



State of Idaho

Legislative Services Office

Management Report

A communication to the Joint Finance-Appropriations Committee

IDAHO STATE RACING COMMISSION

FY 2012, 2013, AND 2014

Report MR33214
Date Issued: December 12, 2016

Serving Idaho's Citizen Legislature



Idaho Legislative Services Office
Legislative Audits Division

IDAHO STATE RACING COMMISSION

April Renfro, Manager

SUMMARY

PURPOSE OF MANAGEMENT REVIEW

We conducted a management review of the Idaho State Racing Commission (Commission) covering the fiscal years ended 2012, 2013, and 2014. Our review covered general administrative procedures and accounting controls to determine that activities are properly recorded and reported.

The intent of this review was not to express an opinion but to provide general assurance on internal controls and to raise the awareness of management and others of any conditions and control weaknesses that may exist and offer recommendations for improvement.

CONCLUSION

We identified deficiencies in the general administrative and accounting controls of the Commission.

FINDINGS AND RECOMMENDATIONS

There is one finding and recommendation in this report.

Finding 1 – The Commission has collected and deposited receipts from pari-mutuel betting on historical horse races, but distributions were not made in accordance with Idaho Code.

The complete finding is detailed on pages 1-3 of this report.

PRIOR FINDINGS AND RECOMMENDATIONS

The prior management report contained one finding and recommendation which was evaluated as part of the current review and was satisfactorily closed.

Follow-up on the prior finding and recommendation is detailed on page 6.

AGENCY RESPONSE

The Commission has reviewed the report and is in general agreement with the contents.

FINANCIAL INFORMATION

The following financial data is for informational purposes only.

Fund No.	Fund Title	Beginning Cash Balance	Receipts/ Transfers-in	Disbursements/ Transfers-out	Ending Cash Balance
229	State Regulatory Fund	\$ 370,020	\$ 388,875	\$ 455,205	\$ 303,690
481	Public School Income Fund		77,449	77,449	
485	Pari-Mutuel Distribution Fund	386,339	924,599	921,575	389,363
630	Custodial Funds	50,000			50,000
TOTAL		\$ 806,359	\$ 1,390,923	\$ 1,454,229	\$ 743,053

OTHER INFORMATION

This report is intended solely for the information and use of the State of Idaho and the Idaho State Racing Commission and is not intended to be used by anyone other than these specified parties.

A copy of this report and prior reports are available at <http://www.legislature.idaho.gov/audit/auditsummaries.htm> or by calling 208-334-4832.

We appreciate the cooperation and assistance given to us by the Management Assistant, Ardie Noyes, and staff.

ASSIGNED STAFF

Jim Combo, CPA, CGFM, Managing Auditor

J.E. Bowden, CPA, CFE, In-Charge Auditor

Justin Powell, Staff Auditor

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FINDINGS AND RECOMMENDATIONS

Finding 1 – The Commission has collected and deposited receipts from pari-mutuel betting on historical horse races, but distributions were not made in accordance with Idaho Code.

Criteria: Idaho Code Section 54-2512A governed pari-mutuel betting on historical horse races along with the deposit and distribution of historical racing purse money until its repeal effective September 10, 2015. The statute perpetually appropriated the historical horse racing funds for distribution by the Commission and established that 1.5% of gross daily receipts be deposited to the Commission and split among five different accounts:

- State Regulatory Fund
- Track Distribution Account
- Breed Distribution Account
- Public School Income Fund
- Idaho Horse Council Youth Programs Account

Once collected, these funds are to be distributed as directed by Idaho Code Section 54-2513. Paragraph D(3) of this statute states that moneys in the Breed Distribution Account on December 31 of each year, which have not been distributed by the Commission, shall be paid to the Public School Income Fund.

Senate Bill 1011 (first regular legislative session of 2015) repealed Idaho Code Section 54-2512A, which would have ended historical horse racing in Idaho. The governor vetoed the bill, but the veto was contested in court by the Coeur d'Alene Tribe. The Idaho Supreme Court ruled that the governor's veto was invalid, and the bill went into effect September 10, 2015.

Condition: The Commission distributed historical horse racing funds from the Breed Distribution Account without proper authority, and the distributions were not made in accordance with Idaho Code in place at the time of collection. Additionally, the Commission currently has no authority in Idaho Code to distribute the historical horse racing funds from the Idaho Horse Council Youth Programs Account as instructed by Senate Bill 1298 of the second regular session of 2016.

Pari-mutuel betting on historical horse races was legalized as an allowed form of gambling by House Bill 220 of the first regular legislative session of 2013. The bill amended sections of Idaho Code relating to horse racing and created Idaho Code Section 54-2512A which described the depositing of money received from pari-mutuel betting on historical horse races. The Commission began collecting revenues from historical horse racing machines in fiscal year 2014 and deposited the funds as directed by Idaho Code.

Idaho Code Section 54-2512A states that the deposits shall be distributed in accordance with Idaho Code Section 54-2513. That code section states that the amounts collected in the Breed Distribution Account shall be distributed to horse breeders groups according to the breed of the winners, with the amount remaining in the account paid to the Public School Income Fund at the end of the calendar year.

The balance of historical horse racing receipts in the Breed Distribution Account at December 31, 2014, was \$72,339. The Commission had not distributed the historical horse racing receipts to breeders groups prior to December 31, 2014, because the breed of the race winners on the machines was not known. The Commission should have paid the \$72,339 to the Public School Income fund, but instead held the receipts in the Breed Distribution Account.

On September 10, 2015, the Idaho Supreme Court issued their decision that the governor's veto of Senate Bill 1011 of first regular legislative session of 2015, was not valid. The bill was effective immediately and repealed Idaho Code Section 54-2512A. The repeal of that code section ended gambling on historical horse racing and removed the Commission's perpetual appropriation to distribute the historical horse racing receipts.

During calendar year 2015, the company that made the historical racing machines was able to identify the breed of the historical race winners during the period it was legal in Idaho. On December 18, 2015, the Commission distributed \$286,628 to Quarter Horse and Thoroughbred breeders associations. The \$286,628 included the \$72,339 that should have been paid to the Public School Income fund. Also, since Idaho Code Section 54-2512A was no longer in effect, the Commission did not have authority to distribute any of the funds.

Idaho Code Section 54-2513 does not include the Idaho Horse Council Youth Programs Account, so the Commission had no statutory instructions for distributing these funds until Senate Bill 1298 was passed in the second regular legislative session of 2016. Senate Bill 1298 was effective as of March 16, 2016, with a sunset clause as of July 1, 2016. While Senate Bill 1298 contained the instructions for distributing the funds in the Idaho Horse Council Youth Programs Account, the bill did not include the authority to distribute the funds. Since that authority was originally contained in Idaho Code Section 54-2512A, which was repealed effective September 10, 2015, the Commission is still not authorized to distribute the \$143,314 balance in that account.

Cause: The Commission held the \$72,339 balance of historical horse racing receipts in the Breed Distribution Account at December 31, 2014, because they were still trying to determine the winning breeds of the historical races. When the distributions were made in December 2015, the Commission was unaware that the authority to make payments from the Breed Distribution Account was removed with the repeal of Idaho Code Section 54-2512A. After the breed distributions, the Commission became aware that the spending authority for historical horse racing funds was repealed along with Idaho Code Section 54-2512A and did not make further distributions from the Idaho Horse Council Youth Programs Account.

Effect: The Commission distributed \$286,628 from the Breed Distribution Account without statutory spending authority. Of that amount, \$72,339 should have been paid to the Public School Income Fund as of December 31, 2014. As of June 30, 2016, the Idaho Horse Council Youth Programs Account has a \$143,314 balance that the Commission cannot distribute because it has no spending authority.

Recommendation: We recommend the Commission consult the Office of the Attorney General for guidance to proceed with the distributions from the Breed Distribution Account and Idaho Horse Council Youth Programs Account.

Agency Response: *The Commission was aware of the problem with how to track the 'breed' of the races which were being shown on the historical terminals in late December of 2014. The Commission reached out to several contacts in hope of getting an answer to the question. In April of 2015 the commission received a response from the company which performed the audits of the Historical terminals. Prior to April 1st, 2015 roughly 10% of the races shown on the Historical terminals were Quarterhorse races, after that date, we were told all races shown were Thoroughbred. It did take the Commission until the end of CY 2015 to finally make the disbursement. The Commission has records which will verify all steps it went through to make the disbursement.*

The Commission has taken the Recommendation provided in the audit update and reached out to the Attorney General for guidance in this matter.

The Commission will be requesting the monies be returned to the ISRC from the two breed organizations which received those funds for 2014. We will update Legislative Services office with more information as it becomes available.

The ISRC is still holding the funds which were designated by statute to be paid to the Idaho Horse Council Youth Program. Due to problems with the original statute, the funds were not able to be paid out. The Commission was not successful in finding the proper way to change the statute. During the 2016 Legislative 2nd regular session, the Idaho Horse Council submitted a bill which would have authorized the ISRC to proceed with payment. The original bill had the proper wording which would have allowed the one-time payment to be made, however some language was changed and it inadvertently omitted the appropriation language. The Idaho Horse Council will be submitting new legislation in 2017 which will allow the Commission to pay those funds.

AGENCY RESPONSE



STATE OF IDAHO RACING COMMISSION



C.L. "BUTCH" OTTER
Governor

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October 24, 2016

Ms. April Renfro
Manager, Legislative Audits
Legislative Services Office
PO Box 83720
Boise, ID 83720-0054

RE: Legislative Audit FY 2012, 2013 and 2014

Dear Ms. Renfro,

The Racing Commission has reviewed the audit report for the FY 2012-2014, and is in general agreement with the contents.

Finding #1 – Collected and deposit receipts from pari-mutuel betting on historical horse races distributions were not made in accordance with Idaho Code.

The Commission was aware of the problem with how to track the 'breed' of the races which were being shown on the historical terminals in late December of 2014. The Commission reached out to several contacts in hope of getting an answer to the question. In April of 2015 the commission received a response from the company which performed the audits of the Historical terminals. Prior to April 1st, 2015 roughly 10% of the races shown on the Historical terminals were Quarterhorse races, after that date, we were told all races shown were Thoroughbred. It did take the Commission until the end of CY 2015 to finally make the disbursement. The Commission has records which will verify all steps it went through to make the disbursement.

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Sincerely,



Pau J. Schneider, Chairman

Fred Snook, Commissioner



James Hammond, Commissioner

PRIOR FINDINGS AND RECOMMENDATIONS

PRIOR FINDING 1

Internal controls over the Simulcast Purse Moneys Fund should be improved to provide greater assurance of compliance with State Fiscal Policies for funds held in a fiduciary capacity.

We recommended that the Commission design and implement procedures to ensure the deposits and distributions from the Simulcast Purse Moneys Fund are timely and accurate.

AUDIT FOLLOW-UP

The Commission has designed and implemented procedures to ensure the deposits and distributions from the Simulcast Purse Moneys Fund are timely and accurate. Payments from each race track are reviewed for accuracy and timeliness and reconciled to supporting documents. Simulcast Purse Moneys Fund distributions were supported by accurate calculations and completed in a timely manner during fiscal year 2014.

STATUS – CLOSED

APPENDIX

HISTORY

The legislature passed the Idaho Horse Racing Act on March 5, 1963. In 1990, the Act was amended to allow pari-mutuel wagering on simulcasting into any current operating track. The Commission authorized live dog racing in Post Falls, Idaho, from August 1988 to December 1995.

STATUTORY AUTHORITY

The statutory authority for the Idaho State Racing Commission is found in Idaho Code Title 54, Chapter 25. In 1969, the Act was amended, changing the name of the Idaho Horse Racing Commission to the Idaho State Racing Commission. The amendment strengthened the Commission, giving it power to suspend or revoke licenses or levy fines for violations of the Act. The amendment also states that all hearings are subject to the Administrative Procedures Act and that "all law enforcement officers in the State shall assist in the enforcement of this Act and the rules and regulations of the Commission."

PURPOSE

The purpose of the Commission is to regulate live horse racing, and simulcast pari-mutuel betting on horses and greyhounds. The Commission prepares and promulgates a complete set of rules and regulations to govern race meets and pari-mutuel wagering systems. The Commission licenses individuals to participate at racing meets in order to ensure that individuals will act in the best interest of racing. The Commission also approves the calendar of racing days at each track.

ORGANIZATION

The Idaho State Racing Commission is administered by a three-member Commission appointed by the Governor and confirmed by the Senate. The members are appointed for alternating six-year terms. The Commission is under the administration of the Idaho State Police.

The Commission employs a racing supervisor, a management assistant, and a technical records specialist to perform the day-to-day operations. The racing supervisor hires stewards, veterinarians, mutuel inspectors, investigators, and licensing clerks at the live horse racing tracks to ensure an honest, efficient operation of the pari-mutuel system and compliance with racing rules and regulations.

FUNDING

State Regulatory Fund (0229)

This fund receives a portion of the gross daily receipts and exotic wagers collected by licensees conducting the pari-mutuel system for live or simulcast horse races. Other revenues are collected from licensing individuals participating in live horse race meets.

All moneys in this fund may be used for the payment of salaries, travel, and operating costs related to the operation of the Racing Commission. Any balance exceeding \$600,000 at the end of the fiscal year is transferred to the Pari-mutuel Distribution Fund and distributed in accordance with Idaho Code Section 54-2513(F).

Pari-mutuel Distribution Fund (0485)

This fund receives a portion of the moneys generated from the pari-mutuel system, gross daily receipts from live horse racing, advance deposit wagering, and simulcast purse moneys accrued as required by Horsemen's Agreements. The legislature legalized historical horse racing beginning fiscal year 2013. This fund received a portion of funds from historical horse race purse moneys and for the Idaho Horse Council Youth Program from pari-mutuel betting on historical horse racing pursuant to Idaho Code Section 54-2512A(2)(b)(v). The 2015 Legislature repealed historical horse racing effective July 2015.

Distributions from this fund are paid to horse racing track owners for improvements and maintenance of tracks, to Idaho horse breeders to benefit owners and breeders, to Horsemen's Groups in accordance with the Horsemen's Agreement, and to the Public School Income Fund. Historical racing funds were deposited to the Idaho Horse Council Youth Programs account.

ORGANIZATIONAL CHART



- Vacancy count as of 8/15/2013