

INTERNAL AUDIT OF THE
LICENSING APPLICATIONS AND REGISTRATIONS
AS OF JUNE 26, 2014

AT THE
TEXAS RACING COMMISSION

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Audit Committee and Commissioners
Texas Racing Commission
Austin, Texas

We have conducted the internal audit of the Licensing Applications and Registrations processes of the Occupational Licensing Program at the Texas Racing Commission (Commission) as of June 26, 2014. Our objectives were to determine the reliability and integrity of information, compliance with policies, procedures, laws, and regulations, efficiency and effectiveness of operating procedures, and safeguarding of assets. The results of our internal audit disclosed that the Commission has implemented good controls over the licensing applications and registrations processes. We noted some opportunities for enhancing the controls in place.

The report that accompanies this letter summarizes our comments and recommendations.

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June 26, 2014
Austin, Texas

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Executive Summary

The Texas Racing Commission was created in the Second Called Session of the 69th Legislature and approved by a state-wide referendum in November 1987. Article 179e, V.T.C.S., created the Texas Racing Commission and authorizes the Commission to:

1. Oversee the Texas Bred Incentive Programs for horses and greyhounds;
2. Evaluate applications and award licenses for pari-mutuel racetracks in Texas;
3. Oversee the construction and renovation of major horse tracks, major greyhound tracks, and numerous smaller horse tracks and county fair tracks throughout the State;
4. License, regulate, and enforce all aspects of pari-mutuel wagering and participants in pari-mutuel racing; and
5. Provide state and local revenues.

The Texas Racing Commission regulates all aspects of pari-mutuel horse and greyhound racing through licensing, on-site monitoring, and enforcement. The Texas Racing Act (Article 179e, Vernon's Civil Statutes) sets out the Commission's responsibilities with respect to the operations of pari-mutuel racetracks.

The Texas Racing Act allows pari-mutuel wagering on horse and greyhound racing and provides for the strict regulation and control of pari-mutuel wagering in connection with that racing. Principal responsibilities of the Commission under the Texas Racing Act are to administer and enforce all laws, rules, and regulations affecting horse racing, greyhound racing, and pari-mutuel wagering and also adjudicate disciplinary matters arising from the enforcement of those laws and regulations dealing with horse racing and greyhound racing and pari-mutuel wagering.

For fiscal year 2013 the Texas Legislature appropriated the Commission a budget of \$8,949,657 with 62.3 Full-Time-Equivalent (FTEs) employees. In fiscal year 2014 the appropriated budget was \$8,315,405 with 52.6 FTE employees. Currently, approximately 7.7 FTEs of the 52.6 FTE's work in the Occupational Licensing Program at the state's five racetracks processing licensing applications and registrations.

The Texas Racing Commission's Occupational Licensing Department receives and processes all licensing applications and registrations. Generally, racetrack employees who work in an occupation that afford the employee an opportunity to influence racing with pari-mutuel wagering, or who will likely have significant access to the backside or restricted areas of a race track, must be licensed by the Commission. At the time of the internal audit, there was a listing of fifty-five (55) occupational individual and business license types.

Applicants for most licenses go to the licensing office at a pari-mutuel racetrack to be licensed, although there are some license types which may be processed and issued by mail.

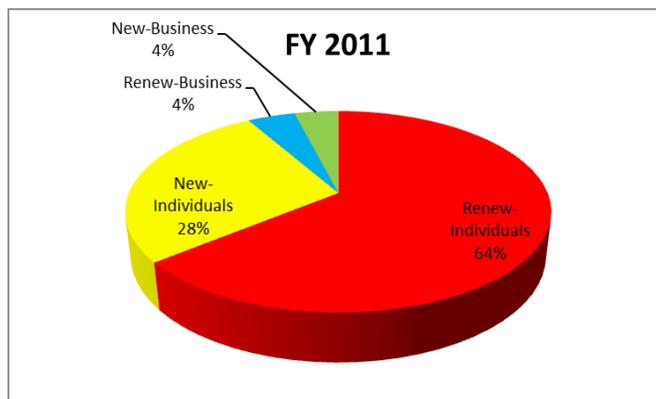
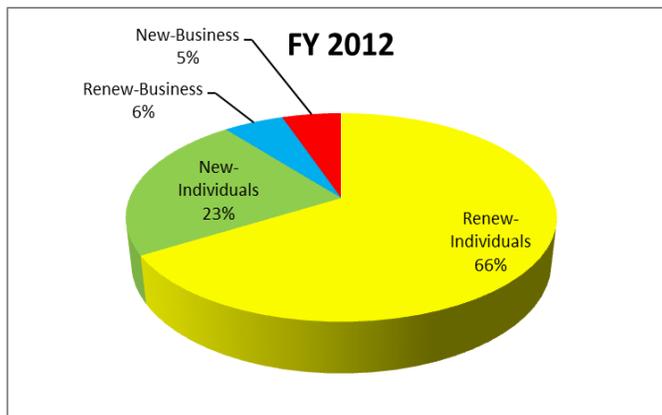
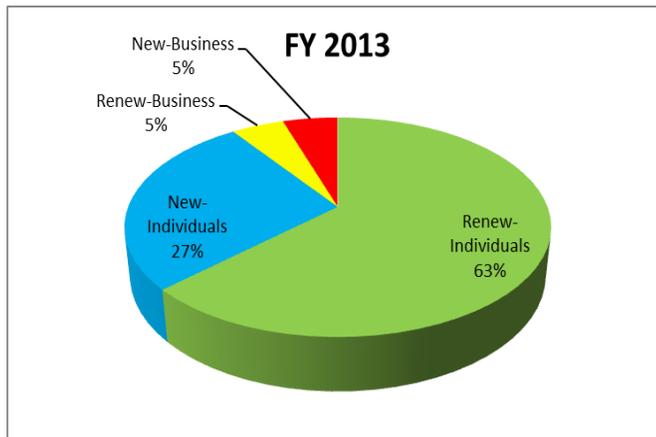
To be licensed a person must:

- Complete an application form
- Be fingerprinted on cards provided by the Commission which are sent to the Federal Bureau of Investigation (FBI) and the Texas Department of Public Safety (DPS).

The Deputy Director for Racing Oversight Division supervises personnel directly responsible for the following teams: licensing, investigations, veterinarians/drug testing, and stewards/judges.

Total occupational licensing applications and registrations processed during fiscal years 2013, 2012, & 2011 were:

<u>Licenses Processed</u>	<u>FY 2013</u>	<u>FY 2012</u>	<u>FY 2011</u>
Renew – Individuals	4231	4387	5456
New – Individuals	1827	1515	2346
Renew – Business	320	358	367
New- Business	<u>335</u>	<u>352</u>	<u>339</u>
Total	6713	6612	8508



Internal Audit Results

The Commission has licensing applications and registration processes in place to provide reasonable assurance that the Texas Racing Act laws and Texas Racing Commission Rules of Racing are being enforced at the racetracks in the state.

Written policies and procedures have been developed by the Occupational Licensing Department in processing licensing applications and registrations with supervisory management involved in the ongoing revision and development the policies and procedures as needed to ensure that concerns or issues regarding licensing applications and registration are being addressed at headquarters and the state racetracks.

The Commission should enhance the occupational licensing applications and registrations processes by instituting controls to ensure completion and documentation of licensing applications and registrations forms at the racetracks.

Summary of Management's Response

Management agrees with this recommendation. The Licensing Division will implement a periodic random audit of field office applications to ensure forms are fully completed.

Objectives

The primary objectives of the internal audit were:

1. Reliability and Integrity of Information
2. Compliance with Policies, Procedures, Laws, and Regulations
3. Efficiency and Effectiveness of Operating Procedures
4. Safeguarding of Assets

RESULTS

Internal Audit Objective 1: Reliability and Integrity of Information

Commission personnel record each license application and registration processed in an automated Occupational Licensing system. The applicants' data is mailed or entered into the automated system by racetrack licensing personnel using on-line computer terminals.

Internal Audit Objective 2: Compliance with Policies and Procedures, Laws, and Regulations

The Texas Racing Commission has developed a policies and procedures manual for processing licensing application and registration forms at all the racetracks for individuals and businesses applying for new/renewed licenses and registrations. The policies and procedures manual is kept current to ensure compliance with the Texas Racing Act laws, the Texas Racing Commission Rules of Racing, and the agency's policies and procedures.

Finding 1: Institute Controls To Ensure Adequate Completion and Documentation of Licensing Applications

During our compliance testing of the licensing applications and registrations processes, we found that eight (8) of thirty-five (35) licensing applications and registration forms were not fully completed by licensing personnel when processed as required by the Commission's written policies and procedures. The issues ranged from not including the applicants driver license numbers to not filling in all the boxes in the application or registration forms.

The commission's policies and procedures require that commission licensing personnel verify all information on licensing applications and registrations and that a license not be issued without completed paperwork. However, the policies and procedures do not require that each application or registration be reviewed by another authorized staff at the racetracks to ensure proper completion and documentation. This poses the risk of issuing licenses to unqualified applicants and/or not having adequate information to support decisions reached on an application or registration. Additionally, the information on the licensing automated system may not match the information on the licensing forms.

Recommendation:

The commission should institute controls in the occupational licensing processes of individuals and businesses to ensure completion and documentation of licensing applications and registrations forms.

Management's Response:

Management agrees with this recommendation. The Licensing Division will implement a periodic random audit of field office applications to ensure forms are fully completed.

Internal Audit Objective 3: Efficiency and Effectiveness of Operating Procedures

The Commission has an automated Occupational Licensing system to assist licensing personnel at the state's racetracks in processing of licensing applications and registrations. This licensing system is a multi-tracking system that records and maintains licensing, licensee, and registration information for both horse and greyhound racetrack participants.

The licensing policies and procedures were written to correspond with the steps used by racetrack licensing personnel in the processing of licensing applications and registrations.

Internal Audit Objective 4: Safeguarding of Assets

No exceptions were noted on license and fingerprint fee amounts collected by the commission for the application and registration forms tested.

The Commission receives and processes licensing applications and registrations in order to ensure that compliance is adhered to by everyone in accordance with the Texas Racing Act and the Texas Racing Commission Rules of Racing in order to protect people, race animals, race track resources, and the integrity of the racing industry. During fiscal year 2013, there were 123 licenses suspended or revoked, and applications denied. A sample of the suspended, denied, or revoked licenses and applications were tested for timely and proper processing by the commission. No exceptions were noted during our internal audit.

Appendix 1

Objective and Scope

Objective

The primary objectives of the internal audit were to determine the following:

- *Reliability and Integrity of Information*
- *Compliance with Policies, Procedures, Laws, and Regulations*
- *Efficiency and Effectiveness of operating procedures*
- *Safeguarding of assets*

Scope

The scope of the internal audit work included ensuring compliance with the Texas Racing Act, Texas Racing Commission Rules of Racing, and occupational licensing applications and registrations operating policies and procedures. The scope included interviews with the Commission's Deputy Director for Racing Oversight, Director of Licensing, and appropriate division staff. Licensing applications and registrations forms, policies and procedures, and other pertinent reports and documents were tested for accuracy and compliance.

Methodology

Meetings were held with the Deputy Director for Racing Oversight and the Director of Licensing to obtain documents and reports relating to the processes and functions used at the racetracks by licensing personnel in processing occupational licensing applications and registrations and in identifying controls in place to ensure the data is monitored and reviewed by management at the Texas Racing Commission headquarters.

Information collected and reviewed included the following:

- Texas Racing Act
- Texas Racing Commission Rules of Racing
- Agency policies and procedures manual for processing occupational licenses and registrations (Licensing Manual, revised 04/23/14)
- List of all occupational licensing applications and registrations received in Fiscal Years 2011, 2012, & 2013
- Texas Racing Commission Website
- Texas Racing Commission Strategic Plan (2013-2017)
- State Auditor's Office Audit Reports
- General Appropriation Act (FY 2014-2015)

Procedures and tests conducted included the following:

- Interviewed Commission executive management and staff to obtain an understanding of the occupational licensing applications and registrations processes and controls.
- Reviewed Texas Racing Act, Texas Racing Commission Rules of Racing, and Commission's Policies and Procedures for licensing applications and registrations.
- Randomly selected test samples of occupational licensing applications and registrations forms processed from fiscal year 2013 for compliance testing.
- Tested licensing occupational licensing applications and registrations forms processed for compliance with the Texas Racing Act laws, Texas Racing Commission Rules of Racing
- Tested processed occupational licensing applications and registration forms for supporting documentation and compliance with the Licensing Procedure manual's policies and procedures.
- Tested for accuracy of license and registration fees paid
- Reviewed licensing application and registration forms for completeness as required by the Licensing Procedure manual.
- Tested for authorized licensing personnel approval signatures and dates licensing applications and registrations forms were processed.

Criteria Used included the following:

- Texas Racing Act laws
- Texas Racing Commission Rules of Racing
- Texas Racing Commission Occupational Licensing Applications and Registrations Procedures
- Texas Racing Commission Website
- Review of Other pertinent reports and documents

Other Information

Our internal audit was conducted 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 internal audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our internal audit objectives. Our internal audit also conforms with the Institute of Internal Auditor's (IIA) *International Standards for the Professional Practice of Internal Auditing*.

Appendix 2

Background Information

The Texas Racing Commission was created in the Second Called Session of the 69th Legislature and approved by a state-wide referendum in November 1987. Article 179e, V.T.C.S., created the Texas Racing Commission and authorizes the Commission to regulate all aspects of pari-mutuel horse and greyhound racing through licensing, on-site monitoring, and enforcement. Statute and rule require the Commission to:

- License racetracks that offer racing and the people directly involved with pari-mutuel wagering who work at the racetracks or own race animals.
- Allocate race dates, supervise the conduct of all races, monitor the health and safety of the race animals, and conduct drug tests to ensure the animals race without prohibited substances.
- Oversee all pari-mutuel wagering activity, approve simulcasts, test the totalisator systems (complex computer systems that tally and calculate pari-mutuel wagers), and ensure the proper allocation and distribution of revenue generated by pari-mutuel wagering.
- Administer the Texas-Bred Incentive Program, which provides economic incentives to support a health and vigorous breeding industry in the state.

The Racing Act allows pari-mutuel wagering on horse and greyhound racing and provides for the strict regulation and control of pari-mutuel wagering in connection with that racing.

Principal responsibilities of the Commission are to:

1. Adopt rules and regulations for conducting racing involving wagering;
2. Administer and enforce all laws, rules, and regulations affecting horse racing, greyhound racing, and pari-mutuel wagering;
3. Adjudicate disciplinary matters arising from the enforcement of those laws and regulations dealing with horse racing and greyhound racing and pari-mutuel wagering; and
4. Regulate and supervise each racing meeting conducted in the state of Texas, the operations of racetracks, and the participants in a race meeting.

Extensive rulemaking authority is granted to the Commission throughout the Racing Act. The rulemaking authority vested in the Texas Racing Commission is authorized for administration and enforcement purposes.

The Racing Commission consists of seven members appointed by the governor with the advice and consent of the Senate to serve overlapping six year terms. Five members must represent the general public and have general knowledge of business or agribusiness. At least one of those appointed members may be a veterinarian, and being licensed as a veterinarian satisfies the requirement that the person have general knowledge of business or agribusiness. One member must have special knowledge or experience related to horse racing and one member must have special knowledge or experience related to greyhound racing. In addition to the appointed members, there are two ex-officio members, the Chair of the Public Safety Commission and the Comptroller of Public Accounts. The Governor appoints the chair and the members elect the vice-chair.

The Commission appoints an Executive Director to supervise the agency's daily activities as a whole and manages the agency's two divisions and its information team. The Agency's operating budget is prepared and approved by the Commission on an annual basis, whereas the State legislative appropriation request is determined every two years. Both the budget and appropriations are reviewed and approved by the State Legislature.

The agency's structure consists of two divisions and an Executive group. The two divisions are the Racing Oversight Division and the Finance & Wagering Division. The Executive group is headed by the Executive Director.

Although the Commission's budget is approved by the legislature, it does not receive any General Revenue funds from the State for its operations. Revenues are primarily from license fees and fines, uncashed winning wagers, and breakage from wagering at greyhound races. Approximately fifty percent (50%) of the expenditures are passed through the Agency to the official breed registries for the Texas Bred Incentive Program. Funds collected by the Agency are directly utilized in operations, and not passed on to the State.

Appendix 3

Report Distribution

As required by Government Code Section 2102.0091 copies of this report should be filed with the following:

Governor's Office of Budget and Planning

Attn: Kate McGrath
Phone: (512) 463-1778
internalaudits@governor.state.tx.us

Legislative Budget Board

Attn: Ed Osner
Phone: (512) 463-1200
Ed.Osner@lbb.state.tx.us

State Auditor's Office

Attn: Internal Audit Coordinator
Phone: (512) 936-9500
iacoordinator@sao.state.tx.us

Sunset Advisory Commission

Attn: Ken Levine
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sunset@sunset.state.tx.us

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