

INTERNAL AUDIT OF THE  
LICENSING APPLICATIONS and REGISTRATIONS  
AS OF JUNE 26, 2017  
AT THE TEXAS RACING COMMISSION  
(REPORT NO: TXRC- 017-001)



MONDAY RUFUS & CO., P.C.

---

CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS



---

# MONDAY RUFUS & CO., P.C.

Certified Public Accountants & Advisors

---

Audit Committee and Commissioners  
Texas Racing Commission  
Austin, Texas

We have conducted the internal audit (audit) of the Licensing Applications and Registrations processes at the Texas Racing Commission (Commission) as of June 26, 2017. 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 audit disclosed that management of the Commission has established procedures and controls in place for the licensing applications and registrations. The report that accompanies this letter summarizes our comments.

We appreciate the courtesy and cooperation shown by the management of the Commission during the course of the audit engagement.

*Monday Rufus & Co., P.C.*

June 26, 2017  
Austin, Texas

## TABLE OF CONTENTS

Executive Summary.....	3
Summary of Internal Audit Results.....	5
Objectives and Observations.....	6
Appendices:	
1. Objective, Scope and Methodology.....	8
2. Background Information.....	10
3. Report Distribution .....	12





## **Executive Summary**

### **Background Information**

The Texas Racing Commission was created in the Second Called Session of the 69<sup>th</sup> 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:

- 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 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 2016 the Texas Legislature appropriated the Commission a budget of \$7,681,200 with 51.2 Full-Time-Equivalent (FTEs) employees. The 51.2 FTEs shall be increased by an additional 5.0 FTEs under the agency's appropriation rider number 5 in each year for each new horse racetrack that begins operations for the first time during the biennium or for each reopening horse racetrack that initiates operations again during the biennium contingent upon the Texas Racing Commission generating the amount of revenue indicated in the appropriation for each new horse racetrack.

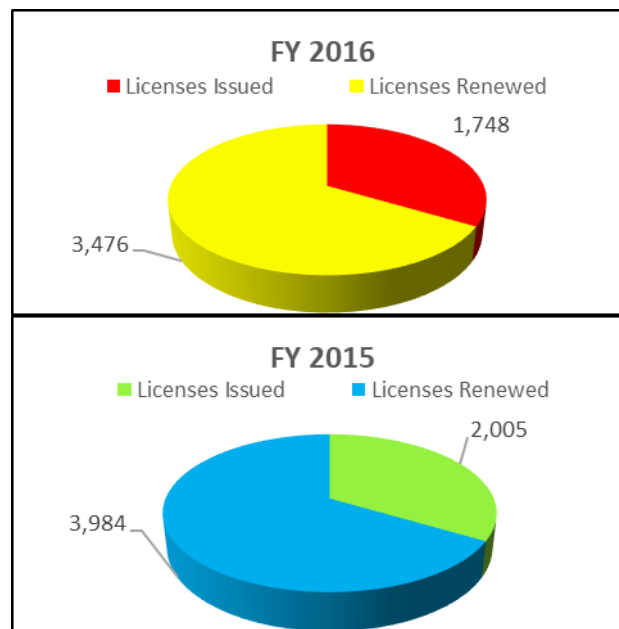
The Texas Racing Commission's Occupational Licensing Department receives and processes all licensing applications and registrations. Currently 5.5 FTEs of the agency's 43 FTE's work in the Licensing Department processing licensing applications and registrations at the Commission's headquarters in Austin and six field offices. The six field offices are located in Fredericksburg, Grand Prairie, Harlingen, Houston, La Marque, and Selma.

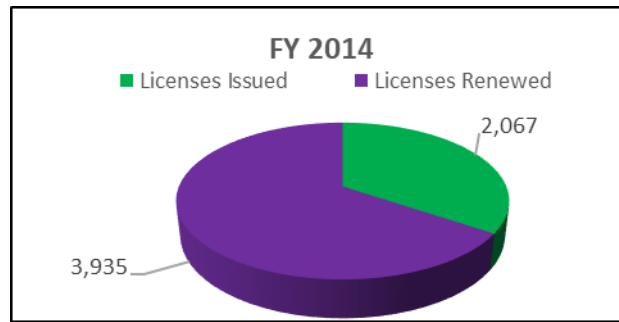


Generally, racetrack employees who work in an occupation that afford the employee an opportunity to influence racing with pari-mutuel wagering, or who will likely have significant access to the backside or restricted areas of a race track, must be licensed by the Commission. At the time of the internal audit, there was a listing of fifty-five (55) occupational individual and business license types. Currently applications for thirty-eight (38) of the 55 license types can be submitted through Texas Online. To obtain a license an applicant must submit a completed application form and submit fingerprints. The fingerprints are obtained on a fingerprint card or electronically. The fingerprints are submitted electronically and includes a \$40.75 fingerprint processing fee. The fingerprint cards are sent to the Federal Bureau of Investigation (FBI) and the Texas Department of Public Safety (DPS). The Commission Licensing personnel can access the fingerprint information results in the DPS system file within 24 hours for fingerprints submitted to DPS.

Total occupational licensing applications and registrations processed during fiscal years 2016, 2015, & 2014 were:

<u>Licenses Processed</u>	<u>FY 2016</u>	<u>FY 2015</u>	<u>FY 2014</u>
Licenses Issued	1748	2005	2067
Licenses Renewed	<u>3476</u>	<u>3984</u>	<u>3935</u>
Total	<u>5224</u>	<u>5989</u>	<u>6002</u>





### **Summary of Internal Audit Results**

The Commission has licensing applications and registrations processes and controls 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 Commission in processing licensing applications and registrations with supervisory management involved in ensuring that current policies and procedures are updated as needed to address concerns or issues regarding licensing applications and registrations at headquarters and the State racetracks.

There were no deficiencies detected in the audit of the licensing application and registration policies and procedures that are significant to the objectives of this audit.



## **Objectives and Observations**

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 AND RECOMMENDATIONS**

### **Internal Audit Objective 1:** Reliability and Integrity of Information

Commission personnel process and record each license application and registration in an automated Licensing system, which is a sub-system of the Commission's database system. The Licensing system is a multi-tracking system that records and maintains licensing, licensee, and registration information for both horse and greyhound racetrack participants. On-line computer terminals at all the racetracks are used to enter licensee data as individuals apply for new/renewed licenses and registrations.

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

The Texas Racing Commission has developed a Licensing Procedure Manual (*Updated 05/04/2017*) with policies and procedures for processing individual and business licensing application and registration forms at all the racetracks. The Licensing Procedure Manual's policies and procedures are 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.

The Commission's policies and procedures require that licensing personnel verify all information on licensing applications and registrations and that a license not be issued without completed paperwork. To ensure that all paperwork has been completed as required, the Director of Licensing will usually make a monthly unannounced visit to each location to review licensing files and documentation.

Thirty-two (32) from a total of 643 new and renewed individual and business licenses applications received through the TxRC portal were randomly selected for compliance testing with the Texas Racing Act, Texas Racing Commission Rules, and Licensing Procedure Manual. No discrepancies were noted during the testing.



Eight (8) from a total of 141 suspended, probated, and denied licenses and applications were randomly selected for testing for compliance with the Texas Racing Act, Texas Racing Commission Rules, Licensing Procedures Manual, and supporting documentation on case rulings by management. No discrepancies were noted during testing. Case rulings are also accessible to the public on the TxRC website.

*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*

The Commission receives no cash for license or registration applications. It only accepts credit cards, checks, or money orders, with deposits from all locations being reconciled and verified daily at the Commission headquarters in Austin.

No exceptions were noted on license and fingerprint fee amounts collected by the commission for the thirty-two (32) application and registration forms tested.

The Commission receives and processes licensing applications and registrations 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. For fiscal year 2016 the auditor randomly selected eight (8) of 141 licenses suspended, probated, and denied for compliance testing and supporting documentation. No exceptions were noted during our audit testing.





## **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 Director of Licensing, Licensing Technicians, 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 Director of Licensing, and the Licensing Technicians 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 Procedure Manual, (updated 05/01/2017))
- List of all occupational licensing applications and registrations received in Fiscal Years 2016
- Texas Racing Commission Website
- Texas Racing Commission Strategic Plan (2017-2021)
- State Auditor's Office Audit Reports
- General Appropriation Act (FY 2016-2017)



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 Licensing Procedure Manual for licensing applications and registrations.
- Randomly selected test samples of occupational licensing applications and registrations forms processed from fiscal year 2016 for compliance testing.
- Tested 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.
- Tested for management's authorized signatures and supporting documentation for licenses and registrations suspended, probated, and applications denied.

Criteria Used included the following:

- Texas Racing Act laws
- Texas Racing Commission Rules of Racing
- Texas Racing Commission Licensing Procedure Manual
- 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 69<sup>th</sup> 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 is composed of nine members, seven of the members are appointed by the governor with the advice and consent of the Senate to serve overlapping six year terms. The Chair of the Public Safety Commission and the Comptroller of Public Accounts serve as ex-officio members of the Commission with full voting privileges. 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. The Governor appoints the chair and the members elect the vice-chair. The Executive Director is appointed by and serves at the pleasure of the Commission. The agency's structure features an executive group and support staff headed by the Executive Director and Deputy Executive Director responsible for regulatory field staff.

Executive Director

- General Counsel
- Information Technology
- Public Information
- Finance and Administration

Deputy Executive Director

- Licensing
- Investigations
- Veterinarians/Drug Testing
- Stewards/Judges
- Pari-mutuels

The agency submits its Legislative Appropriation Request every two years for legislative approval. The Commission approves the agency's operating budget on a biannual basis.

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 racetrack license fees, licensing fees and fines. Approximately forty-six percent (46%) of the expenditures are passed through the Agency to the official breed registries for the Texas Bred Incentive Program.



## **Appendix 3**

### **Report Distribution**

As required by Gov't Code 2102.0091 copies of this report should be filed with the following:

#### **Governor's Office of Budget and Planning**

Attn: Drew Deberry  
Phone: (512) 463-1778  
Budgetandpolicyreports@governor.state.tx.us

#### **Legislative Budget Board**

Attn: Julie Ivie  
Phone: (512) 463-1200  
Audit@lbb.state.tx.us

#### **State Auditor's Office**

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

#### **Sunset Advisory Commission**

Attn: Ken Levine  
Phone: (512) 463-1300  
sunset@sunset.state.tx.us

#### **Texas Racing Commission:**

John T. Steen III, Chairman  
Ronald F. Ederer, Vice -Chair  
Gloria Hicks  
Margaret Martin  
Robert Schmidt, M.D.  
There are currently two vacancies

#### **Ex-Officio Members**

Steven P. Mach, Chair, Public Safety Commission  
Glenn Hegar, Comptroller of Public Accounts

#### **Texas Racing Commission Management**

Chuck Trout, Executive Director