

## **Division of Special Revenue Minimum Record-keeping Requirements**

The Audit Section of the Division of Special Revenue has assembled pertinent information contained on this page to acquaint contract kennel licensees who will be operating at greyhound tracks in Connecticut with the role and functioning of the Audit Section, as well as with the Division's requirements and expectations in the following areas:

- A. General record-keeping requirements;
- B. Reviews (records required and procedures used);
- C. Issues most commonly cited during kennel reviews.

We hope that you will find this information useful as a future reference source and request that you provide it to your record keeper and/or accountant immediately.

### **A. GENERAL RECORD-KEEPING REQUIREMENTS**

The first general requirement is that records for the kennel operation at the racetrack must be segregated from other bookings and any other operations (such as a greyhound farm) that the kennel may have. **It is also expected that kennel records will be maintained on an on-going basis.** The following is a more specific list of the Division's record-keeping requirements pertinent to the licensed kennel operation:

1. A business checking account should be maintained. This account should be used for payment of all routine business expenditures including, but not limited to, the purchases of kennel supplies including food and bedding, as well as payment of wages for any employees working for the kennel. It is expected that the only items paid for in cash will be unusual, incidental, non-recurring expenditures.

A personal checking account may be used instead of a business checking account if the check register is maintained so that payments that are business related are clearly noted and differentiated between those payments that are for personal expenses, and, items #2 and #3 are also completed by the kennel;

2. A cash receipts journal, totaled monthly, summarized annually, and reconcilable to the federal and state income tax returns, with support documentation for all receipts;
3. A cash disbursements journal, totaled monthly, summarized annually, and reconcilable to the federal and state income tax returns, with support documentation for all disbursements;
4. Bills of Sale for all purchases and sales of dogs owned by the kennel;

5. Maintenance of a schedule of all dogs owned by and leased to the kennel with a copy of all NGA certificates on file;
6. A note for all loans, either to or from the kennel and between the kennel and the racetrack, detailing all pertinent information (e.g., parties to the loan, repayment terms, interest rate, security, etc.);
7. Evidence of adherence to all pertinent federal and state regulations involving payroll and payroll taxes, income taxes, sales and use taxes, IRS Form 1099's, etc.

## **B. ANNUAL REVIEW (PROCEDURES USED/RECORDS REQUIRED)**

The Audit Section plans to review the books and records of each kennel after the first year of operating in Connecticut, and periodically thereafter, focusing on the following three (3) areas:

1. Current Records Maintenance - We will evaluate the type and quality of records maintained, as compared with the previously established minimum record-keeping requirements (Items #1-7, above).
2. Reconciliation of Receipts and Disbursements - We will tie out revenue and expenses to the federal and state income tax returns, and to the income statement for the Connecticut operation provided with the annual license renewal. In addition, we will review the supporting documentation for all major expenses of the kennel.
3. Compliance with Greyhound Racing Regulations and other State and Federal Requirements - We will review the kennel's records for compliance with Division regulations as well as compliance with other applicable state and federal regulations involving payroll, sales tax, income taxes, IRS Form 1099's, etc.

A list of the records required to be made available at the annual review are as follows:

- Bank statements with canceled checks
- Cash receipts journal
- Cash disbursements journal
- Invoices (paid and unpaid)
- Payroll records including tax returns
- All notes for loans
- Listing of leased and owned dogs
- IRS Form 1099's, 1096's, W-2's, W-3's

The review will generally be conducted either at the kennel offices, if in Connecticut, or at the greyhound racetrack, and usually takes no more than one day. Other arrangements, such as mailing the records to the Division offices for review, can be arranged if preferred by the kennel owner.

## **C. COMMON ISSUES**

Having completed kennel reviews for a number of years, we have found that there are a few areas that continue to be cited in our reports, and therefore should be emphasized:

1. All cash transactions, including, but not limited to, those made for the purchase of dog food and paper, and reimbursements for expenditures made by the trainer, **must have support documentation.**
2. Purchases of dog food or supplies for dogs racing in Connecticut are subject to Connecticut sales and use tax, regardless of the location of the purchase.
3. Pursuant to federal guidelines, IRS Form 1099's must be issued for all payments for services (other than those subject to payroll reporting requirements) totaling six hundred dollars (\$600) or more in any year, for an individual. A copy of these federal guidelines will be made available upon request.
4. **Employee bonuses, including those based on a percentage of dog winnings, are considered wages according to IRS regulations,** and as such, subject to federal and state withholding taxes, as well as all other payroll taxes.
5. Commissions paid to the dog owners will be made directly by the racetrack; consequently, kennels should not have any expenses characterized as commissions within their financial statements.
6. Volunteer helpers at a kennel should not be receiving payments or remuneration of any kind from a kennel, in accordance with their signed agreement.

We will be happy to work with your bookkeeper, accountant or other designee to answer any questions pertaining to the minimum record keeping requirements, the annual review, or kennel records in general.