

MINUTES OF THE SENATE COMMITTEE ON FEDERAL AND STATE AFFAIRS.

The meeting was called to order by Senator Lana Oleen at 11:05 a.m. on January 14, 1998, in Room 254-E of the Capitol.

All members were present except:
Senator Ben Vidricksen - excused

Committee staff present: Mary Galligan, Legislative Research Department
Robin Kempf, Legislative Research Department
Midge Donohue, Committee Secretary

Conferees appearing before the committee:
Mr. Randy Tongier, Audit Manager, Legislative Division of Post Audit
Mr. Tracy T. Diel, Executive Director, State Gaming Agency
Mr. Myron E. Scafe, Executive Director, State Racing Commission

Others attending: See attached list

Senator Oleen told the committee she planned to take up bills previously heard following the review today of the Lottery and Racing and Gaming Commission audits. She said a number of audits---performance and compliance---had been completed since last session, but the two to be reviewed today were of particular interest to the committee, and she introduced Mr. Randy Tongier, Audit Manager of the Legislative Division of Post Audit.

Mr. Tongier first addressed the Financial and Compliance Audit Report on the Kansas Lottery for fiscal year 1997, (copies of which are available in the Legislative Division of Post Audit). He told the committee that state law requires an annual financial-compliance audit of the Lottery and explained the three areas that were reviewed during this particular audit, (Attachment #1). Mr. Tongier advised it was the conclusion of the auditors that the Lottery was in compliance with applicable legal requirements. Senator Oleen added that audits of the Lottery the past several years had resulted in the same conclusion.

Senator Becker asked for a brief rundown on FY '97 Lottery revenues. Mr. Tongier referenced the Kansas Lottery Financial Summary prepared by the Legislative Division of Post Audit (Attachment #2), and staff explained distribution of Lottery revenues. Senator Oleen noted that payouts had been increased which resulted in increased interest and additional revenue.

Senator Gooch inquired about prize liabilities. Mr. Tongier explained that the liability figure is shown in two places: as prizes as well as in the ending fund balance. Senator Oleen commented that, historically, unclaimed prize monies had been spent through the legislative appropriations process.

Mr. Tongier then discussed the Financial and Compliance Audit Report on the Kansas Racing and Gaming Commission for fiscal year 1997, which included the State Gaming Agency, (copies of which are available in the Legislative Division of Post Audit). He told the committee that state law calls for a financial-compliance audit of the Commission each year and explained the three areas reviewed during this particular audit (Attachment #3). Mr. Tongier reported that the auditors concluded the agencies had met applicable legal requirements and had offered a procedural recommendation to improve record keeping for tribal investigation deposits at the State Gaming Agency. He said the Gaming Agency has indicated it would address that recommendation.

Senator Oleen invited Mr. Tracy Diel, Executive Director of the State Gaming Agency, to respond to questions from the committee concerning his agency. Questions posed to Mr. Diel centered mainly on background investigations of applicants for employment at the casinos. Mr. Diel explained the investigation procedure and told the committee his agency runs background investigations on applicants for Category 2 and Category 3 level positions; that investigations on Category 1 level positions are conducted by the Kansas Bureau of Investigation. He defined Category 1 as management positions, Category 2 casinos workers, and Category 3

CONTINUATION SHEET

MINUTES OF THE SENATE FEDERAL & STATE AFFAIRS COMMITTEE, Room 254-E, Statehouse, at 11:05 a.m. on January 14, 1998.

as employees, such as housekeepers, hosts and hostesses, who have no direct contact with the games or money. Mr. Diel said there are approximately two thousand casino employees which require an average of five hundred investigations annually. He also explained there was significant turnover in the gaming industry and background checks occur year around.

Senator Gooch asked if there was adequate funding to cover expenses of the state in conducting these investigations. Mr. Diel explained the procedure for reimbursement by the Tribal Commissions and said that, at this particular time, there is no liability to the state.

Senator Jones inquired about the duration of licenses for the various categories, and Mr. Diel advised it varied from tribe to tribe, but would usually be two years.

Senator Oleen invited Mr. Myron Scafe, Executive Director of the Kansas Racing and Gaming Commission, to respond to questions concerning the Commission. Mr. Scafe talked about the change of ownership at the Wichita Greyhound Park and related some of the issues that had occurred as a result. He told the committee that an application is being processed at the present time for a general manager who is familiar with the racing industry and this should have a positive effect on the operation of the track.

In regard to the Woodlands, Mr. Scafe said he had attended a number of the bankruptcy hearings and that attempts by his agency to assist with negotiating the differences between the parties had not been successful. He advised that an attorney has been hired to represent the interests of the state in the bankruptcy matter. Mr. Scafe said the case is expected to go to bankruptcy trial later this month.

Senator Oleen commented on the amount of interest in matters pertaining to the Commission and indicated she planned to continue discussion at a later date.

She reminded members of the committee that the committee would meet tomorrow at 11:05 at the Landon State Office Building, prior to the scheduled tour of the Memorial Building at 10th and Jackson.

The meeting adjourned at 12:10 p.m. The next meeting is scheduled for January 15, 1998.

SENATE FEDERAL & STATE AFFAIRS COMMITTEE
GUEST LIST

DATE: 1-14-98

NAME	REPRESENTING
TRACY DIEL	SGA
Steve Montgomery	Ks. Greyhound Kennel Owners
TUCK DUNCAN	Ks. wine & spirits wholesalers Assn.

**Financial-Compliance Audit
KANSAS LOTTERY
Fiscal Year 1997**

**Presentation to the
Senate Federal and State Affairs Committee
January 14, 1998**

Randy Tongier, Audit Manager
Legislative Division of Post Audit

State law calls for an annual financial-compliance audit of the Kansas Lottery. The audit of fiscal year 1997 was conducted by Wendling Noe Nelson & Johnson, a certified public accounting firm under contract with the Legislative Division of Post Audit. This financial-compliance audit looked at the following three areas:

- The fairness of the Lottery's financial statement reporting
- The adequacy of the Lottery's financial practices to provide good management controls
- The Lottery's compliance with legal requirements applicable to accounting and related areas

The auditors concluded that the Lottery's financial statements for fiscal year 1997 are presented in conformity with generally accepted accounting principles, the Lottery's financial management practices are appropriate, and the Lottery complied with applicable legal requirements.

Based on the Lottery's current and previous financial statements, Legislative Post Audit has prepared a 10-year financial summary that shows annual revenues, and annual expenditures by general category as a percentage of those revenues. That summary is included with the audit report.

KANSAS LOTTERY FINANCIAL SUMMARY
Prepared by the Legislative Division of Post Audit

	FY 1988	FY 1989	FY 1990	FY 1991	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997
REVENUES (MILLIONS)	\$ 66.2	\$ 68.8	\$ 65.2	\$ 70.2	\$ 77.8	\$ 115.3	\$ 153.4	\$ 178.3	\$ 183.4	\$ 186.3
EXPENSES AS % OF REVENUES:										
PRIZES (45% OR MORE)	45 %	49 %	44 %	47 %	48 %	51 %	52 %	52 %	52 %	53 %
BASIC STATUTORY TRANSFER (AFTER '88, 30% OR MORE)	17	31	30	30	30	30	31	30	30	31
OTHER EXPENSES	<u>25</u>	<u>29</u>	<u>22</u>	<u>22</u>	<u>21</u>	<u>18</u>	<u>16</u>	<u>16</u>	<u>17</u>	<u>17</u>
TOTAL EXPENSES	87 %	109 %	96 %	99 %	99 %	99 %	99 %	98 %	99 %	101 %
NET OPERATING INCOME	\$ 8.3	\$ -6.6	\$ 1.9	\$ 1.1	\$ 0.7	\$ 0.7	\$ 1.0	\$ 3.2	\$ 2.2	\$ -0.2
OTHER TRANSFERS (MILLIONS)										
STATE GENERAL FUND				\$ 1.5						
GAMING REVENUE FUND					\$ 2.8			\$ 1.4	\$ 3.4	\$ 0.3
INVESTIGATIONS FEE FUND						\$ 0.2	\$ 0.1	0.1	0.1	0.2
ENDING FUND BALANCE	\$ 8.1	\$ 1.6	\$ 3.4	\$ 3.0	\$ 1.0	\$ 1.7	\$ 2.7	\$ 4.5	\$ 3.3	\$ 2.6

- ◇ Although not required by statute, in fiscal year 1988, the Lottery transferred \$11.4 million to the State Gaming Revenue Fund.
- ◇ In fiscal year 1989, operating costs reached their highest levels compared to revenues, and the Lottery lost \$6.6 million.
- ◇ In fiscal year 1990, prize payments and operating costs were reduced, and, in spite of decreased revenues, the Lottery showed a net income of almost \$2 million.

Since fiscal year 1990, revenues and prize payments as a percentage of revenues have increased. During that same time, operating costs as a percentage of revenues generally have declined.

The financial statements indicate that during this 10-year period, the Lottery has transferred about \$338 million to the State Gaming Revenue Fund.

NOTE: Based on the audited annual financial statements prepared by the Kansas Lottery.

SEN. FEDERAL & STATE AFFAIRS
1-14-98
ATTACHMENT 2

Sen. Federal & State
Date: 1-14-98
Attachment: #2
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**Financial-Compliance Audit
KANSAS RACING AND GAMING COMMISSION
Fiscal Year 1997**

**Presentation to the
Senate Federal and State Affairs Committee
January 14, 1998**

Randy Tongier, Audit Manager
Legislative Division of Post Audit

State law calls for an annual financial-compliance audit of the Kansas Racing and Gaming Commission, including the State Gaming Agency. The audit of fiscal year 1997 was conducted by Harold Johnson, CPA, a certified public accounting firm under contract with the Legislative Division of Post Audit. This financial-compliance audit looked at the following three areas:

- The fairness of financial statement reporting
- The adequacy of financial practices to provide good management controls
- Compliance with legal requirements applicable to accounting and related areas

The auditors concluded that the financial statements for fiscal year 1997 are presented fairly on the cash basis of accounting, financial management practices are appropriate, and the agencies complied with applicable legal requirements. On page 6, the audit report makes a recommendation to improve one aspect of recordkeeping for tribal investigation deposits at the State Gaming Agency. The recommended procedure essentially would track the status of individual deposits and reconcile those with the total amount of moneys in the tribal accounts. The Gaming Agency has indicated that it will address this recommendation.