS ENDED MARCH 31, 2005

STATE OF NEW HAMPSHIRE
PARI-MUTUEL COMMISSION

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STATE OF NEW HAMPSHIRE
PARI-MUTUEL COMMISSION

Reporting Entity And Scope

The reporting entity of this audit and audit report is the New Hampshire Pari-Mutuel Commission. The period covered is the nine months ended March 31, 2005.

The following report describes the financial activity of the Pari-Mutuel Commission, as it existed during the period under audit. Unless otherwise indicated, reference to the PMC or Commission refers to the Pari-Mutuel Commission.

Organization

The Pari-Mutuel Commission is a six-member body of part-time Commissioners appointed by Governor and Council. Each Commissioner holds the office for a term of three years and until a successor has been appointed. The Pari-Mutuel Commission's operations include an administrative office and laboratory in Concord, N.H. and employee presence at each of the horse and dog racetracks operating in the State.

The Pari-Mutuel Commission was established in 1982 by Chapter 42:140, Laws of 1982, which amended RSA 284 by combining the former State Racing and State Greyhound Racing Commissions. Effective January 1, 2005, the Commission also became responsible for Bingo and Lucky 7 administration, licensing, and enforcement through the enactment of Chapter 257:16 of the Laws of 2004.

At March 31, 2005, the Commission employed 16 full-time and 59 part-time employees.

Responsibilities

The Pari-Mutuel Commission 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.

The Pari-Mutuel Commission operates the State's racing laboratory. The laboratory performs tests to determine that race results are not influenced by the administration of drugs prohibited by the Commission.

The Pari-Mutuel Commission collects the taxes imposed on the entities licensed to conduct horse and dog racing in New Hampshire and simulcast horse and dog racing at out-of-state venues pursuant to RSA 284:23. In addition, the Commission collects associated license fees and racing fines and all unclaimed ticket monies remitted by entities conducting races.

As noted above, effective January 1, 2005, the Pari-Mutuel Commission became responsible for Bingo and Lucky 7 administration, licensing, and enforcement. Prior to January 1, 2005, those responsibilities were shared between the Lottery Commission and the Department of Safety.

Funding

The financial activity of the Pari-Mutuel Commission is accounted for in the General Fund and the Lottery Fund of the State of New Hampshire. A summary of the Commission's revenues and expenditures/expenses in the General and Lottery Funds for the nine months ended March 31, 2005 is shown in the following schedule.

Summary Of Revenues And Expenditures/Expenses
For The Nine Months Ended March 31, 2005

	General Fund	Lottery Fund
Unrestricted Revenue	$ 3,815,247	
Restricted Revenue	314,869	
Total Revenues	$ 4,130,116	$ 593,498
Total Expenditures/Expenses	$ 1,662,932	$ 78,026
Excess (Deficiency) Of Revenues Over (Under) Expenditures/Expenses	$ 2,467,184	$ 515,472

Prior Audit

The most recent prior financial and compliance audit of the Pari-Mutuel Commission was for the fiscal year ended June 30, 1995. The appendix to this report on page 49 contains a summary of the current status of the observations contained in that report. Copies of the prior audit report can be obtained from the Office of Legislative Budget Assistant, Audit Division, 107 North Main Street, State House Room 102, Concord, NH 03301-4906.

Audit Objectives And Scope

The primary objective of our audit is to express opinions on the fairness of the presentation of the financial statements of the Pari-Mutuel Commission for the nine months ended March 31, 2005. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we considered the effectiveness of the internal controls in place at the Pari-Mutuel Commission and tested the Commission's compliance with certain provisions of applicable State laws, rules, regulations, and contracts. Major accounts or areas subject to our examination included, but were not limited to, the following:

- Revenues,
- Expenditures,
- State Compliance, and
- Equipment.

Our reports on internal control over financial reporting and on compliance and other matters and on management issues, the related observations and recommendations, our independent auditor's report, and the financial statements of the Pari-Mutuel Commission are contained in the report that follows.

Auditor's Report On Internal Control Over Financial Reporting And On Compliance And Other Matters

To The Fiscal Committee Of The General Court:

We have audited the accompanying financial statements of the governmental activities, business-type activities, and each major fund of the New Hampshire Pari-Mutuel Commission for the nine months ended March 31, 2005, as listed in the table of contents, and have issued our report thereon dated April 7, 2006, which was qualified with respect to the lack of presentation of the financial position of the Pari-Mutuel Commission in the government-wide and fund financial statements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Pari-Mutuel Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion 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 Pari-Mutuel 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 Observations No. 1 through No. 20 of this report.

A material weakness is a reportable 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 caused by error or fraud 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.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Pari-Mutuel Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, rules, regulations, and contracts, 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted a certain noncompliance matter which is described in Observation No. 21 of this report.

We noted certain other management issues, which are described in Observations No. 22 through No. 24, that we reported to management of the Pari-Mutuel Commission in a separate letter dated April 7, 2006.

This auditor's report on internal control over financial reporting and on compliance and other matters is intended solely for the information and use of the management of the Pari-Mutuel Commission and the Fiscal Committee of the General Court and is not intended to be and should not be used by anyone other than these specified parties.

Office Of Legislative Budget Assistant
Office Of Legislative Budget Assistant

April 7, 2006

Internal Control Comments
Reportable Conditions

Observation No. 1: Reason For Lack Of Oversight Of Lakes Region Track Licensing Should Be Established

Observation:

The Pari-Mutuel Commission (PMC) had not implemented proper controls over licensing at the Lakes Region Greyhound Park during the nine months ended March 31, 2005. A full fifty percent of the owners listed on a sample of four Lakes Region track race programs tested were not licensed with the PMC. The PMC could not have failed to identify the lack of compliance with the PMC licensing statutes had the PMC performed the controls it described as operating for the Lakes Region track.

RSA 284:18-a states, "…no person shall enter a dog or participate in any dog race or meet as an owner, kennel agent, nominator, or trainer, within the state without having first procured from the commission a license so to act, and paying such fees as the commission may determine to be reasonable and proper therefor." The license fee for a dog owner is $20.

At most State dog tracks, the PMC employs a counter clerk whose responsibilities include ensuring all appropriate licenses related to dogs racing at the track are current. During the nine months ended March 31, 2005, the PMC did not employ a counter clerk at the Lakes Region track. According to the PMC, the licensing control responsibilities were assigned to the PMC employed judge at the track. As an additional control to the process, an employee at the PMC main office was to review one complete Lakes Region race program weekly to confirm that all owners, dogs, etc., reported on the program were properly licensed.

During testing of licensing revenue, race programs from all tracks operating in the State were reviewed for compliance with the licensing statutes. The Lakes Region program selected for testing revealed only 42% of the listed owners were licensed. Three additional programs were subsequently tested which revealed that, for the four programs tested, only 49% of the owners listed on the programs were licensed with the PMC. Further review indicated that essentially all Lakes Region programs included unlicensed owners. It is apparent the reported review by the PMC main office either was not performed or was not effectively performed.

While the licensing revenues forgone due to the lack of licensing enforcement are not material (approximately $700 for the four programs tested), the extent of the lack of owner licensing compliance at the Lakes Region track is alarming and could be indicative of fraud and have implications of problems greater than the loss of license revenue to the PMC and the State.

Recommendation:

The PMC must pursue a full understanding of the circumstances that caused and allowed the lack of licensing enforcement to occur at the Lakes Region track. The PMC should consider whether owners and others deliberately took advantage of the apparent lack of PMC oversight at the track or whether the haphazard owner compliance with licensing requirements was inadvertent.

The PMC should review all office control procedures and employees responsible for those procedures. Management must impress upon its employees the importance of its controls and management's expectation that PMC employees will consistently perform assigned controls. Management must also ensure it has an effective control monitoring system to detect and correct in a timely manner failures in the systems subject to the controls and the control activities themselves.

Auditee Response:

Agree.

The PMC is cognizant of the reasons that licenses were not issued. An agreement had been worked out with the general manager of LRGP to work with the PMC counter clerk position. Prior to July 1, 2004, the PMC counter clerk position became vacant and, as a hiring freeze was in place at the time, a replacement counter clerk was not hired.

A system of checks is now in place to insure compliance of licensing rules and requirements. The PMC did collect $240, which was the amount of uncontested fees. The remaining individuals are no longer associated with the pari-mutuel industry. It is also noted that the Commission did collect and audit over $750,900 of tax and breakage revenue from this track during this reporting period.

Observation No. 2: Reconciliations Should Be Performed

Observation:

Monthly reconciliations, described by the PMC as one of its control processes, were not regularly performed during the nine months ended March 31, 2005.

Reconciliations are an essential control to ensure that related records report consistent and accurate information and to detect timely errors, frauds, or other matters that might be identified by the comparison of information. While not a documented PMC policy and procedure, the PMC describes a monthly reconciliation of the PMC's financial data to the State's accounting system (NHIFS) reports as a control process. This regular reconciliation of agency data to NHIFS reports is a general requirement on all State agencies as well. However, during the nine months ended March 31, 2005, these reconciliations were only performed for the months of July through November 2004. The reconciliations for two of these months included unresolved differences. No reconciliations were performed for the financial activity reported in the months of December 2004 through March 2005. According to the employee responsible for the reconciliations, other responsibilities and lack of available time prevented the reconciliations from being performed.

An integral part of all control systems is effective control monitoring to ensure that controls are in place and operating as intended. It is not clear whether management of the PMC was made aware that these monthly reconciliations were not being consistently and completely performed during this period.

Recommendation:

The PMC should regularly reconcile its financial data to the NHIFS reports. This process should be established in a policy and procedure and include a management review function to ensure that management is made aware of the status of reconciliations and takes appropriate action when problems in the reconciliations are recognized.

Auditee Response:

Agree.

The PMC shall regularly reconcile its financial data to the NHIFS reports. Management will review a plan to insure compliance.

Observation No. 3: Official Headquarters Of Employees Should Be Reviewed

Observation:

During the nine months ended March 31, 2005, several PMC employees had their homes designated as their official headquarters even though the designation appears intended to provide financial benefit to the employee and does not appear to comport with job requirements or federal tax law.

The two PMC gaming-enforcement investigators have their personal residences designated as their official headquarters. The workday for these employees begins when they leave their residences and ends when they return home at the end of their workday. However, contrary to the normal situation that makes a home office designation appropriate, both employees report to the PMC office in Concord every day, prior to starting their gaming-enforcement activities. Having their residences designated as their official headquarters allows these two employees to be paid for their daily commute time from their homes to the Concord office. This is a benefit that is not normally provided to State employees. These employees have assigned State vehicles for their daily use. The PMC did not include the daily commuting use allowance of these vehicles in the employees' gross income, contrary to State policy and federal tax law.

Since 2002, the PMC Director's residence has been declared by the Commission to be his official headquarters. This action was purportedly taken to reduce the amount of paperwork required for reimbursement of personal vehicle mileage. Like the gaming enforcement investigators, the Director reports to the PMC office in Concord on a majority of workdays. During the first eight months of the audit period (from July 2004 through February 2005) the Director claimed and was paid $3,622 for mileage reimbursements, a significant portion of which resulted from the Director's daily commute into the Concord office.

The Director assumed the use of a State vehicle in February 2005. That vehicle had been transferred to the PMC along with the gaming enforcement responsibilities. After taking use of the vehicle, the Director no longer claimed reimbursement for commuting to the Concord office; however, the PMC did not include the daily commuting allowance in the Director's reported salary, contrary to State policy and federal tax law.

Recommendation:

The Commission should seek appropriate guidance to determine the proper official headquarters of its employees. The assignment of official headquarters should be made based on the employee's job responsibilities and daily activities. Employees whose official headquarters are improperly classified should be reclassified appropriately.

Employees who are allowed the commuting use of a State vehicle should have the commuting use allowance included in their gross income as provided by State policy and federal tax law.

Auditee Response:

Partially Agree.

All PMC office employees work 37.5 office hours; with the exception of the bingo enforcement division. To change working conditions for the enforcement division will require negotiating with SEA. Bingo enforcement personnel do not now consistently report to the Concord office daily.

The 2004 Operating Budget provided for a State-Vehicle for the director's position. However, the prior governor froze all vehicle purchases. The director is now using a State vehicle and no longer receives mileage reimbursement. The PMC is cognizant of the headquarters of its employees. It will work with and follow the guidelines of Administrative Services Bureau of Accounting relative to state-owned vehicle usages and the related tax consequences.

Observation No. 4: The PMC Should Establish Formal Risk Assessment Policies And Procedures

Observation:

The PMC does not have formal risk assessment policies and procedures in place for recognizing and responding to risks potentially affecting its operations.

Management's assessment of and response to risks facing the organization is an integral component of internal control. The purpose of an entity's risk assessment efforts is to identify, analyze, and where appropriate respond to risks and thereby manage risks that could affect the entity's ability to reach its objectives. Effective risk assessment practices should be a core element of management's planning activities and should be an ongoing activity.

The PMC does not have formal policies and procedures in place for periodically reviewing its operations for risks that could jeopardize its ability to continue to function as management intends. Currently, when risks are identified, the PMC may respond with a change in procedure or other action, however, there are no formal policies and procedures to continuously review operations for risks. A lack of understanding of risks generally pushes an entity toward a reactive mode when significant risks are realized or occur. A reactive mode may compromise the efficiency and effectiveness of a response due to the lack of prior identification and understanding of the risks and ramifications.

An entity faces many risks. Risk can be defined as, the threat that an event or action will adversely affect an entity's ability to achieve its objectives. Risk can be classified in many ways. For example:

External risks - threats from broad factors external to the entity including changes in the political arena, statutes and rules, competition from other sources, and illegal activity external to but affecting the organization.

Operational risks - threats from ineffective or inefficient processes for acquiring and providing goods and services, as well as loss of physical, financial, or information assets.

Information risks - threats from the use of poor quality information for operational, financial, or strategic decision-making within the entity and providing misleading information to others.

A continuous review of PMC processes and activities using a risk-based mindset would promote effective planning and assist in resource allocation decision-making. Risks identified should be analyzed to determine whether current internal controls mitigate risk to a level desired by management or whether other actions are required in response to the risk.

Recommendation:

The PMC should formalize its risk assessment process. A formal risk assessment process is a necessary tool the PMC needs to assist in the effective management of risks. Identifying risks significant to the PMC operations that it is involved with and strategies to mitigate those risks should enhance the effectiveness of the PMC's planning and resource allocation processes and its control processes.

Auditee Response:

Agree.

While the PMC does not have formal policies per se, it continually reviews and plays out various scenarios to minimize potential risks. The PMC will formulate policies where it believes such policies would enhance risk detection.

Observation No. 5: Formal Fraud Prevention, Deterrence, And Detection Program Should Be Established

Observation:

The PMC has not established a formal fraud prevention, deterrence, and detection program.

Fraud encompasses an array of irregularities and illegal acts characterized by intentional deception. Persons outside or inside the organization can perpetrate it for the benefit or to the detriment of the organization. Fraud runs the spectrum from minor employee theft and unproductive behavior to misappropriation of assets, fraudulent financial reporting, and intentional noncompliance with a law or rule leading to an undue benefit.

Management is responsible for assessing the risk of fraud and implementing measures to reduce the risks of fraud to an organization. Fraud assessment, prevention, deterrence, and detection are crucial to the controlled operations of an organization.

Assessment is critical since risks can only be effectively managed if risks are identified. The risk of fraud can be reduced through a combination of prevention, deterrence, and detection measures.

Prevention reduces opportunities. Preventative methods are typically part of the organization's internal control – tone at the top and control procedures. Management of an organization "sets the tone" for the whole organization by signaling that fraud will not be tolerated and establishing control procedures including, but not limited to, adequate segregation of duties and formal accounting policies and procedures intended to limit the opportunity for fraud.

Deterrence consists of those actions taken to discourage the perpetration of fraud and limit the exposure if fraud does occur. The principal mechanism for deterring fraud is the establishment of effective controls that persuade employees that frauds will be detected and perpetrators punished. Management has the primary responsibility for establishing and maintaining these controls, which may include written codes of conduct that apply to all employees, periodic employee trainings, monitoring of employee compliance, and an effective fraud reporting mechanism.

Detection consists of identifying indicators of fraud sufficient to warrant recommending an investigation. These indicators may arise as a result of controls established by management, tests conducted by internal auditors, and other sources both within and outside the entity. Detection can be difficult because fraud often involves concealment through falsification of documents or collusion among management, employees, or third parties. If fraud is detected, the organization should contact legal counsel. Legal counsel has the expertise to advise as to the extent of any necessary investigation.

Generally, prevention and deterrence measures are less costly in time and expense than fraud detection and investigation efforts.

Recommendation:

The PMC should perform a fraud risk assessment and develop and implement a formal fraud prevention, deterrence, and detection program to help limit the PMC's exposure to fraud and promote early detection of fraud that may occur. The PMC should take measures to foster a high degree of control consciousness among its employees and ensure that its employees understand that adhering to controls is a primary concern of management. Fraud risk assessment and the establishment of a prevention, deterrence, and detection program are critical activities for the State, especially in an organization charged with the oversight of State licensees offering pari-mutuel wagering opportunities.

Auditee Response:

Agree.

The PMC shall perform a fraud risk assessment to assist with developing and implementing a formal fraud prevention, deterrence, and detection program to limit the PMC's exposure to fraud and promote early detection of fraud that could occur.

Observation No. 6: Forms Of Acceptable Licensee Sureties Should Be Reviewed

Observation:

The Commission has allowed licensees to submit various forms of bond surety, which has resulted in additional control concerns at the PMC.

Per RSA 284:18 "Every person, association, or corporation licensed under the provisions of the preceding sections hereof, shall, before said license is issued, give a bond to the state in such reasonable sum not exceeding $300,000, as may be fixed by the commission, with a surety or sureties approved by the commission..."

Three licensees submitted commercial insurance-type bonds, one licensee submitted a check, and one licensee submitted a passbook account as license sureties required by RSA 284:18. The surety submitted by check was forwarded to the State Treasury for deposit into a money-market account. The passbook supporting the passbook account is held at the PMC, with the Director being the sole PMC signatory on the account.

The variety of acceptable forms of the surety has resulted in additional control concerns at the PMC. The acceptance of deposits, either as a check or as a passbook, presents the need to properly safeguard and account for the funds, which poses risks that are not present if commercial insurance-type bonds are used for sureties. For example, allowing the Director to be the sole signatory on the passbook account is a segregation of duties concern, if the Director also has access to the passbook.

Recommendation:

The Commission should review its policy for accepting funds for licensee sureties. The Commission should consider restricting the form of the sureties to non-monetary items to limit risk associated with safeguarding and accounting for the funds.

If the acceptance of funds as sureties is to continue, the PMC should ensure that controls remain appropriate to properly safeguard the funds.

Auditee Response:

Agree.

The PMC has consulted with the Attorney General's office to approve each form of bond required under this statute. The PMC agrees with the passbook account observation and has since had that account closed and funds transferred to the State Treasury for appropriate safe keeping in a money market instrument. Proper controls are in place to insure funds are disbursed appropriately when necessary.

Observation No. 7: Equipment Inventory Control Procedures Should Be Improved

Observation:

PMC's equipment inventory control procedures do not adequately segregate the responsibilities for maintaining the equipment inventory and performing the annual inventory observation. In addition, the annual inventory observation procedures could be improved to promote a complete inventory observation.

One PMC employee is responsible for several incompatible equipment control functions including: recording, maintaining, inventorying, and disposing of PMC equipment.

In performing the annual inventory observation, this employee refers to and then locates the equipment on the equipment listing. In performing the observation in this manner, the PMC risks not including equipment items that had previously been erroneously omitted from the list.

As an example of the problem that can occur when the inventory observation is performed using the inventory listing as a base, the PMC failed to properly record a conference table purchased during 2001 and failed to detect this error in the subsequent four inventory observations. This comment was also included in the prior audit of the Pari-Mutuel Commission for the fiscal year ended June 30, 1995.

Recommendation:

The PMC should improve its controls over its equipment inventory. Additional segregation of responsibilities should be incorporated into PMC procedures to lessen the risk of equipment errors, frauds, or other matters.

The PMC should consider revising its inventory observation procedures to promote the detection of all equipment, including equipment not on the PMC equipment listing.

Auditee Response:

Agree.

The PMC shall designate an independent third party staff member to perform a physical equipment inventory to insure accuracy. The third party conducting this inventory will be instructed on proper procedures for identifying all equipment including equipment not on the list.

Observation No. 8: Effectiveness Of Review And Approval Controls Over Recording Of Revenues Should Be Regularly Monitored

Observation:

During most of the audit period, the PMC did not have effective review and approval controls over its recording of revenues in the State's accounting system (NHIFS) and the PMC's internal computer system. The PMC instituted a documented supervisory review and approval of the revenues posting effective March 4, 2005.

Prior to its institution of a review and approval process for the posting of revenues, the primary review of PMC transactions occurred during a monthly reconciliation process. There was no concurrent supervisory review of PMC prepared *Cash Receipt* (form A-17) documents or of postings to NHIFS and the PMC internal computer system. The reconciliation process performed by PMC was less than optimal as it was observed that six instances of data differences totaling $3,400 noted by the PMC reviewer were not resolved as of the date of the audit work, four months after the original posting of the transactions. Apparently, the PMC reviewer had used incomplete information during the review, resulting in the differences.

Recommendation:

The PMC should regularly monitor and review the performance of its newly initiated review and approval process to ensure that the control is operating as intended. The PMC should remind its employees of the importance of control procedures and the proper handling of instances of apparent errors or other problems detected by control procedures.

Auditee Response:

Agree.

The PMC has put into place controls to monitor and review to insure that the newly initiated office policies are being followed. Written policies will be developed and given to appropriate personnel to insure compliance.

Observation No. 9: Receipts From Normal Operations Should Be Recorded And Reported As Revenues

Observation:

In two instances during the nine months ended March 31, 2005, the PMC recorded cash received for services provided by the PMC lab not as revenue but as negative expenditures. Reportedly, the PMC posted the revenue in this manner as the PMC account structure did not have an appropriate revenue account. The effect of posting receipts as negative expenditures is to increase the amount available to expend by the amount of the negative expenditure.

Negative expenditures are generally used to post reimbursements or refunds on prior expenditures. Negative expenditures generally result from non-routine transactions, unforeseen at the time of the budget, and are intended to make the original appropriations whole, so the budgeted plans of the organization can be achieved.

When used to record what would otherwise be recorded as revenue, posting negative expenditures can be used to bypass budgetary controls and increase appropriation amounts as well as to understate the cost of operations and the revenues received from operations. While neither of the above-mentioned transactions was significant in amount to the PMC operations, posting receipt transactions in this manner should be seen as a potential violation of budgetary controls and should be closely scrutinized by management.

Recommendation:

The PMC should record the receipts derived from its normal operations as revenues and not negative expenditures. If appropriate accounts are not included in the PMC's current account structure, additional revenue accounts should be requested.

Auditee Response:

Agree.

The PMC was not conducting "normal operations" per se when this occurred. We will discuss appropriate methods for complying with this observation with Administrative Services and the State Comptroller for future handling of similar transactions should they occur.

Observation No. 10: Breakage Revenue Should Be Recorded Gross Of Amounts Paid Back To Tracks

Observation:

During the nine months ended March 31, 2005, the State's accounting system (NHIFS) recorded breakage revenue net of amounts returned to the track to supplement the purses of live races.

Breakage is the amount of a pari-mutuel pool remaining after the commission, tax, and payout. Per statute, the total breakage amount is evenly split between the track and the PMC. The amount paid to the PMC is further split with half of the amount paid to the PMC deposited with the Treasurer for the use of the State and half paid back to the track to supplement the purses of live races conducted at the track. Due to PMC's method of recording these transactions in NHIFS, the amounts collected and paid back to the tracks are not reported by NHIFS as either revenues or expenditures.

During the nine months ended March 31, 2005, the NHIFS revenue accounts for the PMC reported $410,000 of breakage revenue. The NHIFS account balances did not report over $200,000 of breakage received from the tracks and returned to supplement the purses of live races as these amounts netted to $0 financial activity.

Because NHIFS reports breakage revenue at net, NHIFS users are not provided with the full breakage revenue amount collected and processed by the PMC and are not provided with the amounts the PMC provides to the tracks to support live racing in the State. PMC does report the gross breakage information in its annual report.

Recommendation:

In order to provide NHIFS users with a more complete understanding of the scope of the PMC operations, PMC should report the gross breakage amounts as revenue and report amounts paid to the tracks to support live racing as expenditures.

To accomplish this more thorough reporting, the PMC will need to work with the Department of Administrative Services to establish the appropriate reporting of revenue and expenditure amounts.

Auditee Response:

Agree.

As noted in the observation, we do report the gross amount as revenue and the amount paid to the tracks in our annual report. However if you look at NHIFS end of month revenue totals then it would not be viewed as gross, but rather net of the tracks' payback amounts.

PMC will discuss other optional methods for reporting with Administrative Services and the State Comptroller.

Observation No. 11: Tax And Breakage Receipts Should Be Processed More Frequently

Observation:

During the nine months ended March 31, 2005, the PMC generally processed tax and breakage payments from the tracks twice a week. During testing of tax and breakage revenue, it was noted that tax and breakage receipts were often not processed until 4 to 16 days after the race date.

RSA 284:24 states, "[p]ayments…shall be made no later than 3 calendar days after each racing day. Failure to make payments in the time prescribed shall subject the licensee to a civil forfeiture of $50 for each day the payments are overdue."

Treasury withdraws tax and breakage amounts due the PMC from each tracks' bank account on the day specified by the PMC. Although the tracks have the ability to pay the tax and breakage amounts the day after a race date, the PMC only processes on Tuesdays and Thursdays, allowing a significant lag between the race date and when the PMC collects payment. The PMC generally does not consider track payments late and subject to RSA 284:24 forfeiture unless the amounts were not in the account ready to be transferred within the 3-day statutory period. According to the Treasury, it is able to process these payments daily without concern for processing small amounts. Delays in processing the revenues negatively impact the State's cash flow and increase the risk for errors and frauds.

Recommendation:

The PMC should process tax and breakage receipts as soon as practically possible and at least as frequently as provided for in statute.

Auditee Response:

Agree.

The PMC will develop policies to insure compliance with appropriate statutes. The PMC notes that it has increased the frequency of processing. If this issue continues to be problematic the PMC will request a legislative change to allow for more flexibility in payment processing.

Observation No. 12: Controls Should Be Improved Over Lucky 7 Remittances

Observation:

The PMC does not compare Lucky 7 fees remitted by distributors to information provided by the licensed purchasers of the tickets to ensure that all Lucky 7 fees are remitted. The PMC, in essence, relies upon the distributors to remit the proper amount of fees.

RSA 287-E:22 provides for licensed distributors of Lucky 7 tickets to pay fees upon the sale of tickets to licensed charitable organizations or other organizations licensed to sell Lucky 7 tickets. RSA 287-E:22,V states "[a] licensed distributor shall pay the fees collected pursuant to this section [Lucky 7] to the commission within 15 days of the distribution of the tickets."

The PMC became responsible for Bingo/Lucky 7 administration and enforcement on January 1, 2005. Prior to that date, the Lottery Commission and the Department of Safety shared those responsibilities. During the last three months of the audit period, the period when the PMC collected Lucky 7 fees, the PMC accepted and deposited the fees remitted and recorded the amount of tickets sold in a PMC computerized information system but did not, as a standard policy and procedure, review and compare the amounts remitted and information provided by the distributors to similar information provided by the licensed purchasers of those tickets. Had that control been in place, the PMC would likely have detected an error noted on an example report selected for audit review and testing.

Recommendation:

The PMC should improve its controls over Lucky 7 remittances. Lucky 7 fees submitted by distributors should be reviewed to ensure the amounts are supported by documentation submitted by distributors. The PMC should also consider comparing the amounts reported as sold by the distributors to the amounts reported as purchased by licensees.

The PMC should review its current procedures, including training of its employees responsible for this function, to determine the likely reasons for the failure of its employee to recognize the above noted error. Additional training or supervisory oversight should be provided as appropriate.

Auditee Response:

Agree.

The Commission will review its current procedures including training of office employees for this function. We will develop a system of cross-checking records from charitable organizations and distributors against office and field observations and reports provided to the Commission.

Observation No. 13: Revenue Collection And Processing Controls Should Be Improved

Observation:

There is a lack of an adequate segregation of duties over the PMC's processing of Bingo and Lucky 7 revenue collected by the PMC. The PMC has not established controls to mitigate the risk posed by employees performing incompatible functions.

One employee at the PMC is responsible for the incompatible functions of the receipt of Bingo and Lucky 7 revenue, preparation of bank deposits, preparation of cash receipt documentation and posting revenue to the State's accounting system (NHIFS), and reconciling the bank deposit to the cash receipt document and posting in NHIFS. PMC's lack of segregation of duties controls over Bingo and Lucky 7 revenues increases the risk that errors or frauds that may occur in this process may not be detected and corrected in a timely manner.

Recommendation:

The PMC should review its current Bingo and Lucky 7 revenue processes and implement appropriate controls to provide reasonable assurance of the integrity and accuracy of its revenue collection and reporting processes. Where possible, improvements in the segregation of duties of employees in the revenue process should be made. If the relatively small size of the PMC's business office does not allow for a proper segregation of responsibilities, the PMC should implement other mitigating controls such as regular management review of processed transactions to ensure that errors or frauds that may occur in the process are detected and corrected in a timely manner.

Auditee Response:

Agree.

The PMC will implement other controls such as regular management review of processed transactions. Where practical the PMC will segregate duties to allow for more separation of tasks. The Commission will look at other possible means of collection, i.e. lock box services.

Observation No. 14: Purchasing Controls Should Be Strengthened

Observation:

There is a lack of segregation of incompatible purchasing responsibilities at the PMC administrative office and at the PMC laboratory. One employee at each of these sites is responsible for ordering and receiving equipment and supplies. The administrative office employee is also responsible for initiating payment for these ordered items.

An administrative office employee is responsible for ordering items and subsequently receiving the items upon delivery. This employee also is responsible for preparation of the payment voucher and entry of the payment voucher into the State's accounting system (NHIFS).

A lab employee is responsible for ordering items needed by the lab, receiving delivery of the items, and placing the items into inventory. The receiving documentation is forwarded to the administrative office for payment.

The PMC recognizes this segregation of duties risk and has developed procedures to mitigate the risks and detect and correct any errors that may result. These procedures include a reconciliation of the PMC internal accounting system to NHIFS and requiring management preauthorization for certain purchases. As noted in Observation No. 2, the monthly reconciliations were not performed by the PMC during the period of December 2004 through March 2005. Also, the control provided by preauthorization is negatively impacted by certain State-wide contracts that allow for agency purchases of up to $2,000 without management preauthorization.

Recommendation:

The PMC should review its assignment of responsibilities for purchasing. The PMC should make an effort to strengthen its controls. While optimal segregation of duties over the requisition, purchase, receipt, and payment processes may be difficult within the PMC's personnel constraints, the PMC should establish reasonable controls to protect the PMC from the effects of errors and frauds in this area. Once established, the PMC must ensure that the controls are monitored for performance and effectiveness.

Auditee Response:

Agree.

The PMC will reassign duties in the office to separate functions as they relate to purchasing/ordering, receiving of goods, invoice payment, and related paperwork. Control will therefore be strengthened. The laboratory purchasing controls will also be strengthened. Laboratory purchases will be signed-off by the chief chemist during the ordering process and receipt verification will be done by another staff member. Any office supplies the laboratory needs will be ordered through the administrative office in Concord.

Observation No. 15: Policies And Procedures Must Be Established For Reviewing Benefit Eligibility Status Of Part-Time Employees

Observation:

The PMC does not have adequate policies and procedures to monitor its part-time employees for benefit eligibility.

Per RSA 98-A:6, "[a]n individual working on a part-time basis shall not be eligible to utilize either sick or annual leave but at each anniversary of employment should the total working time during the preceding year amount to the equivalent of 6 months or more he shall be paid all accumulated annual leave not in excess of those allowed by Per 307.03 of the rules of the division of personnel."

The PMC does not have procedures in place to accurately determine when part-time employees are eligible to receive compensation for accumulated annual leave in accordance with statute. Audit testing of payroll for a sample of 26 PMC employees included 15 employees working on a part-time basis. Of the 15, three were determined by the auditor to be eligible to receive accumulated leave payments. The PMC correctly paid the benefit for one of the three, incorrectly calculated the amount of payment for the second employee, and did not identify the third employee as being eligible for payment. The result was one employee was overpaid $189 and one employee was underpaid $854.

As a result of the relative high proportion of errors noted in the first sample, the payroll for an additional 16 employees was tested. Two employees in this second sample were determined to be eligible for the payment of leave. The PMC correctly identified one of these two employees but made an overpayment error of $92. The PMC failed to identify the second employee as being eligible and therefore underpaid the employee $552.

Per RSA 98-A:6-a, "[a]ny individual employed in state service on a part-time basis whose employment calls for 30 hours or more work in a normal calendar week, and whose position is anticipated to have a duration of 6 months or more, shall be entitled to elect to receive such health and dental benefits as are afforded full-time state employees…" the cost of which is shared between the State and the employee based on the ratio of hours worked to a standard 37.5 hour workweek.

The PMC informed the auditors that it does not monitor part-time employees to determine whether any part-time employees are eligible to elect to participate in health and dental benefits. While eligibility for participation in health benefits was not specifically tested for part-time employees, because the eligibility criteria are similar with the criteria for annual leave, it is likely that some part-time PMC employees would be eligible.

Recommendation:

As an employer, the PMC has a responsibility to ensure that its employees are treated in a manner that is fair and consistent with State laws, rules, and contracts.

The PMC must establish policies and procedures for reviewing benefit eligibility status of its part-time employees. Policies and procedures should include the determination of employee eligibility and documentation of offer and acceptance or rejection of benefits by the employees.

The cause of the number of part-time benefit errors noted above should be reviewed. Based on the results of that review, additional controls should be established for the review and approval of payroll calculations including employee training and effective review and approval procedures.

Employees should be regularly reminded of all benefits they are entitled to and any changes in their eligibility status.

Auditee Response:

Agree.

The PMC does strive to insure all benefits are explained to eligible part-time employees. Computer software will be developed to help assist staff in tracking employee eligible hours for benefit purposes. Agency will develop a 'sign-off' sheet for part time employees to review benefit eligibility, and indicate their desire to decline or participate.

Observation No. 16: Risks Associated With Related Party Transactions Should Be Considered

Observation:

The PMC entered into financial transactions with families of employees presumably to the benefit of the PMC. However, it is not clear that the PMC fully considered the potential ramifications of these transactions prior to entering into them.

The spouse of an office employee was hired to move PMC office equipment. According to the Director, the PMC received quotes of $50 per hour for professional movers to move the equipment. An office employee offered her spouses' services at $30 per hour. The PMC accepted the employee's offer without apparent consideration of liability issues including worker's compensation, general liability, and vehicle insurance. The services were provided based on a handshake agreement.

A PMC employee purchased automobile supplies at a local retailer and had the purchase price billed to the account of a garage owned by the family of the employee. The PMC paid the garage the amount of the purchase.

While neither of these transactions was significant in amount, the commingling of State and employee family business in transactions of this nature increases the risk of improper activities occurring and the appearance of improper activities occurring. Informal transaction arrangements such as conducting business with family members may decrease employee concerns for adhering to business control activities normally in place over transactions with outside service providers.

This lessening of control concerns can lead to negative impacts on an organization's overall control environment.

Recommendation:

Transactions involving family members of employees should only be entered into with the full awareness and consideration of the potential negative outcomes and only when the benefits of the transactions to the PMC clearly outweigh the associated risks. All controls such as written agreements, evidence of insurance, vetting of qualifications, etc., that would be applied to transactions with outside service providers should be applied to these transactions as well.

Auditee Response:

Agree.

The PMC shall enter into transactions involving family members with the full awareness and consideration of the potential negative outcomes and only when the benefits of the transactions to the PMC clearly outweigh the associated risks. If related party transactions are absolutely necessary the PMC will follow control procedures as would be applied to outside service provider transactions.

Observation No. 17: Transactions Should Be Accurately And Timely Posted To Proper Accounts

Observation:

The PMC used non Bingo/Lucky 7 budget appropriations to purchase equipment for Bingo/Lucky 7 purposes. Transactions to properly reflect the expenditure in the correct budget account were not processed by the PMC until more than three months after the PMC became authorized to charge the appropriations.

In August of 2004, the PMC purchased four computers in anticipation of taking over responsibility for Bingo/Lucky 7 administration and enforcement on January 1, 2005. The computers costing $2,954 were needed to allow the employees performing the Bingo/Lucky 7 administration and enforcement to integrate into the PMC's office system and were purchased early, reportedly, to allow the PMC to properly program the applications that would be used. The purchase of the computers was charged to PMC budgetary accounts, as the budget for its Bingo/Lucky 7 responsibilities was not transferred to the PMC until the January effective date. Reportedly, PMC planned on using a transfer of expenditure transaction to move the expenditure to the Bingo/Lucky 7 appropriations when the Bingo/Lucky 7 budget became available to the PMC. An additional consequence of posting these expenditures to the PMC account was to exhaust the PMC equipment appropriation and cause the PMC to hold and not pay approximately $1,400 of bills for equipment purchased during the period December 2004 through March 2005. At March 31, 2005, the transfer of expenditure transaction still had not been processed by the PMC, reportedly, due to the PMC business office not having the time to initiate the transaction documents.

The use of appropriations for purposes other than intended in the budget is generally not allowed. While transfer of expenditure documents are sometimes used to allocate initial postings of expenditures to proper accounts, the use of transfers of expenditures is generally limited to correcting prior mispostings and should not be used to allow expenditures in excess of budgetary authority.

Recommendation:

The PMC should not use transfer documents to avoid budgetary controls.

The PMC should review its office operations to determine the reason for the delay in posting correction entries to the above-mentioned transaction. Once identified, efforts should be made to ensure that accounting transactions are properly recorded in a timely manner.

The PMC should not hold unpaid bills. Common business practice requires the timely payment for purchased goods. The PMC should not unfairly cause vendors to wait for payment of uncontested invoices.

Auditee Response:

Agree.

The PMC was under unique circumstances during this time period (25% reduction in office staff, office moved, assimilation of Bingo administration from Sweepstakes, assimilation of Bingo enforcement from Safety, Lakes Region Greyhound Park investigation). Therefore tasks were prioritized. The Commission will endeavor to use appropriate accounts for purchases and pay for uncontested purchases in a timely manner.

Observation No. 18: Budgetary Controls Should Not Be Bypassed

Observation:

During the nine months ended March 31, 2005, the PMC, by charging some expenditures to inappropriate accounts, avoided budgetary controls intended to prevent the expenditure of funds in excess of budgeted appropriations.

During the fall of 2004, the PMC purchased and had installed new data and telecommunication equipment required by a move of the PMC administrative office. The costs associated with this purchase and installation were charged to the PMC lab appropriations, reportedly, because the PMC did not have available funds in the more appropriate accounts. The lab was not otherwise involved or impacted by the office move.

The PMC charged all Office of Information Technology costs to the PMC Fund 013 Bingo/Lucky 7 Sweepstakes Fund accounts even though the General Fund supported activity of the PMC also benefited from this work. Reportedly, the PMC charged all of these expenditures to the Sweepstakes Fund accounts, as there were no General Fund appropriations for this purpose.

RSA 9:19 states, "[n]o state official, commissioner, trustee, or other person having control of public funds appropriated by the general court shall use any part of such funds for any other purpose than that for which they were appropriated…." It appears that, by charging expenditures to incorrect accounts, the PMC violated RSA 9:19.

Recommendation:

Budgetary controls should not be avoided. Only expenditures budgeted to accounts should be charged to those accounts. If appropriations are inadequate in an account to support an expenditure, the expenditure should not be made unless and until additional appropriations or transfers are obtained to fund the expenditure.

Auditee Response:

Agree.

It was never the objective of the PMC to violate statute or rules relative to appropriations and expenditures. The PMC continued to focus on integrity and insuring the public protection. The PMC is cognizant of the error and will follow all statutes and guidelines relative to this observation.

Observation No. 19: Disagreements With Vendors Should Be Resolved

Observation:

The PMC did not pursue correction of a vendor invoicing problem, even though the PMC was confident it was being undercharged by the vendor.

The PMC leased a photocopier with minimum monthly payments of $358. The lease price consisted of $249 for the standard configuration plus $109 for an optional configuration required by the PMC.

The first lease invoice received by the PMC was for $249. The PMC, reportedly, contacted the vendor informing it of the error and requested a corrected invoice. According to the PMC, the vendor did not correct the invoice and subsequently continued to invoice the PMC for the lesser amount. Reportedly, due to the invoiced amount benefiting the State, the PMC decided it would pay the invoice as billed and not take further steps to correct the billing error and pay the correct amount.

Recommendation:

The PMC should pursue correction of the billing problem with the vendor. Good business practice requires the payment of agreed-upon prices.

Auditee Response:

Partially Agree.

The PMC always endeavors to practice good business decisions. This vender was contacted on numerous occasions as to billing and quality of service. Eventually that machine was replaced and the billing problem has been rectified.

Observation No. 20: Bills Should Be Paid Timely

Observation:

The PMC has not been consistent in paying its bills in a timely manner. During the course of audit testing, we observed instances where the PMC made late payments on accounts, some as late as six months after the receipt of services. We also noted repeated notices from vendors concerning outstanding unpaid balances. The most severe of these notices threatened suspension of the PMC account and the possibility of assignment of the account for third-party collection.

Upon discussion with the PMC, it appears that these accounts were not subjects of dispute or other valid reasons for delayed payment but remained unpaid due to lack of timely attention by the PMC business office.

Common business practice requires the PMC to pay vendors with which it has undisputed account balances in a timely manner. PMC vendors deserve timely payments and to delay payments without valid reason causes unfair disservice to the vendors and also can affect the PMC's and State's ability to make future use of those vendors or negatively affect the terms provided by the vendor to the PMC and State.

Recommendation:

The PMC should implement policies and procedures to ensure the timely payment of its bills. Management should monitor compliance with those policies and procedures to ensure timely payment and maintenance of vendor relations. Management should take appropriate action when it notices that payments are not being made timely.

Auditee Response:

Agree.

PMC endeavors to pay undisputed bills in a timely manner. The noted delayed payments occurred during a period of transition for the PMC and should not recur.

State Compliance Comment

Observation No. 21: Statements Of Financial Interests Should Be Filed

Observation:

Five of six PMC commissioners had not correctly filed statements of financial interests due on July 1, 2004. Five commissioners either reported for the incorrect reporting period, filed their statement late, or both. All commissioners performed their duties without interruption, as the PMC was not aware of their filing status.

RSA 21-G:5-a, I, requires "[e]very member of every executive branch board, commission, advisory committee, board of directors, and authority, whether regulatory or administrative, shall file by July 1 of each year a verified written statement of financial interests in accordance with the provisions of this section…." This statement is to be filed with the Secretary of State and is to cover the preceding calendar year. According to the statute, no member shall be allowed to enter into or continue the member's duties, unless the member has filed such a statement.

A similar comment was made in our prior audit of the PMC.

Recommendation:

PMC commissioners should file statements of financial interests as required by statute. The PMC should establish procedures to ensure that commissioners are and remain current in their filing status. Commissioners who fall out of compliance should be prohibited from entering into commission business as required by statute.

Auditee Response:

Agree.

There was a misunderstanding as to the reporting period timeframe, which has subsequently been rectified. The PMC staff will call the Secretary of State to insure compliance. The PMC will also request that the Commissioners forward a copy of their required form with the PMC to place on file as a backup.

Auditor's Report On Management Issues

To The Fiscal Committee Of The General Court:

We have audited the accompanying financial statements of the governmental activities, business-type activities, and each major fund of the New Hampshire Pari-Mutuel Commission for the nine months ended March 31, 2005, as listed in the table of contents, and have issued our report thereon dated April 7, 2006, which was qualified with respect to the lack of presentation of the financial position of the Pari-Mutuel Commission in the government-wide and fund financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the financial statements of the Pari-Mutuel Commission for the nine months ended March 31, 2005, we noted issues related to the operation of the Pari-Mutuel 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, regulations, contracts, and grant agreements.

Those issues that we believe are worthy of management consideration but do not meet the criteria of reportable conditions or noncompliance or other matters are included in Observations No. 22 through 24 of this report.

This auditor's report on management issues is intended solely for the information of the management of the Pari-Mutuel Commission and the Fiscal Committee of the General Court and is not intended to be and should not be used by anyone other than these specified parties.

Office Of Legislative Budget Assistant

Office Of Legislative Budget Assistant

April 7, 2006

Management Issues Comments

Observation No. 22: Effectiveness Of Capping Lab Fees Should Be Reviewed

Observation:

The tracks' utilization of an option to cap PMC lab fees provided by RSA 284:20-e results in the PMC not recovering the full cost of operation of the PMC lab. The PMC refers to the difference between the actual costs of laboratory tests and the amount recovered under the cap as a Legislative Credit.

According to statute, tracks must reimburse the PMC for lab testing of horse and dog urine specimens obtained from animals racing at the tracks. Per RSA 284:20-e, III(b), effective 1995, tracks could elect to have a cap placed on the reimbursement amounts if the track elected to retain an additional 1% from the exotic bet wagering pool, referred to as the exotic handle or commission. The cap on the lab testing charge would be the lower of the actual cost to perform the test or the amount collected and retained by the track as a result of the 1% increase in the commission. All but one track operating in the State selected the cap option. The cap provision in the statute, in effect, allowed the tracks to shift the cost of the drug testing directly to the wagering public.

During the nine months ended March 31, 2005, the PMC lab had performed tests on 9,400 samples and collected $123,000 in fees from tracks electing the capitation of lab costs. The PMC reports the actual cost to have the lab available and to perform these tests was $277,000. This under recovery of costs from these tracks during this period resulted in a $154,000 deficit in lab operations.

The under recovery of lab costs resulting from the cap appears to be a trend resulting in larger Legislative Credits as the amount recovered under the cap appears to be generally decreasing due to fewer live races being performed while many of the PMC lab costs remain fixed.

Recommendation:

The PMC should review the effects of the current operation of the cap and resulting Legislative Credit and determine whether the continued application of the cap is in the best interest of the PMC and the State. If the PMC determines the continued application of the cap does not continue to serve the needs of the PMC and the State, the PMC should request the statute be amended accordingly.

Regardless of the determination of whether the use of the Credit should continue, the PMC should review its cost allocation plan, including determination of costs of operating the lab and the number of tests performed, to ensure the lab continues to operate as efficiently and effectively as possible.

Auditee Response:

Agree.

The PMC supplies a quarterly report to the Fiscal Committee outlining laboratory operating costs. The Commission has revised this report to now show actual costs versus actual revenues generated.

The PMC shall continue to review its cost allocation plan, including determination of costs of operating the lab and the number of tests performed while continuing to protect the integrity of racing. The PMC will schedule a work session to discuss the fee cap and try to determine why the legislature placed such a cap on the fees. After coming to a determination, the PMC will discuss this matter with the executive branch leadership for guidance.

It is important to state the Commission will not compromise the integrity of the laboratory. To attempt to 'cut corners' to reduce costs or decrease the number of samples tested could lead to unintended consequences.

Observation No. 23: Continued Need For Calculator Positions Should Be Reviewed

Observation:

The PMC calculator positions appear to be vestigial and not significant to the current PMC operations.

The characteristic duties and responsibilities of the calculator include the following:

- Calculates dollar amounts due to the State and issues reports to ensure timely payment,
- Verifies the State's revenues for a given racing period to ensure correct amount,
- Logs race results, race pools and breakages and verifies that pool and breakage totals are consistent with computerized report totals,
- Calculates increases in carry-over pools and verifies amounts with officials to determine consistency,
- Schedules coverage of calculators during racing season, and
- Monitors computer printouts to determine fraudulent tickets.

Per discussions with PMC personnel, it is questionable whether having a PMC calculator located at each track is necessary to efficient PMC operations, as computer modernization has made many of the calculator's responsibilities redundant. PMC personnel suggested that auditor-type positions might be more beneficial to the current PMC operations.

From July 1, 2004 through March 31, 2005, the Pari-Mutuel Commission paid approximately $163,000 for salaries and benefits for six calculators. Two of the six calculators are part-time employees and do not receive benefits. The remaining four calculators are full-time temporary employees.

Recommendation:

The PMC should determine whether the calculator positions are obsolete under the current operating environment. If the PMC determines that the positions are obsolete, the PMC should start the process of eliminating these positions and transitioning to a more efficient operating structure.

Auditee Response:

Agree.

The PMC shall review the calculator positions under the current operating environment and decide whether they are obsolete or duties should be revamped.

Observation No. 24: Veterinarians Should Be Paid As State Employees/Officials And Not As Vendors

Observation:

The PMC is inconsistent in its payments to veterinarians hired to observe live racing events. Five veterinarians who regularly perform this service are paid as PMC employees/officials. Two veterinarians who perform this service on an irregular, on-call basis are paid as PMC vendors. The PMC pays the federal employment tax on the five veterinarians considered employees/officials but does not pay the federal employment taxes on the income paid to the two veterinarians paid as vendors. The employment taxes for all PMC veterinarians working at the tracks are recovered by the PMC from the tracks. The amounts collected on the behalf of the five considered employees/officials are paid to the federal government. The amounts collected by the PMC on behalf of the two veterinarians considered vendors are retained in the State's General Fund.

An annotation to RSA 284:20-c noting an Attorney General opinion remarks "State veterinarians are more properly considered state officials rather than state employees…." Regardless of whether the veterinarians are State officials or employees, the State is responsible for the proper handling, including reporting and payment, of federal employment taxes. Normally, this is accomplished by the State paying its employees and officials through the State's payroll system (GHRS). While the PMC reports that on-call veterinarians prefer to be paid as vendors and not paid through GHRS, it is not clear that doing so is in accordance with the business relationship between the PMC and the veterinarians or is in compliance with federal employment tax law.

Recommendation:

The PMC should pay the veterinarians as State employees/officials and not as vendors. Amounts paid to the veterinarians should be reported as employee compensation and employment taxes should be submitted to the federal government.

Auditee Response:

Agree in principle but not in practice.

While the PMC agrees with this observation, practice dictates that this is not practical. When racing was occurring 12 months a year it was easier to obtain veterinarian services on an 'employee' basis. With seasonal racing, it has been our experience that veterinarians do not wish to be placed on payrolls as employees, due to their own business practices. Veterinarians on a part time basis are almost impossible to hire. Therefore we are compelled to hire them on their terms.

Independent Auditor's Report

To The Fiscal Committee Of The General Court:

We have audited the accompanying financial statements of the governmental activities, business-type activities, and each major fund of the New Hampshire Pari-Mutuel Commission for the nine months ended March 31, 2005, as listed in the table of contents. These financial statements are the responsibility of the Pari-Mutuel Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 opinions.

As discussed in Note 1, the financial statements referred to above are not intended to present the financial position of the Pari-Mutuel Commission in the government-wide or fund financial statements.

As discussed in Note 1, the financial statements of the Pari-Mutuel Commission are intended to present certain financial activity of only that portion of the governmental activities of the State that is attributable to the transactions of the Pari-Mutuel Commission. They do not purport to, and do not, present fairly the financial position of the State of New Hampshire as of March 31, 2005 and the changes in its financial position for the nine months ended March 31, 2005 in conformity with accounting principles generally accepted in the United States of America.

In our opinion, except for the matter discussed in the third paragraph, the financial statements referred to above present fairly, in all material respects, certain financial activity of the governmental activities, business-type activities, and each major fund of the Pari-Mutuel Commission for the nine months ended March 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

The Commission has not presented the management discussion and analysis that the Government Accounting Standards Board has deemed necessary to supplement, although not required to be part of, the basic financial statements.

The Budget To Actual (Non-GAAP Budgetary Basis) Schedule on page 46 is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards,* we have also issued a report dated April 7, 2006 on our consideration of the Pari-Mutuel Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, grant agreements, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Office Of Legislative Budget Assistant
Office Of Legislative Budget Assistant

April 7, 2006

STATE OF NEW HAMPSHIRE
PARI-MUTUEL COMMISSION

STATEMENT OF ACTIVITIES
FOR THE NINE MONTHS ENDED MARCH 31, 2005

		Program Revenues	Net (Expenses) Revenues And Changes In Net Assets		
	Expenses	Charges For Services	Governmental Activities	Business-Type Activities	Total
Governmental Activities					
Pari-Mutuel Commission	$ 1,690,458	$ 352,781	$ (1,337,677)		$ (1,337,677)
Total Governmental Activities	**1,690,458**	**352,781**	**(1,337,677)**		**(1,337,677)**
Business-Type Activities					
Bingo / Lucky 7	78,026	45,299		$ (32,727)	(32,727)
Total Business-Type Activities	**78,026**	**45,299**		**(32,727)**	**(32,727)**
Total Pari-Mutuel Commission	**$ 1,768,484**	**$ 398,080**	**$ (1,337,677)**	**$ (32,727)**	**$ (1,370,404)**
Thoroughbred/Harness Taxes And Breakage			1,885,025	-0-	1,885,025
Greyhound Taxes And Breakage			955,546	-0-	955,546
Unclaimed Tickets			936,764	-0-	936,764
Lucky 7 Fees			-0-	297,105	297,105
Bingo Tax			-0-	249,913	249,913
Interest Income			-0-	1,181	1,181
Transfer To Education Trust Fund			-0-	(155,000)	(155,000)
Net Appropriations			2,410,639	202,626	2,613,265
Total General Revenues And Transfers			**6,187,974**	**595,825**	**6,783,799**
Changes In Net Assets			**$ 4,850,297**	**$ 563,098**	**$ 5,413,395**

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

STATE OF NEW HAMPSHIRE
PARI-MUTUEL COMMISSION

STATEMENT OF REVENUES AND EXPENDITURES
GOVERNMENTAL FUNDS
FOR THE NINE MONTHS ENDED MARCH 31, 2005

	GENERAL FUND
REVENUES	
Unrestricted Revenue:	
Thoroughbred/Harness Taxes And Breakage	$ 1,885,025
Greyhound Taxes And Breakage	955,546
Unclaimed Tickets	936,764
Other	37,912
Total Unrestricted Revenue	3,815,247
Restricted Revenue:	
Salaries And Lab Reimbursements	314,869
Total Restricted Revenue	314,869
Total Revenues	**4,130,116**
EXPENDITURES	
Salaries And Benefits	1,263,453
Breakage Reimbursement	206,495
Current Expenses	47,567
Equipment	45,738
Rent	43,241
Travel	28,029
Membership Dues	13,025
Unclaimed Tickets	9,494
Other	5,890
Total Expenditures	**1,662,932**
Excess (Deficiency) Of Revenues Over (Under) Expenditures	**2,467,184**
Other Financing Sources (Uses)	
Net Appropriations	2,410,639
Total Other Financing Sources (Uses)	**2,410,639**
Excess (Deficiency) Of Revenues And Other Financing Sources Over (Under) Expenditures And Other Financing Uses	**$ 4,877,823**

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

STATE OF NEW HAMPSHIRE
PARI-MUTUEL COMMISSION

RECONCILIATION OF THE STATEMENT OF REVENUES AND EXPENDITURES-GOVERNMENTAL FUNDS-TO THE STATEMENT OF ACTIVITIES
FOR THE NINE MONTHS ENDED MARCH 31, 2005

Excess (Deficiency) Of Revenues And Other Financing Sources Over (Under) Expenditures And Other Financing Uses	$ 4,877,823
Amounts Reported For Governmental Activities In The Statement Of Activities Are Different Because (See Note 1-C.):	
Some Expenses Reported In The Statement Of Activities Do Not Require The Use Of Current Financial Resources And Therefore Are Not Reported As Expenditures In The Governmental Funds:	
Changes in Compensated Absences	(20,255)
Governmental Funds Report Capital Outlays As Expenditures. However, In The Statement Of Activities, The Cost Of Those Assets Is Allocated Over Their Estimated Useful Lives As Depreciation Expense. This Is The Amount By Which Depreciation Exceeded Capital Outlays In The Current Period	(7,271)
Change In Net Assets Of Governmental Activities	$ 4,850,297

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

STATE OF NEW HAMPSHIRE
PARI-MUTUEL COMMISSION

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS–ENTERPRISE FUNDS FOR THE NINE MONTHS ENDED MARCH 31, 2005

	LOTTERY FUND
OPERATING REVENUES	
Lucky 7 Deal And Bag Fees	$ 297,105
Bingo Tax	249,913
Other	45,299
Total Operating Revenues	592,317
OPERATING EXPENSES	
Bingo/Lucky 7	78,026
Total Operating Expenses	78,026
Operating Income	**514,291**
NONOPERATING REVENUES (EXPENSES)	
Interest Income	1,181
Total Nonoperating Revenues (Expenses)	1,181
Income Before Transfers	**515,472**
Transfers To Education Trust Fund	(155,000)
Change In Net Assets	**$ 360,472**

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

STATE OF NEW HAMPSHIRE
PARI-MUTUEL COMMISSION

STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
FOR THE NINE MONTHS ENDED MARCH 31, 2005

	LOTTERY FUND
Cash Flows From Operating Activities	
Receipts From Customers	$ 470,309
Payments To Employees	(24,142)
Payments To Suppliers	(23,483)
Net Cash Provided (Used) By Operating Activities	422,684
Cash Flows From Noncapital Financing Activities	
Transfers To Education Trust Fund	(155,000)
Net Cash Used For Noncapital Financing Activities	(155,000)
Cash Flows From Investing Activities	
Interest Income	763
Net Cash Provided By Investing Activities	763
Cash And Cash Equivalents July 1, 2004	-0-
Cash And Cash Equivalents March 31, 2005	$ 268,447
Reconciliation Of Operating Income To Net Cash Provided (Used) By Operating Activities	
Operating Income	$ 514,291
Adjustments To Reconcile Operating Income To Net Cash Provided (Used) By Operating Activities:	
Increase In Salary Payable	16,876
Increase In Other Accounts Payable	11,216
Depreciation Expense	2,309
(Increase) In Accounts Receivable	(122,008)
Net Cash Provided By Operating Activities	$ 422,684

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

STATE OF NEW HAMPSHIRE
PARI-MUTUEL COMMISSION

NOTES TO THE FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED MARCH 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Pari-Mutuel Commission have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and as prescribed by the Governmental Accounting Standards Board (GASB), which is the primary standard-setting body for establishing governmental accounting and financial reporting principles.

A. Financial Reporting Entity

The Pari-Mutuel Commission is an organization of the primary government of the State of New Hampshire. The accompanying financial statements report the financial activity of the Commission.

The financial activity of the Pari-Mutuel Commission is accounted for and reported in the State's General Fund and the Lottery Fund in 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 Pari-Mutuel Commission, as a department of the primary government, accounts for only a small portion of the General Fund and Lottery Fund and those assets, liabilities, and fund balances as reported in the CAFR that are attributable to the Pari-Mutuel Commission cannot be determined. Accordingly, the accompanying financial statements are not intended to show the financial position, change in fund balances, or change in financial position of the Pari-Mutuel Commission in the General Fund and the Lottery Fund.

B. Government-Wide And Fund Financial Statements

Government-Wide Financial Statements

The Statement of Activities reports information on the financial activities of the Pari-Mutuel Commission. Governmental activities are distinguished between governmental and business-type activities. Governmental activities are normally supported through taxes and intergovernmental revenues. Business-type activities rely, to a significant extent, on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not meeting the definition of program revenues, including resources that are dedicated internally, are reported as general revenues. Certain indirect costs are included in program expenses reported for individual functions.

Fund Financial Statements

Separate financial statements are provided for governmental funds and proprietary funds. Both funds are included in the government-wide financial statement.

C. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay the liabilities of the current period. For this purpose, the State generally considers non-grant revenues to be available if they are collected within 60 days of the end of the current fiscal period. Grant revenues that the State earns by incurring obligations are recognized in the same period the obligations are recognized. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to debt service, compensated absences, and claims and judgments are recorded only when payment is due.

Proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above. In reporting proprietary activities, the Pari-Mutuel Commission only applies applicable Government Accounting Standards Board (GASB) pronouncements as well as the following pronouncements issued on or before November 30, 1989, for its business-type activities and enterprise funds, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

D. Financial Statement Presentation

The State of New Hampshire and the Pari-Mutuel Commission use funds to report on their financial position and the results of their 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. The Pari-Mutuel Commission reports its financial activity in the funds described below:

Governmental Fund Type:

General Fund: The General Fund accounts for all financial transactions not specifically accounted for in any other fund.

Proprietary Fund Type - Enterprise Fund:

Lottery Fund: The Lottery Fund accounts for all financial transactions related to the operations of the State's lottery and Bingo and Lucky 7 games. Bingo and Lucky 7 games came under the administrative control of the Pari-Mutuel Commission on January 1, 2005. The Lottery Fund financial statements in this report present the financial activity of Bingo and Lucky 7 administered by the Pari-Mutuel Commission during the period January 1, 2005 through the end of the reporting period, March 31, 2005. Prior to January 2005, the New Hampshire Lottery Commission administered Bingo and Lucky 7.

E. Cash And Cash Equivalents

The PMC's cash and cash equivalents at March 31, 2005 as reported on the Statement of Cash Flows consist of deposits with the State Treasurer.

F. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported by the State in its CAFR in its government-wide financial statements. Such assets, whether purchased or constructed, are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair value at the date of donation. The Pari-Mutuel Commission's capital assets are reported in Note 2.

Equipment is capitalized when the cost of the individual items exceeds $10,000 and all other capital assets are capitalized when the cost of individual items or projects exceeds $100,000. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation expense is recognized in the government-wide financial statements. Capital assets are depreciated using the straight-line method over the following useful lives:

Equipment	5 years
Computer Software	5 years
Building Improvements	20 years
Buildings	40 years
Infrastructure	50 years

G. Compensated Absences

All full-time State employees in classified service earn annual and sick leave. At the end of each fiscal year, additional leave (bonus days) may be awarded based on the amount of sick leave taken during the year. Accrued compensatory time, earned for overtime worked, must be taken within one year.

The Pari-Mutuel Commission's compensated absences liability represents the total liability for the cumulative balance of employees' annual, bonus, compensatory, and sick leave based on the years of service rendered along with the Commission's share of social security and retirement contributions. The current portion of the leave liability is calculated based on the characteristics of the type of leave and on a LIFO (last in first out) basis, which assumes employees use their most recent earned leave first. The accrued liability for annual leave does not exceed the maximum cumulative balance allowed which ranges from 32 to 50 days based on years of service. The accrual for sick leave is made to the extent it is probable that the benefits will result in termination payments rather than be taken as absences due to illness. The liability/expense for compensated absences is recorded in the government-wide and proprietary fund financial statements.

In the governmental fund financial statements, liabilities/expenditures for compensated absences are accrued when they are "due and payable" and recorded in the fund only for employee resignations and retirements that occur before year-end and were paid out after year-end.

H. Revenues And Expenditures/Expenses

In the government-wide Statement of Activities, revenues and expenses are listed by activity type (governmental or business-type). Additionally, revenues are classified between program and general revenues. The Pari-Mutuel Commission's program revenues include charges for services provided. In general, resources not dedicated to a program, as well as resources that are internally dedicated, are reported as general revenues rather than program revenues. The general revenues reported on the Commission's Statement of Activities include net appropriations and unrestricted revenues. These unrestricted revenues are collected by the Commission but are not dedicated for use by the Commission.

In the governmental fund financial statement, revenues are reported by source and expenditures are reported by type. For budgetary control purposes, revenues are further classified as either "general purpose" or "restricted". General-purpose revenues are available to fund any activity accounted for in the fund. Restricted revenues are, either by State law or by outside restriction, available for only specified purposes. When both general purpose and restricted funds are available for use, it is the State's policy to use restricted resources first.

In the enterprise fund financial statement, operating revenues represent the licensing fees and taxes for the Bingo and Lucky 7 games; and nonoperating revenue represents revenue from interest income received from the State Treasury Department.

Other Financing Sources – these additions to governmental resources in the fund financial statements result from financing provided by net appropriations.

I. Interfund And Intra-Agency Transactions

As a general rule, the effect of interfund and intra-agency activity is eliminated from the government-wide statements, with the exception of activities between funds that are reported in different functional categories of governmental activities. Elimination of these activities would distort the direct costs and program revenues for the functions concerned.

J. Budget Control And Reporting

General Budget Policies

The statutes of the State of New Hampshire require the Governor to submit a biennial budget to the Legislature for adoption. This budget, which includes a separate budget for each year of the biennium, consists of three parts: Part I is the Governor's program for meeting all expenditure needs and estimating revenues. There is no constitutional or statutory requirement that the Governor propose, or that the Legislature adopt, a budget that does not resort to borrowing. Part II is a detailed breakdown of 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 operating budget for State agencies, including the Pari-Mutuel Commission, is prepared principally on a modified cash basis and adopted for the governmental and proprietary fund types with the exception of the Capital Projects Fund. The Capital Projects Fund budget represents individual projects that extend over several fiscal years. Since the Capital Projects Fund comprises appropriations for multi-year projects, it is not included in the budget and actual comparison schedule of the State of New Hampshire's CAFR.

In addition to the enacted biennial operating budget, the Governor may submit to the Legislature supplemental budget requests to meet expenditures during the current biennium. Appropriation transfers can be made within a department without the approval of the Legislature; therefore, the legal level of budgetary control is at the department level.

Both the Executive and Legislative Branches of government maintain additional fiscal control procedures. The Executive Branch, represented by the Commissioner of the Department of Administrative Services, is directed to continually monitor the State's financial operations, needs, and resources, and to maintain an integrated financial accounting system. The Legislative Branch, represented by the Joint Legislative Fiscal Committee, the Joint Legislative Capital Budget Overview Committee, and the Office of Legislative Budget Assistant, monitors compliance with the budget and the effectiveness of budgeted programs.

Unexpended balances of appropriations at year-end will lapse to undesignated fund balance and be available for future appropriations unless they have been encumbered or legally defined as non-lapsing, which means the balances are reported as reservation of fund balance. The balance of unexpended encumbrances is brought forward into the next fiscal year. Capital Projects Fund unencumbered appropriations lapse in two years unless extended or designated as non-lapsing by law.

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 Pari-Mutuel Commission's General Fund unliquidated encumbrance balance at March 31, 2005 was $46,872.

A Budget To Actual (Non-GAAP Budgetary Basis) Schedule - General Fund is included as required supplemental information.

NOTE 2 - CAPITAL ASSETS AND OTHER EQUIPMENT

In addition to capital assets, the Pari-Mutuel Commission also accounts for equipment and other assets with an original cost between $100 and $10,000. While only capital assets are reported on the Commission's financial statements, State policies require departments to inventory all assets with an original cost of $100 or more and a useful life of greater than one year for accountability purposes.

Capital asset and other equipment activity for the nine months ended March 31, 2005 was as follows.

	Balance July 1, 2004	Additions	Deletions	Balance March 31, 2005
Capital Assets Being Depreciated:				
Capital Equipment	$ 321,932	$ -0-	$ 11,517	$ 310,415
Total Capital Assets	**321,932**	**-0-**	**11,517**	**310,415**
Less Accumulated Depreciation For:				
Capital Equipment	273,412	21,097	11,517	282,992
Total Accumulated Depreciation	**273,412**	**21,097**	**11,517**	**282,992**
Capital Assets, Net	**48,520**	**(21,097)**	**-0-**	**27,423**
Equipment With Original Cost				
Between $100 And $10,000	206,834	13,776	20,326	200,284
Net Capital Assets And Other Equipment	**$ 255,354**	**$ (7,321)**	**$ 20,326**	**$ 227,707**

NOTE 3 - EMPLOYEE BENEFIT PLANS

New Hampshire Retirement System

The Commission, as an organization of the State government, participates in the New Hampshire Retirement System (Plan). The Plan is a contributory defined-benefit plan and covers substantially all full-time employees of the Commission. The Plan qualifies as a tax-exempt organization under Sections 401 (a) and 501 (a) of the Internal Revenue Code. RSA 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 State and local employees and teachers. Group II consists of firefighters and police officers. All assets are in a single trust and are available to pay retirement benefits to all members.

Group I members at age 60 qualify for a normal service retirement allowance based on years of creditable service and average final compensation (AFC). The yearly pension amount is 1/60 (1.67%) of 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 ten or more years of creditable service who are between ages 50 and 60 or members in service with at least 20 or more years of service, whose combination of age and service is 70 or more, are entitled to a retirement allowance with appropriate graduated reduction based on years of creditable service.

Group II members who are age 60, or members who are at least age 45 with at least 20 years of creditable service can receive a retirement allowance at a rate of 2.5% of AFC for each year of creditable service, not to exceed 40 years.

All covered Pari-Mutuel Commission employees are members of either Group I or Group II.

Members of both groups may qualify for vested deferred allowances, disability allowances, and death benefit allowances subject to meeting various eligibility requirements. Benefits are based on AFC or earnable compensation, service, or both.

The Plan is financed by contributions from the members, the State and local employers, and investment earnings. During the nine months ended March 31, 2005, 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 Commission's employees enrolled in the Plan. The annual contribution required to cover any normal cost beyond the employee contribution is determined every two years based on the Plan's actuary.

The Pari-Mutuel Commission's payments for normal contribution costs for the nine months ended March 31, 2005 amounted to 5.90% of the covered payroll for its Group I employees and 12.11% of the covered payroll for its Group II employees. The Commission's normal contributions for the nine months ended March 31, 2005 were $38,051.

A special account was established by RSA 100-A:16, II (h) for additional benefits. The account is credited with all the earnings of the account assets in the account plus the earnings of the remaining assets of the plan in excess of the assumed rate of return plus ½ of 1%.

The New Hampshire Retirement System issues a publicly available financial report that may be obtained by writing to them at 54 Regional Drive, Concord, NH 03301-8507 or from their web site at http://www.nh.gov/retirement.

Post-Employment Health Care Benefits

In addition to providing pension benefits, RSA 21-I:30 specifies that the State provide certain health care benefits for retired employees and their spouses within the limits of the funds appropriated at each legislative session. These benefits include group hospitalization, hospital medical care, and surgical care. Substantially all of the State's employees who were hired on or before June 30, 2003 may become eligible for these benefits if they reach normal retirement age while working for the State and receive their pensions on a periodic basis rather than a lump sum. During fiscal year 2004, legislation was passed that requires State Group I employees hired after July 1, 2003 to have 20 years of State service in order to qualify for health insurance benefits. These and similar benefits for active employees are authorized by RSA 21-I:30 and are provided through the Employee Benefit Risk Management Fund, which is the State's self-insurance fund implemented in October 2003 for active State employees and retirees. The State recognizes the cost of providing these benefits on a pay-as-you-go basis by paying actuarially determined insurance contributions into the fund. The New Hampshire Retirement System's medical premium subsidy program for Group I and Group II employees also contributes to the fund.

The cost of the health benefits for the Commission's retired employees and spouses is a budgeted amount paid from an appropriation made to the administrative organization of the New Hampshire Retirement System. Accordingly, the cost of health benefits for retired Pari-Mutuel Commission employees and spouses is not included in the Commission's financial statements.

STATE OF NEW HAMPSHIRE
PARI-MUTUEL COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION

BUDGET TO ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
GENERAL FUND
FOR THE NINE MONTHS ENDED MARCH 31, 2005

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final	(Budgetary Basis)	Positive (Negative)
REVENUES				
Unrestricted Revenue:				
Thoroughbred/Harness Taxes And Breakage	$ 1,746,500	$ 1,746,500	$ 1,679,797	$ (66,703)
Greyhound Taxes And Breakage	1,726,000	1,726,000	910,277	(815,723)
Unclaimed Tickets	800,000	800,000	936,764	136,764
Other	77,600	77,600	37,912	(39,688)
Total Unrestricted Revenue	4,350,100	4,350,100	3,564,750	(785,350)
Restricted Revenue:				
Racing Laboratory	354,375	354,375	117,184	(237,191)
Salaries Reimbursements	281,187	281,187	175,403	(105,784)
Total Restricted Revenue	635,562	635,562	292,587	(342,975)
Total Revenues	**4,985,662**	**4,985,662**	**3,857,337**	**(1,128,325)**
EXPENDITURES				
Pari-Mutuel Commission	2,290,628	2,290,628	1,468,016	822,612
Unemployment And Workers' Compensation	8,377	8,377	4,369	4,008
Total Expenditures	**2,299,005**	**2,299,005**	**1,472,385**	**826,620**
Excess (Deficiency) Of Revenues Over (Under) Expenditures	**$ 2,686,657**	**$ 2,686,657**	**$ 2,384,952**	**$ (301,705)**

See accompanying Independent Auditor’s Report. The accompanying note is an integral part of this schedule.

Note To The Required Supplementary Information–Budgetary Reporting
For The Nine Months Ended March 31, 2005

The Pari-Mutuel Commission's biennial budget is prepared principally on a modified cash basis and adopted for governmental and proprietary funds. The "actual" results column of the Budget To Actual Schedule is presented on a "budgetary basis" to provide a meaningful comparison to budget.

The budget is composed of the initial operating budget, 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. For reporting purposes, the original budget is equal to the initial operating budget plus any balances brought forward, additional appropriations, and other legally authorized legislative and executive changes made before the beginning of the fiscal year. The final budgeted amount includes the original budget plus supplemental appropriation warrants and transfers made throughout the fiscal year.

The variance column on the Budget To Actual Schedule highlights differences between the final budget and actual revenue and expenditures. For revenue, a favorable variance is caused by actual revenue exceeding budget. For expenditures, a favorable variance results from actual expenditures being less than the amount budgeted for the fiscal year. For interim period financial statements, the variance is largely due to comparison of an annual budget with actual financial activity of a partial year.

Budgetary vs GAAP basis

Because the budget is prepared on a budgetary basis and not in accordance with generally accepted accounting principles (GAAP), there are differences in the revenue and expenditure amounts reported in the Statement of Revenues and Expenditures and the Budget To Actual Schedule. The major differences between the budgetary basis and the GAAP basis are:

1. Expenditures are recorded when cash is paid or committed (Budgetary), rather than when the obligation is incurred (GAAP). Revenues (Budgetary) are based on cash received plus estimated revenues related to budgetary expenditures and contractual obligations (encumbrances). Additional revenue accruals are made on a GAAP basis only.
2. On a GAAP basis, major intra-agency transactions are eliminated in order to not double count revenues and expenditures reported in the Pari-Mutuel Commission's financial statements.

The following schedule reconciles the differences between budgetary accounting methods and the GAAP basis accounting principles for the nine months ended March 31, 2005.

RECONCILIATION OF BUDGETARY TO GAAP

For The Nine Months Ended March 31, 2005

Excess (Deficiency) Of Revenues	
Over (Under) Expenditures (Budgetary Basis)	**$ 2,384,952**
Adjustments And Reclassifications:	
To Record The Effects Of Encumbrances	40,266
To Record Net Accounts Receivable	41,966
Net Adjustments	82,232
Excess (Deficiency) Of Revenues	
Over (Under) Expenditures (GAAP)	**$ 2,467,184**

APPENDIX
CURRENT STATUS OF PRIOR AUDIT FINDINGS

The following is a summary, as of April 7, 2006, of the current status of the observations contained in the audit report of the Pari-Mutuel Commission for the fiscal year ended June 30, 1995. A copy of the prior report can be obtained from the Office of Legislative Budget Assistant, Audit Division, 107 North Main Street, State House Room 102, Concord, NH 03301-4906.

	Status
Internal Control Comments	
Material Weakness	
1. Accounting For Salary Reimbursements	● ● ●
Reportable Conditions	
2. Daily Receipts Collected By The PMC Employees Stationed At The Tracks	● ● ●
3. Segregation Of Duties *(See Current Observation Nos. 13 and 14)*	○ ○ ○
4. Charges To Incorrect Accounting Codes *(See Current Observation Nos. 17 and 18)*	○ ○ ○
5. Equipment Recordkeeping *(See Current Observation No. 7)*	● ● ○
State Compliance Comments	
6. Revised Statutes Annotated (RSA) – Outdated Sections Affecting The PMC	● ● ●
7. Rules Relative To Harness Racing	● ● ●
8. Filing Of Statements Of Financial Interest *(See Current Observation No. 21)*	○ ○ ○
Management Issues Comments	
9. Automation Of Procedures	● ● ●
10. Compensation Paid To The PMC Employees	● ● ●
11. Timing Of Remittance Of Tax And Breakage *(See Current Observation No. 11)*	● ● ○
12. Employment Classification Of State Veterinarians *(See Current Observation No. 24)*	○ ○ ○

Status Key		Count
Fully Resolved	● ● ●	6
Substantially Resolved	● ● ○	2
Partially Resolved	● ○ ○	0
Unresolved	○ ○ ○	4
		12

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