

LOUISIANA STATE RACING COMMISSION

EXECUTIVE DEPARTMENT
STATE OF LOUISIANA

FINANCIAL AUDIT SERVICES

Procedural Report
Issued July 17, 2024

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Louisiana Legislative Auditor

Michael J. "Mike" Waguespack, CPA

Louisiana State Racing Commission



July 2024

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Introduction

The primary purpose of our procedures at the Louisiana State Racing Commission (LSRC) was to evaluate certain controls the LSRC uses to ensure accurate financial reporting, compliance with applicable laws and regulations, and accountability over public funds.

Results of Our Procedures

We evaluated the LSRC's operations and system of internal control through inquiry, observation, and review of its policies and procedures, including a review of the applicable laws and regulations. Based on the documentation of the LSRC's controls and our understanding of related laws and regulations, and the results of our analytical procedures, we performed procedures relating to fees and self-generated revenues, statutorily-required distributions, security services provided by the Louisiana State Police (LSP), and payroll expenditures.

Fees and Self-Generated Revenues

The majority of revenue at the LSRC consists of statutory dedications from the Pari-mutuel Live Racing Facility Gaming Control Fund, the Video Draw Poker Purse Supplemental Fund, and the Sports Wagering Purse Supplement Fund, and collections from fees and self-generated revenues. Fees and self-generated revenues consist of tax revenues derived from horse racing wagers; track attendance fees; and fees for permits, licenses, fines, appeals, and tests.

We reviewed certain controls over the LSRC's fees and self-generated revenue collections, documented our understanding of those controls, and reviewed selected transactions. Based on the results of our procedures, the LSRC has controls in place to ensure that fees and self-generated revenues are properly collected, deposited, and recorded, and to ensure compliance with applicable Louisiana Revised Statutes (R.S).

Statutorily-required Distributions

Video Draw Poker Device Purse Supplement Fund

Funds deposited in the Video Draw Poker Device Purse Supplement Fund are fees collected by the LSP from owners of video draw poker devices. R.S. 27:439(B) provides that monies in this fund are annually appropriated to the LSRC and are allocated as follows: two-thirds of the funds are allocated and provided to licensed racing associations in the state which conduct live horse racing; and one-third of the funds are allocated and provided to the Louisiana Quarter Horse Breeders Association. We reviewed distributions made between July 1, 2022, and March 31, 2024, and verified the required distributions were made in the correct amounts by the LSRC. Based on the results of our procedures, the LSRC has complied with R.S. 27:439(B).

Sports Wagering Purse Supplement Fund

Funds deposited in the Sports Wagering Purse Supplement Fund are taxes collected by the LSP on net gaming proceeds from sports wagering. R.S. 4:199 states that any appropriation by the legislature to the LSRC from the fund shall be utilized to supplement purses as follows: two-thirds of the funds are allocated and provided to licensed racing associations which conduct live racing based on the proportion of thoroughbred race days each association conducted the preceding year and one-third of the funds is allocated and provided to licensed racing associations which conduct live racing based on the proportion of quarter horse race days each association conducted the preceding year. We reviewed distributions made between July 1, 2023, and March 31, 2024, and verified the required distributions were made in the correct amounts by the LSRC. Based upon our procedures, the LSRC has complied with R.S. 4:199.

Off-track Betting (OTB) Self-Generated Revenue

R.S. 4:218(A) authorizes the LSRC to collect a license fee not to exceed 1.5% of total amounts wagered at OTB facilities. It further requires the LSRC to distribute 14% of the OTB fees to the Louisiana Thoroughbred Breeders Association or the Louisiana Quarter Horse Breeders Association in proportion to the amounts wagered on each breed and 33% to the Louisiana Board of Regents. The LSRC is allowed to retain the remaining 53% to cover administrative costs. We reviewed the LSRC's distribution of OTB fees for the period July 1, 2022, through December 31, 2023, and verified that the required distributions were made in the correct amounts to the horse breeder associations and the Board of Regents. Based upon our procedures, the LSRC has complied with R.S. 4:218(A).

Effective June 12, 2023, R.S. 4:218.1 authorizes the LSRC to collect a license fee of 1.5% of the total amount wagered at each OTB facility on historical horse racing. It further requires the LSRC to distribute the fees as follows: 67% to the Commission, 11.5% to the Louisiana Thoroughbred Breeders Association, 5% to the Louisiana Quarter Horse Breeders Association, 8.25% to the parish governing authority where

the OTB facility is located, and 8.25% to the sheriff of the parish where the OTB facility is located. When the OTB facility is located within the corporation limits of a city, town, or municipality, one-half of the funds allocated to local government are disbursed to the governing authority and police department of that city, town, or municipality. We reviewed the LSRC's distribution of OTB fees collected for the period July 1, 2023, through September 30, 2023, and verified the required distributions were made in the correct amounts to the horse breeder associations and local government. Based upon our procedures, the LSRC has complied with R.S. 4:218.1.

Horse Breeder Awards and Industry Promotion

R.S. 4:165(A) and (B) require the LSRC to pay breeder awards to owners of stallions when the stallion produces Louisiana-bred offspring that place first, second, or third in Louisiana races for quarter horses or Louisiana and certain out-of-state stake races for thoroughbred horses. Payments by the LSRC are to be made to the respective breeder association from available funds of the commission. Per R.S. 4:165(A), the annual distribution for thoroughbred horse breeder awards is the greater of \$700,000 or three-tenths of 1% of annual gross pari-mutuel wagers placed on all horse races in Louisiana. Per R.S. 4:165(B), the annual distribution for quarter horse breeder awards is \$800,000. In addition, R.S. 4:165(D) requires the LSRC to pay \$60,000 annually to the Louisiana Department of Agriculture and Forestry (LDAF) to promote and advance the development of the horse racing industry in Louisiana.

We reviewed the LSRC's distribution of breeder awards for the period July 1, 2022, through December 31, 2023, and the required payments for industry promotion in fiscal years 2023 and 2024, and verified that the required distributions were made in the correct amounts to the respective horse breeder associations and LDAF. Based upon our procedures, the LSRC has complied with R.S. 4:165(A), (B), and (D).

Security Services Provided by the Louisiana State Police (LSP)

R.S. 4:147(2)(d) allows the LSRC to appoint additional paid state stewards to assist in the enforcement of statutes and LSRC rules and regulations over horse racing at race meets. The LSRC engages the LSP via a memorandum of understanding (MOU) to assist in the enforcement of applicable statutes and LSRC rules and regulations. The LSRC reimburses LSP for all related expenditures, including overtime pay for LSP officers, the rate for off-duty use of an LSP vehicle, and any administrative and supervisory expenditures incurred. The amount expended by the LSRC is capped at the amount appropriated for security services provided by LSP.

We reviewed certain controls over the LSRC's LSP expenditures, documented our understanding of those controls, and reviewed selected transactions. Based on the results of our procedures, the LSRC has controls in place to ensure that LSP expenditures are properly authorized, supported, and recorded, and are in compliance with the MOU between the LSRC and the LSP.

Payroll Expenditures

Salaries and related benefits comprised approximately 35% and 33% of the LSRC's expenditures in fiscal years 2023 and 2024, respectively. We obtained an understanding of the LSRC's controls over payroll authorizations and the time and attendance function and reviewed selected employee pay authorizations, time statements, and leave and overtime records. Based on the results of our procedures, the LSRC had adequate controls in place to ensure payroll expenditures were authorized and supported by approved time and attendance records.

Trend Analysis

We compared the most current and prior-year financial activity using the LSRC's Annual Fiscal Reports and/or system-generated reports and obtained explanations from the LSRC's management for any significant variances.

Under Louisiana Revised Statute 24:513, this report is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,



Michael J. "Mike" Waguespack, CPA
Legislative Auditor

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LSRC2024

APPENDIX A: SCOPE AND METHODOLOGY

We performed certain procedures at the Louisiana State Racing Commission (LSRC) for the period from July 1, 2022, through June 30, 2024. Our objective was to evaluate certain controls the LSRC uses to ensure accurate financial reporting, compliance with applicable laws and regulations, and accountability over public funds. The scope of our procedures, which is summarized below, was significantly less than an audit conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. We did not audit or review the LSRC's Annual Fiscal Reports, and accordingly, we do not express an opinion on those reports. The LSRC's accounts are an integral part of the state of Louisiana's financial statements, upon which the Louisiana Legislative Auditor expresses opinions.

- We evaluated the LSRC's operations and system of internal control through inquiry, observation, and review of its policies and procedures, including a review of the laws and regulations applicable to the LSRC.
- Based on the documentation of the LSRC's controls and our understanding of related laws and regulations, and results of our analytical procedures, we performed procedures relating to fees and self-generated revenues, statutorily-required distributions, security services provided by the Louisiana State Police, and payroll expenditures.
- We compared the most current and prior-year financial activity using the LSRC's Annual Fiscal Reports and/or system-generated reports to identify trends and obtained explanations from the LSRC's management for any significant variances that could potentially indicate areas of risk.

The purpose of this report is solely to describe the scope of our work at the LSRC, and not to provide an opinion on the effectiveness of the LSRC's internal control over financial reporting or on compliance. Accordingly, this report is not intended to be, and should not be, used for any other purpose.