



NORTH DAKOTA OFFICE OF THE STATE AUDITOR

State Auditor Joshua C. Gallion

North Dakota Racing Commission

For the Four-Year Period Ended June 30, 2025

Client Code 670





WHAT WE LOOKED AT AND WHY

North Dakota state law requires that our team perform an audit once every two to four years. This included a review of financial transactions and determining that expenditures are correct. Our audit reports any errors, internal control weaknesses or potential violations of law identified in significant or high-risk functions of the agency.

WHAT WE FOUND

Promotion Fund Overspending



The NDRC did not calculate the spending limit or track expenditures towards it.

Read more on page 4

Promotion Fund Grant Conditions Not Being Met



The NDRC did not properly administer Promotion Fund grants.

Read more on page 6

Improper Breeders' Fund Awards



The NDRC paid Breeders' Fund awards to horse owners who were not eligible to receive them.

Read more on page 8

Improper Procurement



The NDRC did not follow procurement requirements on purchases of goods and services.

Read more on page 10

TABLE OF CONTENTS

INTRODUCTION

Terms Used in Report 3

AUDIT RESULTS

Primary Objective 4

Conclusion 4

Promotion Fund Overspending 4

Promotion Fund Grant Conditions Not Being Met 6

Improper Breeders' Fund Awards 8

Improper Procurement. 10

AUDIT PROCEDURES

Primary Objective 11

Authority and Standards 12

FINANCIALS

Revenues and Expenditures 13

Appropriations 15



HAVE QUESTIONS? ASK US.

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Introduction

North Dakota Racing Commission

March 10, 2026

We are pleased to submit this audit of the North Dakota Racing Commission for the four year period that ended June 30, 2025. This audit resulted from the statutory responsibility of the State Auditor to audit or review each state agency once every two to four years. The same statute gives the State Auditor the responsibility to determine the contents of these audits.

The primary consideration in determining the contents of these audits is to produce informative audits to improve government. Statutory audit requirements are an important part of these audits and are addressed by our standard audit objective. Whenever possible, additional audit objectives are included to increase the responsiveness and effectiveness of state government.

Michael Schmitcke, CPA, was the audit manager on this engagement. Inquiries or comments relating to this audit may be directed to the audit manager by calling (701) 328-2241. We wish to express our appreciation to the North Dakota Racing Commission's staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

/s/

JOSHUA C. GALLION
NORTH DAKOTA STATE AUDITOR

TERMS USED IN REPORT

Appropriation: An amount authorized by the North Dakota Legislative Assembly to be spent for a specific purpose.

Breakage Revenue: The money retained by racetracks from rounding down pari-mutuel winning payouts to the nearest dime or nickel, rather than paying out the exact penny amount. This “break” represents the difference between the actual calculated odds and the rounded payout, creating a revenue source split between tracks, state tax, and purses.

Breeder: The owner or lessee, or the respective breed-registering organization of the dam at the time of foaling in North Dakota (N.D.A.C 69.5-01-09-01).

ConnectND: The accounting system for North Dakota.

Emergency Commission: Group of elected officials that have the authority to transfer or expend money appropriated by the North Dakota Legislative Assembly. Additional information can be found in N.D.C.C. Chapter 54-16.

Internal Control: Policies and procedures that ensure reliable financial reporting, safeguard assets, promote accountability and efficiency, and prevent fraud.

Noncompliance: Failure to act in accordance with a wish or command.

North Dakota Century Code (N.D.C.C.): Collection of all the statutes passed by the North Dakota Legislative Assembly.

North Dakota Administrative Code (N.D.A.C.): The codification of all rules of state government agencies.

Performance Audit: Engagements that provide objective analysis, findings, and conclusions to assist management and those charged with governance and oversight to improve program performance and operations, reduce costs, facilitate decision making, and contribute to public accountability.

Racehorse owner: The owner or lessee of record with the respective breed-registering organization at the time the horse participates in a race qualifying the horse for breeders’ fund awards or purse supplements under the provisions of this chapter (N.D.A.C. 69.5-01-09-01).

Sessions Laws: Published after each regular and special legislative session and contain the laws enacted during that session.

Stewards: The duly appointed racing officials or their deputies serving at a licensed horse racing meeting (N.D.A.C. 69.5-01-01-01).

Audit Results

PRIMARY OBJECTIVE

Are there any errors, internal control weaknesses, or potential violations of law for significant or high-risk functions of the agency?

CONCLUSION

Except for the findings identified in this report, no errors, internal control weaknesses, or potential violations of law were identified.

FINDING
2025-01

Promotion Fund Overspending

The North Dakota Racing Commission deposits a percentage of the revenue from wagering on horse racing into a Promotion Fund. The Promotion Fund's purpose is to promote racing and develop racetracks in ND (N.D.A.C. 69.5-01-12-01). The NDRC can use up to 25% of the fund balance per year for the operating expenditures of the agency (N.D.C.C. 53-06.2-11(6)). They also receive a General Fund appropriation to pay towards agency costs.

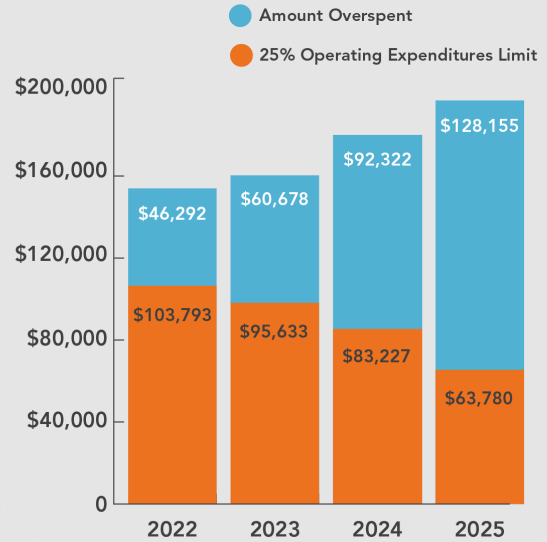
Operating Expenditures Exceed Limit

State law does not specify how to calculate the 25% spending limitation. The NDRC did not calculate the spending limit or track expenditures towards it. Our team calculated the limitation using the ending fund balance from the prior year. This approach is reasonable as it allows for a set calculation and tracking throughout the fiscal year. The use of fund balance to determine the limit was discussed with legal counsel and determined to be appropriate.

We found the NDRC overspent the 25% limit on operating

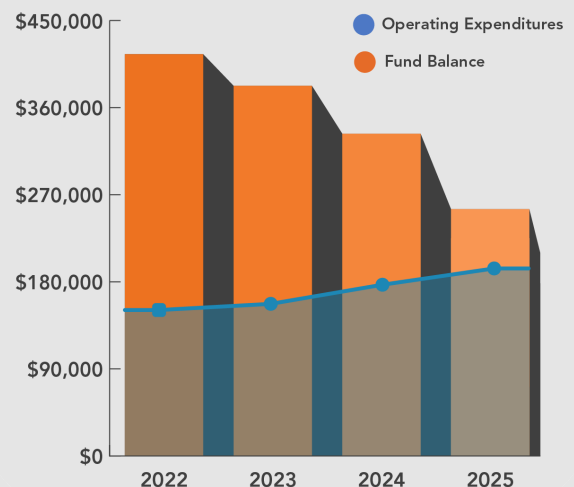
expenditures in each of the four fiscal years audited. The total amount overspent from the Promotion Fund increased each year and totaled \$327,447 (sum of amounts overspent).

Overspending of the 25% Operating Expenditure Limit



The excess expenditures reduced the fund balance and left less money available to be spent on the intended purpose of the fund. The fund balance significantly decreased during our four-year audit period with the balance at the beginning of fiscal year 2022 being at \$415,171 and dropping to \$255,119 at the end of 2025. Operating expenditures charged to the fund continued to increase during the same period. This creates a risk that the fund could be depleted entirely.

Fund Balance vs Operating Expenditures



Agency Appropriation Overspent

The \$327,488 spent in excess of the 25% spending limit should have been paid from the NDRC General Fund appropriation. Our team compared the excess amounts charged to the Promotion Fund to the remaining General Fund appropriation for each applicable biennium. We found the NDRC did not have enough remaining General Funds to cover these operating expenditures.

If these expenditures were correctly charged to the General Fund, it would have caused the NDRC to overspend their appropriation authority by \$210,710 (\$68,337 in 2022-2023 biennium and \$142,373 in 2024-2025) biennium. Incorrectly charging these expenditures to the Promotion Fund allowed the NDRC to circumvent appropriation authority.

RECOMMENDATION

We recommend the North Dakota Racing Commission:

- Calculate the 25% spending limit and track related expenditures in the Promotion Fund to ensure compliance with State Law.
- Ensure expenditures are charged to the correct fund and spending is within appropriation limits set by the North Dakota Legislature.

North Dakota Racing Commission Response

Thank you for your review and recommendations regarding the North Dakota Racing Commission's administration of the Promotion Fund.

The Commission concurs with the recommendations and recognizes the importance of maintaining clear, accurate, and compliant financial practices. In response, the Commission will take the following corrective actions:

- The Commission will implement a standardized process to calculate the statutory 25% spending limit on a regular basis. This calculation will be documented and reviewed

periodically to ensure ongoing compliance with State law.

- A tracking mechanism will be established within our accounting practices to monitor Promotion Fund expenditures in real time. This will allow for improved oversight and ensure expenditure remains within the prescribed limits.
- The Commission will reinforce internal controls to ensure that all expenditures are charged to the appropriate fund. This will include additional review procedures and coordination with fiscal staff to verify proper fund allocation prior to payment approval.
- To ensure compliance with legislative appropriations, the Commission will conduct periodic reconciliations and reviews of all fund activity against authorized spending limits.

The Commission is committed to strengthening its financial oversight processes and ensuring full compliance with all applicable statutes and guidelines.

Promotion Fund Grant Conditions Not Being Met

WHAT HAPPENED

The NDRC did not properly administer Promotion Fund grants.

BACKGROUND

The NDRC awards grants from the Promotion Fund. These grants are intended to be for the promotion of horse racing within the state (N.D.A.C. 69.5-01-12-01).

The NDRC created a grant application which requires grantees to explain the proposed use of the funds, how it conforms to state law, and how it will benefit horse racing in North Dakota. Each grant recipient must provide itemized expenditure reports within 60 days of completion of an event (Promotion Fund Grant Application).

The NDRC also requires each Promotion Fund recipient to provide a verbal and written report at the November NDRC board meeting (Grant Conditions Agreement).

Failure to Meet Grant Conditions

The NDRC awarded 43 grants totaling \$1.8 million in the audit period. We randomly and judgmentally selected thirteen grants to review and found the following issues:

- Three grants totaling \$25,500 were awarded but no grant applications were submitted. Two are given annually to racetracks without requiring applications, and one was given after a request was made at a board meeting.
- Three grantees did not provide itemized reports showing how the money was used. These grants totaling \$7,500 were used for two stallion auctions and a steward certification.
- Three grantees did not provide written reports at the November NDRC meetings, and it was unclear whether

verbal reports were given outlining what the funds were used for.



Knowing what grant money is used for ensures that Promotion Fund dollars are being used in **the way the grant is intended**

Upon review of the documentation for grants, it was unclear whether some of them met the primary purpose of the Promotion Fund. Knowing what grant money is used for ensures that Promotion Fund dollars are being used in the way the grant is intended.

Internal controls should be designed to make sure there is compliance with grant requirements and State Law restrictions for fund usage (GAO Greenbook 10.04). In this situation, the NDRC should make sure grant recipients submitted the required reports and funds were used for a purpose allowed by State Law. Non-compliance limits the availability of funds for other eligible applicants and the potential failure to achieve program objectives.

RECOMMENDATION

We recommend the North Dakota Racing Commission develop procedures to ensure all grantees meet promotion fund grant requirements which include:

- Submitting an application that includes the intended use of the funds, how the use complies with State Law, and how the use benefits horse racing.
- Itemized expenditure reports are provided to the North Dakota Racing Commission within 60 days of the qualifying event and;

Continued on following page...

- Providing a verbal and written report at the November board meeting.

North Dakota Racing Commission Response

The North Dakota Racing Commission appreciates the auditor's recommendation and concurs with the need to ensure consistent compliance with promotion fund grant requirements.

The Commission currently maintains processes governing grant applications and reporting; however, we recognize the opportunity to further formalize and standardize these procedures. To that end, the Commission will review and enhance its existing practices to ensure that all grantees:

- Submit complete applications detailing the intended use of funds, compliance with applicable law, and the anticipated benefit to horse racing.
- Provide timely, itemized expenditure reports following qualifying events; and
- Deliver both written and verbal reports to the Commission as required.

The Commission will work to implement these enhancements in a manner that promotes clarity, accountability, and administrative efficiency while continuing to support the underlying goals of the promotion fund.

Improper Breeders' Fund Awards

WHAT HAPPENED

The NDRC paid Breeders' Fund awards to horse owners who were not eligible to receive them.

BACKGROUND

The ND Breeders' Fund provides money for North Dakota-bred horses running in both in-state and out-of-state races. To be eligible for this money, the breeder or owner must register the horse with the NDRC. This includes providing the original breed registration certificate, which must be embossed by the NDRC, before entry into any race eligible for Breeders' Fund awards (N.D.A.C. 69.5-01-09-02(1)). This ensures that awards are given to the correct horse owner and that the horse was bred in North Dakota.

When horse ownership changes, a copy of the breed certificate showing proof of current ownership must be provided to the NDRC (N.D.A.C. 69.5-01-09-08). Failure to submit this before racing disqualifies a horse from a Breeders' Fund award (N.D.A.C. 69.5-01-02(1)).



The NDRC paid **306 awards totaling approximately \$1.1 million** during the audit period

Breeders' Fund Awards Given Without Complete Registration Documents

The NDRC paid 306 awards totaling approximately \$1.1 million during the audit period. We randomly sampled 12 awards and identified two, totaling \$1,957, that went to

horse owners who did not provide records of ownership transfer prior to racing.

The NDRC initially withheld these awards. Letters were sent to the owners showing the change of ownership requirements and the definition of a racehorse owner (N.D.A.C. 69.5-01-09-08 and N.D.A.C. 69.5-01-09-01(7)).

Two weeks after the letters were sent withholding the awards, follow up letters were sent stating that "although some items were missing and/or technically late the file now appears to be complete. The decision has been made to award payment for the 2021 race meet season." The letters stated this was a one-time exception. As a result, Breeders Fund awards were given to ineligible horse owners.

RECOMMENDATION

We recommend the North Dakota Racing Commission only pay out Breeders Fund awards to eligible horse owners as required by State Administrative Code.

North Dakota Racing Commission Response

The North Dakota Racing Commission appreciates the auditor's recommendation and acknowledges the importance of ensuring that Breeders Fund awards are distributed in full compliance with the requirements set forth in State Administrative Code.

The Commission will review its current processes and internal controls related to eligibility verification and award distribution. Where appropriate, procedures will be clarified or enhanced to ensure that payments are made only to eligible horse owners in accordance with applicable rules. As a corrective measure, the Commission has already incorporated the applicable administrative rule into the condition books at both North Dakota racetracks to provide clear notice to participants regarding eligibility requirements. In addition, the Commission will review and, where appropriate, strengthen its internal controls by enhancing eligibility verification procedures and reinforcing

communication with stakeholders.

The Commission remains committed to administering the Breeders Fund program in a consistent, transparent, and compliant manner.

documented or agreed upon by both parties.

FINDING
2025-04

Improper Procurement

WHAT HAPPENED

The NDRC did not follow procurement requirements on purchases of goods and services totaling \$63,675.

BACKGROUND

The NDRC procured \$590,300 worth of goods and services from 10 vendors. Our team selected one voucher from each vendor and found:

- \$63,675 for advertising services did not have a written contract. The NDRC had a finding from the State Procurement Office in 2024 for the lack of a written contract for advertising services. These are required for any goods or services needed from a specific contractor (Attorney General Contract Drafting and Review Manual).
- Our team found the NDRC continued to make payments to the same vendor without executing a written contract. This error accounted for 94% of all advertising expenditures paid by the NDRC during the audit period.

The NDRC had turnover in the Director position, who was previously responsible for procurement and had received the required training. A new person was not trained or designated to take over these duties, so the Office of Management and Budget instructed the NDRC to use the State Procurement Office for purchases over \$10,000 to ensure required procurement guidelines were followed. Instead, the NDRC continued making these purchases without the assistance of the State Procurement Office. Without following procurement requirements, the NDRC cannot ensure they are purchasing commodities and services at the best available price. The absence of a written contract also means that key terms, such as the full scope of work and compensation details, are not formally



The NDRC **continued making these purchases without the assistance** of the State Procurement Office

RECOMMENDATION

We recommend the NDRC obtain the necessary procurement training and ensure that State Procurement Manual requirements are met.

North Dakota Racing Commission Response

The North Dakota Racing Commission acknowledges the recommendation and affirms its commitment to compliance with the State Procurement Manual.

The Commission believes its current practices are generally consistent with state procurement requirements; however, it recognizes the value of further formalizing and documenting these processes. As a corrective measure, appropriate staff have completed or are scheduled to complete the necessary procurement training. In addition, the Commission will continue to refine its internal procedures to ensure clear documentation of procurement activities and consistent adherence to applicable policies.

The Commission remains committed to transparency, accountability, and full compliance with state procurement standards.

Audit Procedures

Primary Objective

INTERNAL CONTROL

We obtained an understanding of internal control through inquiries, observations, and inspection of documentations and electronic data records. We planned our audit work to assess the design, implementation, and operating effectiveness of those internal controls that were significant to our audit objectives.

The specific internal control testing completed for this audit objective is identified below:

- The purchase card expenditures and the related receipts are reviewed and approved by the Executive Director.
- Breeders' Fund awards were given to horse owners that applied and were approved for registration by the NDRC.
- Expenditures made using the Horse Racing Purse Fund were approved by the NDRC.
- Grants given out of the Horse Racing Promotion Fund had grant applications that were approved by the NDRC.
- Deficiencies were identified surrounding incomplete registration of horses in the Breeders' Fund (See Finding 2025-03).
- Deficiencies were identified surrounding missing grant applications for the Promotion Fund (See Finding 2025-02).

SCOPE

The NDRC's sole location is its Bismarck office which was included in the audit scope.

METHODOLOGY

To meet this objective, we:

- Interviewed appropriate agency personnel.
- Observed the NDRC's processes and procedures.
- Analyzed financial data in ConnectND to determine areas of risk.
- Selected a random sample of operating expenditures to ensure there was documentation to support the purchase and that the purchase was reasonable and for a lawful and official purpose of the agency (N.D.C.C. 44-08-08-05.1).
- Randomly selected and tested a sample of purchase card expenditures to determine proper coding was used, proper receipts were on file, expenditures were reasonable, and expenditures were approved by the Executive Director.
- Selected a judgmental sample of expenditures subject to procurement rules to ensure that proper coding was used, the amount paid was properly supported and reasonable, and that relevant legal and policy requirements were followed (N.D.C.C. 48-01.2, OMB Procurement Policies).
- Selected a random sample of grant expenditures paid out of the Breeders' Fund to ensure grants were made to owners of horses that were registered with the NDRC (N.D.A.C. 69.5-01-09-02).
- Selected a judgmental and random sample of expenditures paid out of the Horse Racing Purse Fund to ensure grants were for the intended purpose of supplementing horse racing purses at live race meets held within the state of North Dakota (N.D.A.C. 69.5-01-10-02), all payments were supported, and the grant was approved by the NDRC.
- Selected a judgmental and random sample of expenditures paid out of the Promotion Fund to ensure grants were made for legal purposes of the fund

and supporting documentation or receipts were held (N.D.A.C. 69.5-01-09-02).

- Analyzed expenditures paid out of the Horse Racing Promotion Fund to ensure the NDRC did not use more than 25% of the fund's beginning fund balance to pay for operating expenses (N.D.C.C. 53-06.2-11(6)).

AUTHORITY AND STANDARDS

This biennial audit of the North Dakota Racing Commission has been conducted by the Office of the State Auditor pursuant to authority within North Dakota Century Code Chapter 54-10.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The standards used to evaluate internal control are published in the publication Standards for Internal Control in the Federal Government issued by the Comptroller General of the United States (Green Book, GAO-14- 704G).

Financials

Revenues and Expenditures

REVENUES AND OTHER SOURCES	JUNE 30, 2023	JUNE 30, 2022
Horse Racing Taxes	\$ 1,130,465	\$ 1,206,203
Breakage Revenue	246,925	275,804
Licenses and Fees	73,895	88,209
Unclaimed Tickets	15,378	14,815
Investment Earnings	3,190	1,280
Total Revenue and Other Sources	\$ 1,469,853	\$ 1,586,311

EXPENDITURES AND OTHER USES	JUNE 30, 2023	JUNE 30, 2022
Grants	\$ 1,046,394	\$ 1,090,891
Salaries and Benefits	237,745	234,681
Professional Services	135,241	134,036
IT Data Processing and Equipment	45,032	7,754
Travel	25,076	29,204
Operating Expenditures	15,219	20,550
Rent	14,400	14,727
Supplies	1,495	2,793
Total Expenditures and Other Uses	\$ 1,520,602	\$ 1,534,636

Source: ConnectND Financials

Continued on the following page

Financials

Revenues and Expenditures

REVENUES AND OTHER SOURCES	JUNE 30, 2025	JUNE 30, 2024
Horse Racing Taxes	\$ 1,174,661	\$ 1,178,161
Breakage Revenue	350,509	258,342
Licenses and Fees	67,570	80,730
Investment Earnings	26,086	3,756
Unclaimed Tickets	16,032	17,446
Total Revenue and Other Sources	\$ 1,634,858	\$ 1,538,435

EXPENDITURES AND OTHER USES	JUNE 30, 2025	JUNE 30, 2024
Grants	\$ 961,724	\$ 1,000,214
Salaries and Benefits	235,257	235,193
Professional Services	151,427	144,059
Advertising	44,115	21,321
IT Data Processing and Equipment	26,207	23,758
Travel	21,900	43,987
Operating Expenditures	15,622	15,304
Rent	14,400	14,400
Supplies	2,121	2,913
Total Expenditures and Other Uses	\$ 1,472,773	\$ 1,501,149

Source: ConnectND Financials

Appropriations

For the Biennium Ended June 30, 2023

	FINAL APPROPRIATION	EXPENDITURES	UNEXPENDED APPROPRIATIONS
Expenditures by Line Item			
Racing Commission	\$ 582,740	\$ 544,107	\$ 38,633
Totals	\$ 582,740	\$ 544,107	\$ 38,633
Expenditures by Source			
General	\$ 416,137	\$ 416,137	\$ -
Other	166,603	127,970	38,633
Totals	\$ 582,740	\$ 544,107	\$ 38,633

For the Biennium Ended June 30, 2025

	FINAL APPROPRIATION	EXPENDITURES	UNEXPENDED APPROPRIATIONS
Expenditures by Line Item			
Racing Commission	\$ 662,611	\$ 584,506	\$ 78,105
Totals	\$ 662,611	\$ 584,506	\$ 78,105
Expenditures by Source			
General	\$ 490,056	\$ 490,055	\$ 1
Other	172,555	94,451	78,104
Totals	\$ 662,611	\$ 584,506	\$ 78,105

Source: ConnectND Financials



Office of the
State Auditor


NORTH DAKOTA STATE AUDITOR
JOSHUA C. GALLION


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