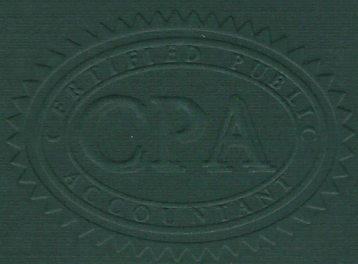


INTERNAL AUDIT OF
REPORTING – KEY PERFORMANCE MEASURES
FOR THE FISCAL YEAR ENDED 2019

AT THE
TEXAS RACING COMMISSION
(REPORT NO. TxRC 020-001)



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 an internal audit (audit) of Reporting – Key Performance Measures (Measures) at the Texas Racing Commission for the fiscal year ended 2019. Specifically, our internal audit was limited to the following Key Measures:

- Output: Number of Occupational Licenses Suspended or Revoked
- Output: Number of Investigations Completed
- Output: Number of New Occupational Licenses Issued
- Outcome: Percentage of Compliance Audits Passed

The report that accompanies this letter summarizes our comments and observations. We appreciate the courtesy and cooperation the management of the commission showed during the course of the engagement.

Monday Rufus & Co., P.C.

August 25, 2020
Austin, Texas

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Executive Summary

Performance Measures are an essential part of the State's Strategic Planning and Performance Budgeting System, which combines strategic planning, performance budgeting, and performance monitoring into the appropriations process which are used as a resource in making state funding decisions based on whether state agencies are accomplishing expected results.

The Internal Auditor is assessing the accuracy and related internal controls of the following reported performance measures so that the Governor, Legislature and Commission's Governing Body can determine to what extent they can rely on reported performance when making decisions:

- Output: Number of Occupational Licenses Suspended or Revoked
- Output: Number of Investigations Completed
- Output: Number of New Occupational Licenses Issued
- Outcome: Percentage of Compliance Audits Passed

Using the Guide to Performance Measure Management (2012 Edition) published by the State Auditor's Office, we performed audit tests to determine the accuracy of the reported performance measure results and controls in place over the collection and reporting of the aforementioned measures. Each measure audited falls into one of the following categories.

- **Certified.** Reported performance is accurate within +/-5 percent, and if it appears that controls to ensure accuracy are in place for collecting and reporting performance data.
- **Certified with Qualifications.** Reported performance appears accurate but the controls over data collection and reporting are not adequate to ensure continued accuracy. A measure is also certified with qualification when controls are strong but source documentation is unavailable for testing. A measure is also certified with qualification if agency calculation of performance deviated from the measure definition but the deviation caused less than +/-5 percent difference between the number reported to ABEST and the correct performance measure result.
- **Inaccurate.** Reported actual performance is +/-5 percent or greater than the reported performance, or when there is a +/-5 percent or greater error rate in the sample of documentation tested. A measure is also inaccurate if the agency's calculation deviated

from the measure definition and caused a +/-5 percent or greater difference between the number reported to ABEST and the correct performance measure result.

- **Factors Prevent Certification.** If documentation is unavailable and controls are not adequate to ensure accuracy. This designation is also used when there is a deviation from the measure definition and the auditor cannot determine the correct performance measure result.

Internal Audit Results

Output: Number of Occupational Licenses Suspended or Revoked

The result is **Certified**. The reported performance measure is accurate within +/-5 percent and the agency has adequate controls in place to ensure the accuracy for the collection and reporting of the performance measure data.

Output: Number of Investigations Completed

The result is **Certified**. The reported performance measure is accurate within +/-5 percent and the agency has adequate controls in place to ensure the accuracy for the collection and reporting of the performance measure data.

Output: Number of New Occupational Licenses Issued

The result is **Certified**. The reported performance measure is accurate within +/-5 percent and the agency has adequate controls in place to ensure the accuracy for the collection and reporting of the performance measure data.

Outcome: Percentage of Compliance Audits Passed

The result is **Certified**. The reported performance measure is accurate within +/-5 percent and the agency has adequate controls in place to ensure the accuracy for the collection and reporting of the performance measure data.

Detailed Observations

Output: Number of Occupational Licenses Suspended or Revoked

The TxRC had adequate controls over the input, processing, and review of performance data, and those controls were operating effectively to ensure the TxRC calculated and reported the performance measure accurately. Based on the auditor's tests of supporting documentation and recalculations of the performance data the performance measure result reported is accurate within +/- 5 percent. Controls appear to be in place to ensure accuracy for collecting, calculating, and reporting performance data. As a result, this measure is **Certified**.

Results: Certified

Reported performance is accurate within plus or minus 5 percent of actual performance and it appears that controls to ensure accuracy are in place for collecting and reporting performance data.

Results Reported in the Automated Budget and Evaluation System of Texas (ABEST):

Number of Occupational Licenses Suspended or Revoked reported in ABEST were 114 which were reported accurately within +/-5 percent.

Performance Measure Purpose: This measure determines the number of persons committing serious violations of the agency's rules.

Definition: The number of occupational licenses suspended or revoked. A license can only be revoked by the Commission but can be suspended by the stewards or judges at the racetracks.

Data Source: The TxRC Oracle Database for the Supervise Racing Strategy is used to collect and calculate data for the performance measure. The TxRC authorized personnel maintain and update the data. The population of occupational licenses consists of trainers, owners, jockeys, and staff who work within the racing industry.

Calculation Method: The calculation total is determined by a physical count of the number of licenses suspended or revoked for violations of the rules.

Output: Number of Investigations Completed

The TxRC had adequate controls over the input, processing, and review of performance data, and those controls were operating effectively to ensure the TxRC calculated and reported the performance measure accurately. Based on the auditor's tests of supporting documentation and recalculations of the performance data the performance measure result reported is accurate within +/- 5 percent. Controls appear to be in place to ensure accuracy for collecting, calculating, and reporting performance data. As a result, this measure is **Certified**.

Results: Certified

Reported performance is accurate within plus or minus 5 percent of actual performance and it appears that controls to ensure accuracy are in place for collecting and reporting performance data.

Results Reported in the Automated Budget and Evaluation System of Texas (ABEST): The Number of Investigations Completed reported in ABEST totaled 91 which were reported in ABEST accurately within +/-5 percent.

Performance Measure Purpose: This measure is to determine the rate of investigative activity by the agency.

Definition: A count of all investigations of alleged rule violations by occupational licensees completed during the report period. An investigation is considered completed when the supervising investigator reviews and closes the investigation.

Data Source: The reported data is collected by the TxRC Oracle Database for the Investigations reporting. Data is collected and inputted into the database by TxRC investigators, stewards, and the Investigations Director. The investigations Director retrieves the data in the preparation of required reports. The population consists of trainers, owners, jockeys, and staff who work within the racing industry.

Calculation Method: The total number of investigations completed is calculated by adding all the investigations completed during the report period.

Output: Number of New Occupational Licenses Issued

The TxRC had adequate controls in place over the input, processing, and review of performance data, and those controls were operating effectively to ensure the TxRC calculated and reported the performance measure accurately. Based on the auditor's tests of supporting documentation and recalculations of the performance data the performance measure result reported is accurate within +/- 5 percent. As a result, this measure is **Certified**.

Results: Certified

Reported performance is accurate within plus or minus 5 percent of actual performance and it appears that controls to ensure accuracy are in place for collecting and reporting performance data.

Results Reported in the Automated Budget and Evaluation System of Texas (ABEST):

The number of New Occupational Licenses Issued and reported in ABEST and supported by agency documentation were 1,583 which were reported in ABEST accurately within +/- 5 percent.

Performance Measure Purpose: To determine the rate of licensing activity by the agency.

Definition: The number of occupational licenses issued to individuals who were not licensed in the previous year.

Data Source: The reported data is collected by the TxRC Oracle Database for Occupational Licensing reporting. New occupational licensing applications are registered and processed by the Licensing technicians by type of license (57 categories) in the Oracle Database. The ABEST performance measures reporting numbers of new occupational licenses issued are generated from the Oracle Database.

Calculation Method: The total number of new occupational licenses that were issued to individuals who were not licensed in the previous year.

Outcome: Percentage of Compliance Actions Passed

The TxRC had adequate controls over the input, processing, and review of performance data, and those controls were operating effectively to ensure the TxRC calculated and reported the performance measure data accurately.

Based on the auditor's tests of supporting documentation and recalculations of the performance data the performance measure result reported is accurate within +/- 5 percent. Controls appear to be in place to ensure accuracy for collecting, calculating, and reporting performance data. As a result, this measure is **Certified**.

Results: Certified

Reported performance is accurate within plus or minus 5 percent of actual performance and it appears that controls to ensure accuracy are in place for collecting and reporting performance data.

Results Reported in the Automated Budget and Evaluation System of Texas (ABEST):

The Percentage of Compliance Audits Passed and reported in ABEST and supported by agency documentation was 98.90% which was reported in ABEST accurately within +/-5 percent.

Performance Measure Purpose: Demonstrates the TxRC's commitment to insuring statewide compliance with regulatory requirements. The compliance audits passed forms document the type of violation and identify the participants. The information shows the agency has undertaken an appropriate response to ensure compliance.

Definition: The number of compliance audits with a pass rate of 80% or greater as a ratio of total compliance audits conducted. A compliance audit is a regulatory review of simulcast requests and weekly purse reports for compliance with applicable statutory and rule provisions.

Data Source: The TxRC Simulcast Contract APEX Portal is used to select date periods in requesting number of compliance audits which have been approved and denied. The Director of Pari-Mutuels prepares and completes the hardcopy summary documents (Performance Measure worksheets) which are forwarded to the Finance Department/ABEST coordinator

Calculation Method: The Simulcast Contract APEX Portal data is used in calculating compliance audits passed by obtaining the total number of compliance audits completed, which is made up of approved and denied compliance audits. The total of approved compliance audits passed is then divided by the total compliance audits completed to calculate the percentage of compliance audits passed.

Appendix 1

Objective and Scope

Objective

The objectives of this audit were to determine the following:

- Reliability and Integrity of Information
- Compliance with Policies, Procedures, Laws, and Regulations
- Economical and Efficient use of Resources
- Safeguarding of Assets

Scope

Our audit scope included four key performance measures the Commission reported for fiscal year 2019.

- (1) Output: Number of Occupational Licenses Suspended or Revoked
- (2) Output: Number of Investigations Completed
- (3) Output: Number of New Occupational Licenses Issued
- (4) Outcome: Percentage of Compliance Audits Passed

We also reviewed each measure to determine if the TxRC is accurately reporting its performance measures to the Automated Budget and Evaluation System of Texas (ABEST) and has adequate controls (manual and/or electronic, as appropriate) in place over the collection, calculation, and reporting of its performance measures. Our procedures included interviews with the appropriate staff, reviewing and using the Guide to Performance Measurement (March 2012 Edition) published by the State Auditor's Office, a review the operating policies and procedures, laws and regulations, and testing of compliance with these operating policies and procedures, laws, and regulations.

Methodology

The audit methodology consisted of auditing reported results for accuracy and adherence to performance measure definitions, evaluating controls over the Commission's performance measure calculation processes and related information systems, testing of original source documentation, and assessing the reliability of the data obtained from the Commission's information systems that support the performance measure data.

Data Reliability, Completeness and Sampling Methodology

The internal auditors performed the following:

- 1.) Determine population completeness and reasonableness,
- 2.) Review calculations of the performance measures
- 3.) Interview Commission staff knowledgeable in the systems generating the performance measures reports.
- 4.) Review source documentation for performance measure data when possible.
- 5.) Selected and traced transactions to supporting documentation.

Information collected and reviewed included the following:

- Performance measure data stored in the Commission's information systems, performance measure worksheets and supporting documentation.
- Supporting documentation retained in hard-copy for all four key performance measures tested.
- Information technology system quarterly and annual performance measures reports.
- Commission written policies and procedures for the collection, calculation, review, approval, and reporting of performance measures
- Quarterly performance measures reports and supporting documentation reviewed and approved by designated department heads and approved by executive management.
- Signed and dated quarterly memorandum documents from Executive Director approving the entering and reporting of TxRC performance measures into ABEST.

Procedures and tests conducted included the following:

- Review of the Guide to Performance Measure Management (2012 Edition) published by the State Auditor's Office.
- Interviewing Commission staff to gain an understanding of the processes used to document, calculate, and report performance measures.
- Selected Performance Measures as per Risk Assessment and Audit Plan for fiscal year 2020.
- Selected the Commission's four key performance measures listed in the 2018-2019 Legislative Appropriation Act.

- Interviewing information technology staff to gain an understanding of the information systems the Commission used to collect and calculate its performance measures.
- Evaluating the sufficiency of the Commission's policies and procedures to determine whether they were adequate to help ensure the correct calculation of the performance measures.
- Auditing performance measure calculations for accuracy and to determine whether calculations were consistent with the methodology agreed by the Commission, Legislative Budget Board, and Governor's Office of Budget, Planning, and Policy.
- Testing supporting documentation (using the SAO Performance Measure Guideline 2012 Edition) to verify the accuracy of reported performance measures and effectiveness of controls.
- Tested for supervisory and executive management review of information that supports the performance measures data.
- Assessing performance measure results in one of four categories:
 - 1.) Certified
 - 2.) Certified with Qualifications
 - 3.) Inaccurate and
 - 4.) Factors Prevented Certification

Criteria Used included the following:

- *Guide to Performance Measure Management, 2012 Edition*
- ABEST performance measure definitions

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 regulates 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 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 healthy 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.

The Racing Commission is composed of nine members, seven of whom are appointed by the Governor with the advice and consent of the Senate to serve overlapping six-year terms. In addition to the appointed members, there are two ex-officio members, the Chair of the Public Safety Commission and the Commissioner of the Department of Agriculture. The Governor appoints the Chair and the member elect the Vice-chair.

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

Although the Agency'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. Approximately 50% of the expenditures are passed through the Agency to the official breed registries for the Texas Bred Incentive Programs. Funds collected by the Agency are directly utilized for operations, and not passed on to the State.

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: Sarah Hicks
Phone: (512) 463-1778
Budgetandpolicyreports@governor.state.tx.us

Legislative Budget Board

Attn: Christopher Mattsson
Phone: (512) 463-1200
Audit@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: Jennifer Jones
Phone: (512) 463-1300
sunset@sunset.state.tx.us

Texas Racing Commission

John T. Steen III, Chairman
Ronald F. Ederer, Vice-Chair
Margaret Martin
Connie McNabb, DVM
Michael "Mike" Moore
Robert C. Pate
Arvel "A.J." Waight Jr.

Ex-Officio Members

Sid Miller, Commissioner of Agriculture
Steven P. Mach, Chair, Public Safety Commission

Texas Racing Commission Management

Chuck Trout, Executive Director