

# **COMPLIANCE AND CONTROL AUDIT REPORT**

**Racing Commission**

**A Report to the Legislative Post Audit Committee  
By the Legislative Division of Post Audit  
State of Kansas  
November 1993**

# **Legislative Post Audit Committee**

## **Legislative Division of Post Audit**

The Legislative Post Audit Committee and its audit agency, the Legislative Division of Post Audit, are the audit arm of Kansas government. The programs and activities of State government now cost about \$6 billion a year. As legislators and administrators try increasingly to allocate tax dollars effectively and make government work more efficiently, they need information to evaluate the work of government agencies. The audit work performed by Legislative Post Audit helps provide that information.

We conduct our audit work in accordance with applicable government auditing standards set forth by the U. S. General Accounting Office. These standards pertain to the auditor's professional qualifications, the quality of the audit work, and the characteristics of professional and meaningful reports. These audit standards have been endorsed by the American Institute of Certified Public Accountants and adopted by the Legislative Post Audit Committee.

The Legislative Post Audit Committee is a bipartisan committee comprising five senators and five representatives. Of the Senate members, three are appointed by the President of the Senate and two are appointed by the Senate Minority Leader. Of the representatives, three are appointed by the Speaker of the House and two are appointed by the House Minority Leader.

As part of its audit responsibilities, the Division is charged with meeting the requirements of the Legislative Post Audit Act which address audits of financial matters. Those requirements call for two major types of audit work.

First, the Act requires an annual audit of the State's financial statements. Those statements, prepared by the Department of Administration's Division of Accounts and Reports, are audited by a certified public accounting firm under contract with the Legislative Division of Post Audit. The firm is selected by the Contract Audit Committee, which comprises three

members of the Legislative Post Audit Committee (including the Chairman and Vice-Chairman), the Secretary of Administration, and the Legislative Post Auditor. This audit work also meets the State's audit responsibilities under the federal Single Audit Act of 1984.

Second, the Act provides for a regular audit presence in every State agency by requiring that audit work be conducted at each agency at least once every three years. Audit work done in addition to the annual financial statement audit focuses on compliance with legal and procedural requirements and on the adequacy of the audited agency's internal control procedures in areas not covered by the annual audit. These compliance and control audits are conducted by the Division's staff under the direction of the Legislative Post Audit Committee.

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# **COMPLIANCE AND CONTROL AUDIT REPORT**

## **RACING COMMISSION**

### **OBTAINING AUDIT INFORMATION**

This audit was conducted by Randy Tongier, Financial-Compliance Audit Manager, and Roy Fitzpatrick, Auditor, of the Division's staff. If you need any additional information about the audit's findings, please contact Mr. Tongier at the Division's offices.

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## RACING COMMISSION

### Summary of Legislative Post Audit's Findings

Legislative Post Audit conducted compliance and control audit work at the Racing Commission in partial fulfillment of the Legislative Post Audit Act's requirement that audit work be conducted at each State agency at least once every three years. This compliance and control audit addressed the areas of revenues, expenditures, State property, and agency purchases exempted from normal purchasing requirements. The audit also followed up on prior audit findings and recommendations. The period covered by this audit was fiscal year 1992.

**Did the Racing Commission adequately manage its revenues and comply with applicable State requirements?** The Racing Commission did not adequately manage its revenues. It does not have an adequate system of recordkeeping for parimutuel taxes received from the race tracks. As a result, we could not tell if the Commission had collected all the moneys that it should have. In addition, the Commission had not put its revenue procedures in writing, which increases the risk that receipts will not be handled properly. Finally, we found several instances of noncompliance with State requirements for timely deposit of moneys and proper use of local bank accounts.

**Did the Racing Commission adequately manage its expenditures and comply with applicable State requirements?** With a few exceptions, the Racing Commission managed its expenditures adequately and complied with applicable State requirements. The Commission had not put its expenditure procedures in writing, which increases the risk that expenditures will not be handled properly. In fact, we found several instances where payments were made without sufficient authorizations and approvals. Finally, the Commission did not comply with all State requirements for handling its imprest funds.

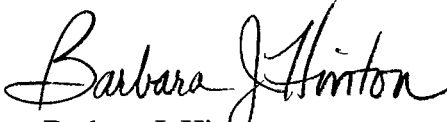
**Did the Racing Commission adequately manage its property and comply with applicable State requirements?** The Commission did not follow adequate property management procedures, nor did it comply with applicable State requirements. In particular, the Commission had not performed an annual physical inspection of its State property since it began operations in 1989. Such an inspection is not only necessary for adequate management of State property, but also required by the Division of Accounts and Reports.

**Was the exemption of certain agency purchases from normal purchasing requirements reasonable?** The Commission made 12 purchases that were exempted from normal purchasing requirements. In each case, the exemption was reasonable.

The previous audit report recommended that the Commission require the race tracks to provide more detail in their reports of taxes collected and remitted. That recommendation had been partially implemented. The current audit recommendations address the remaining concerns in this area.

The report recommends that the Racing Commission establish an adequate system of recordkeeping for revenues, formalize its receipt, expenditure, and property procedures, and put those procedures in writing. In addition, the Commission should require its auditors at the tracks to document their work, and ensure compliance with State requirements for timely deposit of receipts and use of local bank accounts. The Commission also should reimburse and reconcile its imprest fund on a timely basis, adhere to State requirements for reimbursing the imprest fund for travel advances, and review the need for its petty cash funds. Finally, the Commission should perform an immediate inspection of State property, correct its property list, ensure that all items have property numbers, and conduct annual property inspections in the future.

We would be happy to discuss these recommendations or any other items in the report with legislative committees, individual legislators, or other State officials.

  
Barbara J. Hinton  
Legislative Post Auditor

## RACING COMMISSION

The Legislative Post Audit Act requires that audit work be conducted at each State agency at least once every three years. In partial fulfillment of that requirement, the Legislative Division of Post Audit has conducted compliance and control audit work at the Racing Commission covering fiscal year 1992.

Compliance and control audits identify noncompliance with applicable requirements and poor financial management practices. Although the resulting audit findings usually do not result in significant program improvements or cost savings, they often identify needed improvements that can help minimize the risk of potential future loss or misuse of State resources.

To avoid duplication of audit work conducted as part of the statutorily required audit of the State's financial statements, our audit work generally focused on areas not covered by that audit. These areas included revenues, expenditures, State property, which includes capital outlay items such as office equipment and furniture, and agency purchases exempted from normal purchasing requirements. In addition, we followed up on any prior audit findings and recommendations. This audit addresses the following specific questions:

- 1. Did the Racing Commission adequately manage its revenues and comply with applicable State requirements?**
- 2. Did the Racing Commission adequately manage its expenditures and comply with applicable State requirements?**
- 3. Did the Racing Commission adequately manage its property and comply with applicable State requirements?**
- 4. Was the exemption of certain agency purchases from normal purchasing requirements reasonable?**

To answer the first three questions, we identified applicable State requirements by reviewing relevant statutes, administrative regulations, and sections of the Division of Accounts and Reports' Policy and Procedure Manual. We also interviewed agency personnel, reviewed written procedures, and examined related documents to identify the agencies' procedures. We then compared those procedures with the applicable requirements. In addition, we assessed the potential for loss or misuse, and the level of control provided by the Commission's procedures in preventing and detecting loss or misuse. Finally, we reviewed accounting records, and tested a sample of transactions.

To answer the last question, we reviewed statutes, regulations, and guidelines to identify the types of purchases that qualify for exemption from normal purchasing requirements. We then identified Commission purchases during the audit period that were exempted from those requirements. By reviewing supporting documents and interviewing appropriate personnel, we determined whether the exemption was reasonable.

In conducting this audit work, we followed all applicable generally accepted government auditing standards set forth by the U. S. General Accounting Office.

In general, we found that the Racing Commission did not adequately manage its revenues. It does not have an adequate system of recordkeeping for parimutuel taxes received from the race tracks. As a result, we could not tell if the Commission had collected all the moneys that it should have. In addition, the Commission had not put its revenue procedures in writing, which increases the risk that receipts will not be handled properly. Finally, we found several instances of noncompliance with State requirements for timely deposit of moneys and proper use of local bank accounts.

With a few exceptions, the Racing Commission managed its expenditures adequately and complied with applicable State requirements. The Commission had not put its expenditure procedures in writing, which increases the risk that expenditures will not be handled properly. In fact, we found several instances where payments were made without sufficient authorizations and approvals. Finally, the Commission did not comply with all State requirements for handling its imprest funds.

The Commission did not follow adequate property management procedures, nor did it comply with applicable State requirements. In particular, the Commission had not performed an annual physical inspection of its State property since it began operations in 1989. Such an inspection is not only necessary for adequate management of State property, but also required by the Division of Accounts and Reports.

The Commission made 12 purchases that were exempted from normal purchasing requirements. In each case, the exemption was reasonable.

The previous audit report recommended that the Commission require the race tracks to provide more detail in their reports of taxes collected and remitted. That recommendation had been partially implemented. The current audit recommendations address the remaining concerns in this area.

These findings are described following a background section of the Racing Commission.



## **Background on the Racing Commission**

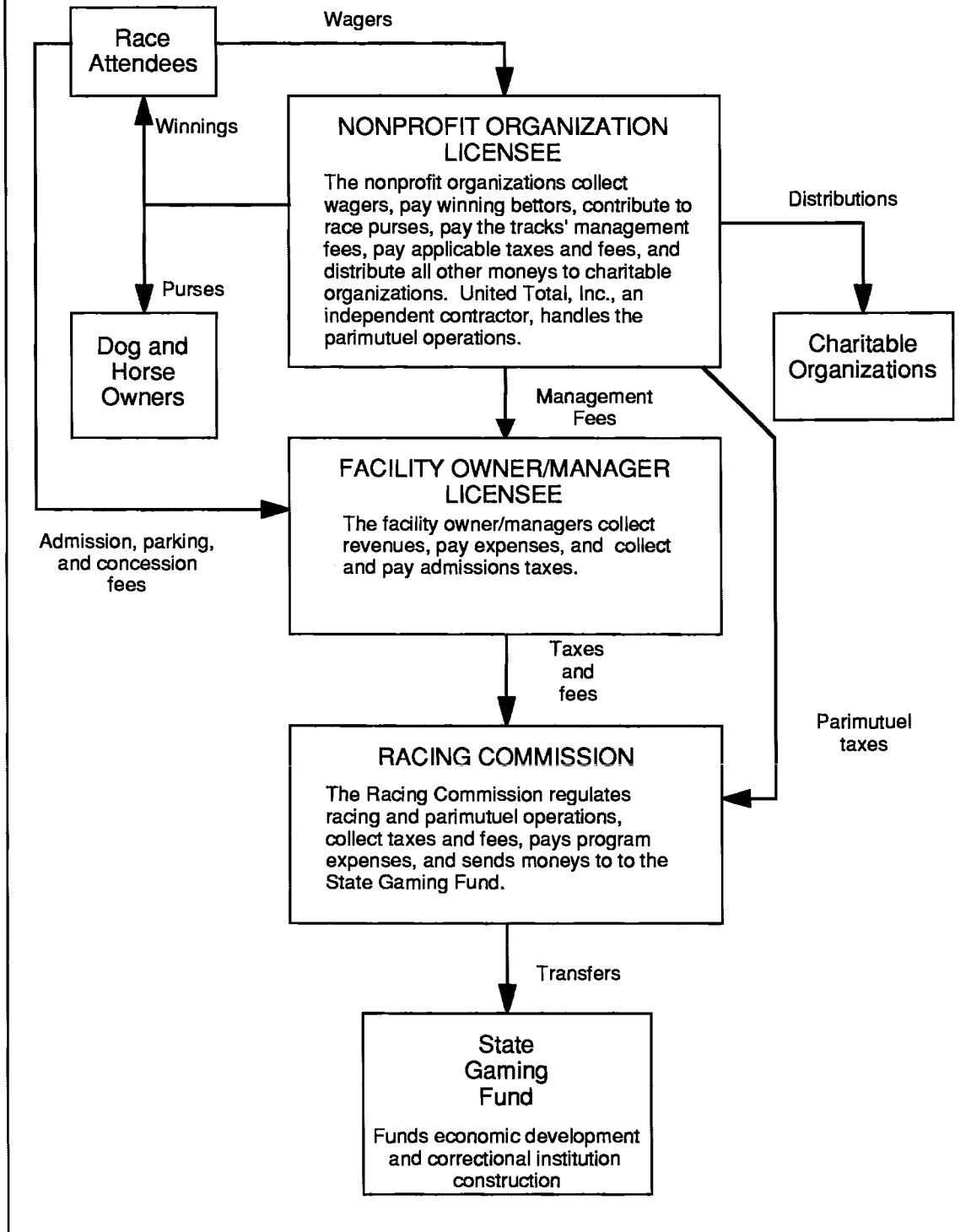
The Racing Commission comprises five members appointed by the Governor and confirmed by the Senate. The Commission appoints an Executive Director who administers the day-to-day operations of the Agency. The appointment of the Executive Director also is subject to confirmation by the Senate. The Commission's primary mission is the regulation of racing and parimutuel operations in Kansas. The Commission also promotes the development of the horse and dog industries, and ensures the health and safety of animals involved in racing.

The State of Kansas currently has two operating race tracks with parimutuel wagering—one in Kansas City and one in Wichita. The Kansas City track has both horse and dog racing, while the Wichita track has only dog racing. By law, each track operation comprises a nonprofit organization licensed to operate racing and parimutuel wagering, and a facility owner/manager licensed to own and operate the track facility itself. The nonprofit organization collects wagers, and from those moneys it pays winning bettors, contributes to race purses, pays management fees to the facility owner/manager, pays applicable taxes to the Racing Commission, pays its own operating expenses, and distributes all remaining moneys to charitable organizations as specified by statutory requirements.

Besides receiving management fees, the facility owner/manager collects admission, parking, and concession revenues. These moneys are used to pay operating expenses, as well as taxes and fees to the Racing Commission. The actual parimutuel wagering process at the tracks is operated by United Total, Inc., an independent contractor. The figure on the following page shows how race track finances generally work.

Operations of the Racing Commission are funded by a portion of the admission and parimutuel taxes and license fees. The Legislature sets the amount the Agency can spend for operating expenses, and the balance of the receipts is transferred to the State Gaming Fund. During fiscal year 1992, \$7.1 million of the Racing Commission receipts were transferred to the State Gaming Fund. According to the Governor's Budget Report, the Commission's fiscal year 1992 operating expenditures totaled \$2.6 million, about \$1.4 million of which (57 percent of the total) was for salaries and wages.

## RACING AND PARIMUTUEL FINANCES



## **Did the Racing Commission Adequately Manage Its Revenues and Comply with Applicable State Requirements?**

For fiscal year 1992, our review showed that the Racing Commission did not adequately manage its revenues. In particular, the Commission did not maintain an adequate system of recordkeeping for receipts, put its revenue management procedures in writing, or document the work done by its staff auditor at the Kansas City track. As a result, we could not tell if the Commission collected all the moneys that it should have. In addition, we found several instances of noncompliance with State requirements for timely deposit of moneys and proper use of local bank accounts. These findings are discussed in some detail in the following sections.

### **The Racing Commission Should Have Procedures to Ensure That It Collects And Deposits All the Money It Should and Complies With Applicable Requirements**

A State agency's primary objective in managing its revenues is to ensure that it collects and deposits all the money it should. To ensure that the proper amounts of money are collected and deposited, the Racing Commission should follow a number of basic procedures. These procedures not only would ensure that the Commission collects and deposits all the money it should, but they also would help prevent loss or misuse. The following list includes the basic procedures necessary:

- ◇ The Commission should establish a system of recordkeeping and reporting, including reconciliations with other State records, that will ensure that amounts due are collected and deposited.
- ◇ The Commission should require its staff auditors located at the race tracks to document their work in determining the amounts of taxes due from the tracks.
- ◇ The Commission should ensure that receipts are collected and deposited promptly.
- ◇ The Commission should put the above policies and procedures in writing to increase the likelihood that employees will follow them.

A State agency also must comply with State requirements applicable to revenues. The following list includes the basic State requirements applicable to the Racing Commission's revenues.

- ◇ The Commission should collect taxes and fees as specified in State law.
- ◇ The Commission's local banks for handling revenues should be designated by the Pooled Money Investment Board.

- ◇ The Commission should use these local bank accounts only for deposit and transfer of receipts to the State Treasury.
- ◇ The Commission should deposit and transfer receipts on a timely basis.
- ◇ The Commission should ensure that the race tracks transfer admissions and parimutuel taxes they collect to the State Treasury on a timely basis.

### **The Racing Commission's Procedures for Managing Its Collection of Parimutuel Taxes Were Not Adequate**

The Racing Commission's revenue management procedures for parimutuel taxes were not adequate on a number of points. Those are presented after a brief discussion of how the Racing Commission collects parimutuel taxes.

As mentioned earlier, United Total, Inc., an independent contractor, operates the parimutuel operation at each of the Kansas race tracks. That company prepares daily reports showing the amounts wagered, paid to winning bettors paid out as purses, and due to the Racing Commission. Based on these reports, the race tracks transfer moneys from their bank accounts to the Commission. To ensure that it collects all the moneys it should, the Racing Commission has auditors at the tracks to test the reports of United Total, Inc. In addition, copies of United Total, Inc.'s reports are submitted to the Commission.

**The Racing Commission did not have its revenue procedures in writing.** As a result, the Commission's employees were less likely to follow proper procedures. This situation has been aggravated in the current fiscal year by recent turnover in employees responsible for key parts of the Commission's revenue procedures. With no written procedures, the employee who takes over those duties probably will have to develop their own procedures with no benefit from the experience of the previous employee.

**Work done by the Commission's auditor at the Kansas City track was not documented.** The daily reports that United Total, Inc. prepares to show how much money the race tracks owe to the Commission are audited by the Commission's auditors located at the tracks, and sent to the Commission's offices. If, as was the case for the Kansas City track, the auditor does not document his or her work, the Commission is less confident that the required procedures have been performed, and that the proper amounts will be paid.

**The Racing Commission did not have an adequate system of recordkeeping to ensure the amounts due from the race tracks eventually were transferred to the State Treasury.** To ensure that the proper amounts were paid by the tracks, the Commission's staff would need to compare the daily reports from United Total, Inc. showing how much the tracks owe to the amounts transferred by

the tracks. Because the Commission does not have its procedures in writing, because of the employee turnover mentioned earlier, and because no comparison was documented in the Commission's records, we couldn't tell if such a comparison was, or was even supposed to be, part of the Commission's normal procedures.

Finally, when we attempted to test the receipts ourselves, we found that the Commission's staff could not locate 10 of the 23 daily reports we selected for sampling. For the 13 reports we could examine, the amounts transferred were proper. In addition, we conducted tests designed to identify unusual variations in recorded receipts for our review. As a result of those tests, we identified an instance in fiscal year 1991 where about \$50,000 had been recorded as admissions taxes when it should have been recorded as parimutuel taxes. We identified another possible miscoding of receipts that we could not review further because the Commission could not locate the related records.

### **The Racing Commission Did Not Comply With All State Requirements Applicable To Its Revenues**

The Racing Commission did not comply with two statutory requirements—one regarding timeliness of collections and the other regarding proper use of local bank accounts. These findings are discussed in the following paragraphs.

**The Racing Commission did not collect admission and parimutuel taxes on a timely basis.** The race tracks collect admissions and parimutuel taxes, and then transfer those moneys to the State Treasury for deposit in the Racing Commission's funds. State law requires the race tracks to make those transfers on the next business day following the day the taxes were collected. In testing for compliance with this requirement, we found that seven (23 percent) of the 31 transfers we examined were not made on a timely basis. Although six of the late transfers were only one day late, our test results indicate a general pattern of late transfers that should be addressed.

**Contrary to State requirements, the Commission's Kansas City staff made refunds from its local bank account.** The Commission's staff at the race tracks collects certain fees and fines, and deposits these moneys in local bank accounts for eventual transfer to the State Treasury. State law requires that these local bank accounts be used only for deposits and transfers to the State Treasury.

In reviewing local bank account transactions, we found several instances where the Commission's staff at the Kansas City track had made refunds for overpayments of fines and fees from the local bank account. To comply with State law, such refunds should be made from the Racing Commission's funds in the State Treasury rather than from local bank accounts.

### **Conclusion**

Because of the significant weaknesses in the Racing Commission's procedures for managing revenues, particularly in the area of recordkeeping, we were not able to tell if the Commission had collected all the moneys that it should have. Although we found no loss or misuse of moneys, a significant risk exists that such a loss or misuse could occur and go undetected. The Commission needs to remedy this situation immediately.

### **Recommendation**

To address weaknesses in its revenue management procedures and achieve compliance with State requirements, the Racing Commission should take the following actions:

- a. Establish an adequate system of recordkeeping to ensure the amounts due from the race tracks eventually were transferred to the State Treasury.
- b. Formalize its revenue management procedures, and put them in writing.
- c. Require that the work done by its auditors at the race tracks be fully and clearly documented.
- d. Work with the race tracks to ensure that transfers of admissions and parimutuel taxes to the State Treasury are made on a timely basis as required by State law.
- e. Pay refunds from its funds in the State Treasury as required by State law, rather than from local bank accounts.

## **Did the Racing Commission Adequately Manage Its Expenditures and Comply With Applicable State Requirements?**

For fiscal year 1992, our review showed that the Racing Commission adequately managed its revenues and complied with applicable State requirements, with some exceptions. Some expenditures were made without sufficient authorizations and approvals. In addition, the Commission paid about \$16,000 for computer equipment, returned the equipment for credit, but did not know if the credit had ever been used. The Commission also did not reimburse and reconcile its petty cash fund as frequently as required, nor did it properly handle reimbursements to the fund for travel advances. Finally, the Commission does not seem to need all the petty cash funds it has. These findings are discussed in some detail in the following sections.

### **The Racing Commission Should Have Procedures to Ensure That It Pays Only for Necessary Goods and Services Actually Received And Complies With Applicable Requirements**

A State agency's primary objective in managing its revenues is to ensure that it pays only for necessary goods and services actually received. To ensure that only proper payments are made, the Racing Commission should follow a number of basic procedures. These procedures should apply not only to payments made from the Commission's funds in the State Treasury, but also to payments made from the Commission's imprest funds. Imprest funds are moneys kept either on hand or in a local bank account that are used to make small payments that need to be made more quickly than the State's normal procedures can handle. These funds are subsequently reimbursed from the Commission's State Treasury funds. The following list includes the basic procedures necessary.

- ◇ The Commission should establish a system of required authorizations, approvals, and supporting documentation for purchases and payments.
- ◇ The Commission should a system of recordkeeping and reporting, including reconciliations with other State records, that will ensure that amounts owed are paid, and amounts paid are within legal limits.
- ◇ The Commission should establish imprest fund procedures that ensure that these funds are used only for authorized purposes, kept track of accurately and completely, and reimbursed from other Commission funds on a timely basis.
- ◇ The Commission periodically should review its imprest funds to see if they are still needed.
- ◇ The Commission should put the above policies and procedures in writing to increase the likelihood that employees will follow them.

A State agency also must comply with State requirements applicable to expenditures. The following list includes the basic State requirements applicable to the Racing Commission's expenditures.

- ◇ The Commission should purchase goods and services in accordance with the requirements of the Division of Purchases.
- ◇ The Commission's local banks for imprest funds should be designated by the Pooled Money Investment Board.
- ◇ The Commission should use these local bank accounts only for allowed purposes.
- ◇ The Commission should handle its imprest funds in accordance with the requirements of the Division of Accounts and Reports.

#### **With Some Exceptions, The Racing Commission's Procedures Were Adequate to Manage Its Expenditures**

The Racing Commission's expenditure procedures generally were adequate, but they had not been written down. As a result, the Commission's employees were less likely to follow proper procedures. In fact, our testwork found that several expenditures had not been handled as well they should have been. Those instances are discussed below.

- ◇ *The Racing Commission made some expenditures without sufficient authorizations and approvals.* As part of our testwork, we reviewed 13 expenditures that normally would not be made without some evidence that the goods or services paid for had actually been received. Six of these payments were made without that evidence. In addition, we reviewed six payments for purse supplements to owners of Kansas-bred horses. Those payments were to be made based on evidence that horses were Kansas-bred. That evidence is a form prepared by the Kansas Horseman's Association, with an authorization signature. All six of the purse supplement payments we tested were made based on a form that was not signed.
- ◇ *The Commission paid about \$16,000 for computer equipment, returned the equipment for credit, but did not know if the credit had ever been used.*

#### **The Racing Commission Did Not Comply With All State Requirements Applicable to Its Expenditures**

In addition to the instances of expenditures not being handled as well as they should have been, we found several instances of noncompliance with State requirements. Those are discussed on the next page.



- ◇ *The Commission did not reimburse its imprest fund as frequently as required.* As mentioned earlier, an imprest fund is used to make small payments that need to be made quickly. The fund then is paid back from the Commission's other funds. State requirements call for such reimbursements to be made at least monthly. During fiscal year 1992, the Commission spent about \$1,400 from its imprest fund, but did not reimburse the fund at all until fiscal year 1993.
- ◇ *The Commission did not reconcile its imprest fund as frequently as required.* To make sure that the imprest fund's moneys are properly accounted for, State requirements call for reconciling imprest funds monthly. The Commission did not reconcile its imprest fund at all during fiscal year 1992.
- ◇ *The Commission did not properly handle reimbursements to the fund for travel advances.* The Commission uses its imprest fund to provide travel advances to its employees. When the employee receives reimbursement for travel expenses, the imprest fund is paid back. To ensure that the imprest fund is paid back on a timely basis, the State requires that the warrant written to pay for the employee's travel expenses be made out to the imprest fund rather than to the employee. During fiscal year 1992, we noted two warrants written to pay back the imprest fund for travel advances that were made payable to the employee instead of the imprest fund.
- ◇ *The Commission does not seem to need all the petty cash funds it has.* A petty cash fund is a type of small imprest fund in the form of cash on hand. During fiscal year 1992, the Commission had four petty cash funds—one of \$500 and three of \$100 each. Because all four funds were being held in the Commission's Topeka office, it is not likely that all four funds were needed. Commission officials have indicated their intention to do away with all petty cash funds.

**Recommendation**

To address weaknesses in its management of expenditures and to ensure that it complies with State requirements, the Racing Commission should do the following:

- a. Formalize its procedures for managing expenditures, and put them in writing.
- b. Reimburse and reconcile its imprest monthly, as required.
- c. When a travel advance has been made from the imprest fund, ensure that the travel expense warrant is made out to the imprest fund, rather than to the employee.
- d. Follow up on its intention to do away with petty cash funds.

## **Did the Racing Commission Adequately Manage Its Property and Comply with Applicable State Requirements?**

The Racing Commission did not adequately manage its property or comply with applicable State requirements. The Commission had not put all its property management procedures in writing. As a result, employees responsible for property management were less likely to be able to fulfill their responsibilities, and the risk of loss or misuse of State property was increased. Our testwork found that the Racing Commission had not performed the required annual inspections of State property since it began operations in 1989. In addition, we could not locate some of the items we selected for testing. Of the items we did locate, many were in locations other than that shown on the Commission's property records, or did not have the required property number. Finally, we found several property items on hand but not on the Commission's property list. These findings are described below, following a brief section on good property management practices.

### **A State Agency's Primary Objective In Managing State Property Is to Protect That Property From Loss or Misuse**

To safeguard State property from potential loss or misuse, State agencies must follow a number of basic procedures. These procedures not only help prevent loss or misuse of State property, but also help identify on a timely basis any loss or misuse that may occur. For the purposes of this audit, we considered State property to include not only capital items, such as furniture and equipment, but also commodities such as office supplies. The following list includes the basic procedures necessary.

- ◇ For capital items such as furniture and equipment:
  - = List all State property owned by the agency with each item's location, cost, and property number. (The property number is required by the Division of Accounts and Reports.)
  - = Add property purchased to the list.
  - = Remove property sold or discarded from the list.
  - = Periodically inspect State property to check the accuracy of the property list, and identify missing items. (This step is required by the Division of Accounts and Reports. The Division also requires State agencies to send it a copy of their property list every year.)
  - = Periodically check the list to make sure that it includes all purchases, and does not include any property discarded or sold. (This step is required by

the Division of Accounts and Reports. The Division also requires State agencies to report on this check every year.)

- ◇ For such items as commodities and supplies, if the amounts involved are significant, or if there is a special risk of loss or misuse (e.g., pharmacy drugs), consider doing some or all of the following:
  - = Restrict access to the items by placing them in a storeroom or locked cabinet, and assign an employee to be custodian of these items.
  - = Establish a formal system for authorizing and recording items purchased, items given to users, and items on hand.

These procedures, if properly followed, should provide adequate protection against loss or misuse of State property. However, if the procedures are not followed, the safeguards they provide will not be effective. To ensure that these procedures are followed, State agencies should take the following steps.

- ◇ Adopt specific steps for each procedure.
- ◇ Put those steps in writing.
- ◇ Assign to specific employees the responsibility for performing the steps.
- ◇ Establish a timetable for completing each procedure.
- ◇ Train the responsible employees.
- ◇ Require that the completion of procedures be documented.
- ◇ Provide for supervisory checks to ensure that procedures are adhered to.

Some of these procedures may be excessive for smaller agencies with a limited amount of State property in one location. Those agencies would have a lesser risk of loss or misuse than larger agencies with a greater amount of property in many different locations. To ensure cost-effective property management, State agencies should tailor their procedures and the amount of resources devoted to property management to match the risk involved. In any event, State agencies' procedures should meet the procedural requirements of the Division of Accounts and Reports.

### **Our Review and Evaluation of Property Procedures Found Problems**

We found that the Racing Commission had only limited written property-management procedures. Although many of these procedures are specified by the Division of Accounts and Reports' Policy and Procedures Manual and other written guid-

ance, those documents do not provide sufficient detail to serve as the internal procedures for each State agency. In particular, an agency's procedures should address such things as responsibility, timing, and documentation for required procedures. Without complete written procedures, responsible employees are less likely to be able to fulfill their responsibilities, and the risk of loss or misuse of State property and noncompliance with State requirements is increased.

### **Our Tests of Procedures, Records, and Reports Found Problems at the Racing Commission**

Our conclusions in this area were based on the following findings.

**The Racing Commission did not perform the required annual inspection of State property.** The Division of Accounts and Reports requires State agencies annually to inspect their State property. That inspection helps ensure that all State property of an agency is either on hand or identified as missing. The agency then can search for any missing property on a timely basis. In addition, the agency's property list can be corrected if the property has been moved to a different location. Finally, if the annual inspection finds that property numbers are missing from any items, those numbers can be replaced.

We found that the Racing Commission had not performed the required inspections since it began operations in 1989. As a result, the risk of State property being gone without responsible employees being aware of it, and the risk of missing property numbers, was increased.

**The Commission's property records were not complete and accurate.** In testing those records, we could not locate 11 (10 percent) of the 111 items we selected for testing. These items included two recorders, a personal computer, a typewriter, and a battery charger. None of the items were more than four years old.

Of the 100 items we did locate, 33 were in cities other than that shown on the Commission's property records, and five did not have the required property number. Finally, we found 24 property items on hand but not on the Commission's property list. These items mainly consisted of office equipment, included computer equipment, desks, chairs, and file cabinets. None of these items had property numbers affixed as required.

#### **Recommendations**

1. To improve the agency's ability to carry out its property-management procedures effectively, the Racing Commission should put all of those procedures in writing.
2. To ensure that State property is more adequately safeguarded from loss or misuse, the Racing Commission should take the following actions:

- a. The Commission immediately should perform an inspection of State property, correct its property list, and make sure that all items have property numbers, as required.
- b. In the future, the Commission should ensure that it completes the required annual inspection of State property.

## **Was the Exemption of Certain Agency Purchases from Normal Purchasing Requirements Reasonable?**

During fiscal year 1992, the Racing Commission made 12 purchases that were exempted from the State's normal purchasing requirements. In one case, the basis for the exemption was that the items could be obtained from only one vendor. The other 11 cases were purchases from another State agency. We found that the Commission adhered to procedures for requesting special purchase authority, and the circumstances of the special purchases reasonably warranted the exemption from normal purchasing requirements. These findings are described in more detail below.

### **The State Exempts Some State Agency Purchases From Its Normal Purchasing Requirements**

The State's purchasing requirements are designed to ensure that State agency purchases result in the acquisition of quality goods and services at the most economical price. These requirements involve such things as competitive bidding, Statewide contracts, and the involvement of Division of Purchases staff in the procurement process.

Kansas statutes exempt certain types of purchases from these normal purchasing requirements. These types of purchases include the following:

- ◇ emergency purchases
- ◇ purchases for which competition does not exist; for example, when a product is sold by only one vendor
- ◇ purchases through a contract between State agencies, or between a State agency and other governmental or certain not-for-profit organizations
- ◇ purchases for which purchasing authority has been delegated to the State agency by the Division of Purchases
- ◇ negotiated purchases, as opposed to those made competitively
- ◇ purchases for use in laboratories or experimental studies
- ◇ purchases for which the normal requirement for publication of bid solicitation notice in the Kansas Register has been waived

Each purchase exempted from the State's normal purchasing requirements must be approved by the Division of Purchases and reported to the Legislative Coordinating Council, Senate Ways and Means Committee, and House Appropriations Committee.

**For fiscal year 1992, our review showed that the special purchases of the Racing Commission reasonably warranted the exemption from the competitive bid requirements.** In one case, the Division of Purchases granted the exemption based on its conclusion that the items needed could be obtained from only one vendor. In the other cases, the Division granted the exemption because the purchases were made from another State agency. The nature of the purchases is summarized below:

- ◇ *The Commission purchased system manuals for an upgrade of its computer system.* The Division of Purchases approved the transaction as a sole-source purchase because the Commission could purchase these manuals from only one vendor. The purchase price of the manuals was about \$2,200.
  
- ◇ *The Racing Commission entered into 11 research contracts with Kansas State University with a total cost of about \$285,000.* The contracts provided funds for research on various greyhound and horse health problems.

## **Follow Up of Prior Audit Findings and Recommendations**

As part of this audit, we followed up on prior audit findings and related recommendations. The prior audit report recommended that the Racing Commission develop and require the use of a standard remittance form for all licensees to use in making remittances to the Commission. We found that this recommendation had been partially implemented. The current audit recommendations address the remaining concerns in this area.



## **Appendix A**

### **Agency Response**

On October 15, 1993, we provided a copy of the draft audit report to the Racing Commission. The agency's written response is included as this Appendix.

STATE OF KANSAS



**KANSAS RACING COMMISSION**

3400 Van Buren  
Topeka, Kansas 66611-2228  
(913) 296-5800  
FAX (913) 296-0900

October 27, 1993



Ms. Barbara J. Hinton  
Legislative Post Auditor  
Legislative Division of Post Audit  
Merchants Bank Tower  
800 SW Jackson, Suite 1200  
Topeka, KS 66612-2212

Dear Ms. Hinton:

This is the commission's response to the compliance and control audit report that was performed by the legislative division of post audit. The commission agrees that it must adopt written procedures setting out better internal controls for revenues and expenditures. The following specific responses relate to the recommendations stated for the revenue procedure, expenditure management procedure and the property management procedure.

Revenue procedure recommendation:

1. The agency has purchased an accounting software spreadsheet program that will be used to develop an effective method of tracking the admission and parimutuel taxes which are remitted to the state. The software program will be used in conjunction with the AS/400 pro calc program to devise a system which will allow the agency to monitor the tax remittances by performance and day for each of the racetracks. The monitoring procedure will enable the agency to ensure that the various taxes are recorded to the proper fund and sub-object codes on the state accounting reporting system (STARS). The revenue tracking procedure will be in place by November 15, 1993.
2. The revenue procedures will be documented in writing by December 31, 1993.
3. The agency recently appointed a new inspector of parimutuels. The inspector of parimutuels has begun to review the current duties of the auditors located at the Kansas City and Wichita racetracks. The auditors will begin to prepare and submit audit workpapers to the Topeka office on at least a monthly basis.

The audit workpapers will be used to verify the tax remittances to the tote report calculations.

4. The accounting and audit departments will work in conjunction with each other to ensure that the admissions and parimutuel taxes are remitted to the state as required by law.
5. The agency no longer pays refunds out of the authorized checking accounts located in Kansas City and Wichita. The refunds are currently issued out of the imprest fund. The agency has developed a written procedure pertaining to refund of overpayments. The checking accounts were designated and approved by the pooled money investment board.

The commission will review filing procedures of the daily tote reports to ensure that the reports are maintained in a designated location and that all reports are accounted for. The missing reports have not been located.

The recording of the parimutuel tax receipts to the admission tax account in FY 91 was discovered by the commission during the year-end reconciliation of the two accounts. A journal entry was sent to accounts and reports to correct the miscoding, but the year-end closing procedure had already been completed. The commission has developed reconciling procedures that will eliminate such mistakes.

The receipt records that could not be located during the audit period have been located. These records are available for review, if necessary.

Expenditure management recommendation:

1. The commission will prepare written expenditure procedures by December 31, 1993. The procedures will address the approval requirements of the Kansas-bred purse supplements from the Kansas Horsemen's Association. The commission has made a concentrated effort to purchase its expenditure items from state contract vendors and in accordance with the requirements of the division of purchases.
2. The commission has directed the bookkeeper to reimburse and reconcile the imprest fund on a monthly basis and to furnish copies of the monthly reconcilements to her supervisor and to the assistant director.
3. The bookkeeper has been instructed to reimburse the fund for travel expenditures by processing a travel expense warrant made payable to the imprest fund rather than to an employee.
4. The commission is reviewing the petty cash funds to determine which funds are not necessary and could be eliminated. The review and elimination of the unnecessary petty cash funds will be completed by December 15, 1993.

Ms. Barbara J. Hinton  
October 27, 1993  
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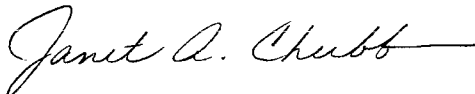
The commission is reviewing the credit for the returned computer equipment to see if the credit was netted against other purchased computer equipment.

Property management recommendation:

1. The commission is in the process of writing procedures pertaining to the inventory items. The written procedures will be completed by December 31, 1993.
2. The commission is in the process of inspecting all of the state property to ensure that property numbers have been assigned to those items. The property list will be updated to reflect the proper location of the inventory items. The updated property list and the labeling of all inventory items with property numbers will be completed by December 1, 1993. The commission completed the annual inspection of the state property by September 30, 1993. The written procedures will include the annual inspection steps to be followed to ensure that requirements of the division of accounts and reports are met.

Although commission activity has been subject to limited audits in the past, this is the agency's first compliance and control audit. We believe the audit was beneficial and sharpened our focus on areas requiring improved supervision. Please contact me at this office if there are additional inquiries concerning any response.

Respectfully,



Janet A. Chubb  
Executive Director

93KH54-dpb

cc: Chairman Londerholm  
Frances Snell  
Ken Harjo  
Art Neuhedel

