
Secretary of State

State of Oregon

OREGON RACING COMMISSION

Special Review



Audits Division

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Auditing for a Better Oregon

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State Capitol
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This audit encompasses a review of the Oregon Racing Commission (commission) for the period July 1, 1995, through June 30, 1996. The objectives of the audit were to determine whether controls were in place to safeguard assets and whether selected transactions complied with pertinent laws, rules, and regulations.

Our review found several areas where the commission can improve its operations. For example race meet license fees were not collected for the race meet at the Oregon State Fair and some receipts are not deposited in a timely manner. Furthermore, documentation supporting the receipt of unclaimed winnings from race meet operators was not retained. The commission agrees with our recommendations and is taking actions to implement them.

We conducted the audit in accordance with generally accepted government auditing standards. In this regard, we inquired of agency personnel, reviewed policies and procedures, tested relevant reports, and evaluated management controls as required to accomplish the objectives of our audit.

Our audit was limited to the specific matters described above, and was based on tests and procedures we considered necessary in the circumstances.

OREGON AUDITS DIVISION

Don Waggoner, CPA
State Auditor

Fieldwork Completion Date:
September 18, 1996

-iii-

TABLE OF CONTENTS

	<u>Page</u>
STATE AUDITOR'S REPORT.....	iii
SUMMARY.....	vii
INTRODUCTION	
ORGANIZATION AND FUNCTIONS.....	1
FINANCIAL ACTIVITIES	2
SCOPE AND METHODOLOGY	3
AUDIT RESULTS	
REPORT ON THE INTERNAL CONTROL STRUCTURE.....	5
REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS	6
FINDINGS AND RECOMMENDATIONS	
RACE MEET LICENSE FEES NOT COLLECTED	7
RECEIPTS NOT DEPOSITED IN A TIMELY MANNER.....	7
UNCLAIMED WINNINGS DOCUMENTATION NOT RETAINED	8
EMPLOYEE TIME REPORTS NOT REVIEWED AND APPROVED.....	9
FOLLOW UP ON PRIOR AUDIT COMMENTS	11
REPORT DISTRIBUTION.....	12
COMMENDATION.....	12

SUMMARY

The Oregon Racing Commission (commission), authorized under *Oregon Revised Statutes* (ORS) Chapter 462, regulates the state's pari-mutuel racing industry. The commission is funded by the revenues from licensing race meets, licensing race meet participants, the state share of race wagers and fines assessed "for violations by" race meet participants. Revenues for the 1995-97 biennium are estimated to be approximately \$4.4 million. Expenditures for operations for the 1995-97 biennium are estimated to be approximately \$3.1 million. Any remaining revenue is transferred to the state General Fund periodically during the biennium.

The audit was conducted for the purpose of reporting on the commission's internal control structure and compliance with applicable laws and regulations. Our review found several areas where the commission can improve its operations. Race meet license fees were not collected for the race meet at the Oregon State Fair and some receipts are not deposited in a timely manner. Documentation supporting the receipt of unclaimed winnings from race meet operators was not retained. Additionally, employee time sheets are not always approved by a supervisor. Several of these findings were also identified in previous audits. The commission agrees with the findings and recommendations and is making the necessary improvements.

INTRODUCTION

ORGANIZATION AND FUNCTIONS

The Oregon Racing Commission (commission), authorized under *Oregon Revised Statutes* (ORS) Chapter 462, regulates the pari-mutuel racing industry in Oregon. The commission consists of five commissioners, appointed by the governor and confirmed by the senate. The commission appoints an executive director, who is responsible for the administration of the agency. Steve Barham has served as executive director since February 5, 1985.

The commission is responsible for:

- Approving race meets held throughout the state;
- Approving the dates of each race meet;
- Approving race meet officials for each meet;
- Promulgating administrative rules covering all aspects of pari-mutuel racing; and
- Hearing appeals of stewards' and judges' ruling against licensees.

The commission, through its executive director and staff, is responsible for:

- On-site supervision and regulation of all pari-mutuel race meets held in Oregon;
- Licensing all race meet participants;
- Inspecting each race meet location at least once a year;
- Auditing the pari-mutuel results and the distribution of the handle (wagered amount) for each meet; and
- Collecting the state's percentage of the handle and all other race meet revenues belonging to the state.

FINANCIAL ACTIVITIES

The commission is funded by revenues from licensing race meets, licensing race meet participants, the state share of race wagers and fines assessed on violations by race meet participants. For horse racing meets, the state collects 1 percent of the amounts wagered while for greyhound racing meets, the rate is 1.6 percent. The rate collected on greyhound racing meets was decreased from 3 percent to 1.6 percent by the special legislative session in February 1996. Revenue not needed for operations is transferred to the state General Fund periodically during the biennium.

In addition to monitoring and licensing race meets, the commission provides closed circuit video taping of races and drug testing services.

The commission's recorded transactions as of June 30, 1996, for the 1995-97 biennium consist of:

Programs	Recorded Revenue as of June 30, 1996	Revenue Estimated for 1995-97 Biennium	Percent of Biennial Estimate Collected
Meet Licenses	\$ 19,277	\$ 41,550	46%
Participant Licenses	71,946	89,946	80%
Fines	11,950	30,000	40%
Unclaimed Winnings	451,989	469,174	96%
Under Payments	82	0	
Pari-mutuel Receipts	1,704,029	3,487,700	49%
Miscellaneous	4,265	0	
Lottery Funds	150,000	300,000	50%
Total	\$ 2,413,538	\$ 4,418,370	55%

Programs	Recorded Expenditures as of June 30, 1996	Budgeted Expenditures for 1995-97 Biennium	Percent of Biennial Budget Expended
Payroll	\$ 825,367	\$ 1,794,971	46%
Travel	45,176	155,258	29%
Office Expenses	35,523	57,115	62%
Other Services	307,421	772,105	40%
Lottery Funds	106,680	300,000	36%
Total	\$ 1,320,167	\$ 3,079,449	43%

**SCOPE AND
METHODOLOGY**

We reviewed internal controls at the Oregon Racing Commission and tested transactions for the period July 1, 1995, through June 30, 1996. The transactions were tested to evaluate the effectiveness of internal controls and compliance with laws and regulations. We tested revenues and receipts, personal services, services and supplies and travel expenditures.

Specifically for revenues and receipts, we reconciled the subsidiary receipting and licensing system transactions to the accounting system reports. We also selected a sample of transactions to trace to supporting documentation to verify that proper amounts were collected and they were properly recorded.

For personal services, we tested employee time sheets to verify they were properly prepared and approved. We also tested overtime payments to verify they were accurately calculated and the leave accrual records were properly adjusted.

For services, supplies, and travel, we selected a sample of transactions to trace to supporting documentation. We verified that the amount paid was accurate, that it was properly classified and recorded, complied with applicable regulations, and was an appropriate use of public funds.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. Our review was limited to the areas specified in this section of the report.

The commission's responses to our recommendations are incorporated within the FINDINGS AND RECOMMENDATIONS section of the report.

AUDIT RESULTS

REPORT ON THE INTERNAL CONTROL STRUCTURE

The management of the Oregon Racing Commission (commission) is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of the changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under the standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. Reportable conditions are reported in the FINDINGS AND RECOMMENDATIONS section of the report.

**REPORT ON
COMPLIANCE WITH
LAWS AND
REGULATIONS**

Compliance with laws and regulations applicable to the Oregon Racing Commission (commission) is the responsibility of management. As part of our audit, we performed tests of the commission's compliance with certain provisions of laws and regulations relating to selected transactions. However, the objective of our audit was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed one instance of noncompliance that is required to be reported herein under *Government Auditing Standards*. The instance of noncompliance is reported in the FINDINGS AND RECOMMENDATIONS section of the report.

FINDINGS AND RECOMMENDATIONS

RACE MEET LICENSE FEES NOT COLLECTED

The commission is responsible for approving all race meets held throughout the state. This includes licensing all race meets and their participants. ORS 462.050(3) requires the applicant to include the license fee with the application for holding a race meet. However, race meet license fees of \$5,000 were not collected for the meets held at the Oregon State Fair during 1995 and 1996. Due to an oversight by the commission staff, the commission approved the race meets for 25 days each but did not collect the \$100 per day license fees. Commission staff stated they have not been enforcing this requirement because they try to get all race meet applications processed early in the year for their own convenience. Commission staff have subsequently contacted the race meet operator and collected the owed fees. According to the Executive Director, procedures have been established to prevent this from happening again.

We recommend the commission enforce the requirement that license fees accompany the application for a race meet.

AGENCY RESPONSE:

When this oversight was discovered by the auditor, a new procedure which includes a Race Meet License Application check list was implemented, as well as a memo was sent to all race meet operators notifying them that the fee for the race meet that they were applying for must be received at the time of the application.

RECEIPTS NOT DEPOSITED IN A TIMELY MANNER

The commission's process for receiving and depositing funds includes having the meet operator summarize all of the wagering activity for the week and calculate the state's share of amounts wagered from that schedule. The commission's staff audit the schedule to verify that it is correct. The meet operator then issues a check to the

commission. That check along with license fees and fines collected are listed on a receipts register report that represents the detail listing of a deposit. A deposit slip is then prepared and sent to the central office for depositing in a local bank (deposit to the State Treasury).

The commission makes about 75 deposits each year averaging about \$30,000 each. However, as noted in previous audits, receipts are not always deposited in a timely manner. For example, one deposit which included \$11,500 received on August 28, 1995, was not recorded in the State Treasury until September 22, 1995, a 25-day delay.

If the commission required race meet operators to deposit their checks into the State Treasury authorized banks at the beginning of each week, we estimate the state would earn an additional \$3,500 in interest each year. The checks for the state's percentage of amounts wagered represent about 75 percent of the commission's total revenue.

We recommend the commission require the race meet operators to deposit checks for the state's percentage of amounts wagered directly to the State Treasury through authorized local banks. Another option to consider is the establishment of a lockbox system with a bank for depositing receipts.

AGENCY RESPONSE:

While the agency is not sure that the procedure of having the race meet making the deposit is not without problems, it is recognized that untimely deposits are also not an effective way of conducting business. We will work with the two major race meets to attempt to implement a procedure whereby the race meet deposits the check directly in to the State Treasury through authorized local banks and still provide the necessary cross checking controls we feel that we need.

**UNCLAIMED WINNINGS
DOCUMENTATION NOT
RETAINED**

Unclaimed winnings at certain race meets become property of the state after a specified period of time. ORS 462.073 requires that the unclaimed winnings be turned over to the commission within 120 days after the end of a race meet.

Bettors have to claim winnings within 90 days after the end of a race meet. For the 1995-96 fiscal year, the commission received \$451,989 in unclaimed winnings from race meets. However, we were unable to test revenues from unclaimed winning tickets because supporting documentation was destroyed.

The necessary documentation to verify unclaimed winnings was sent to the commission's staff in the field offices by race meet operators. However, commission staff stated these records were used to verify the amount of unclaimed winning tickets, then destroyed to make room for additional records.

We recommend the commission retain the records related to unclaimed winning tickets for at least three years and have those records filed in the central office rather than the field offices.

AGENCY RESPONSE:

After the last audit which contained a recommendation for us to retain this information, we began doing so. It is our belief that the records for the race meet in question were thrown out in error. While this mistake shows the need to retain the records in the Central Office rather than at a track office, it should not be seen as the agency ignoring the previous audit recommendation.

**EMPLOYEE TIME
REPORTS NOT
REVIEWED AND
APPROVED**

Reviewing and approving payroll time reports by supervisors helps to detect potential overpayments and mis-reporting of time worked. Our review of payroll time reports found that some were not reviewed and approved by a supervisor. In one sample month, 18 of 28 payroll time reports were not reviewed and approved by a supervisor, while in another month 13 of 22 time reports were not reviewed and approved by a supervisor. Because of the unusual schedules worked by the commission's employees, it can be difficult to route time sheets through a supervisor and still get the payroll records processed in a timely manner but this is an effective control procedure that should be enforced. Our prior audit found similar weaknesses.

We recommend the commission require supervisory review of all employee time sheets.

AGENCY RESPONSE:

We will try to do a better job of this. While the agency feels that it has made improvement, it is clear that further improvement is necessary. The auditor is right that the unusual schedules make it more difficult to ensure compliance than “standard” agencies, but we believe that we can improve. Presently time sheets are being sent back to supervisor for signature prior to being processed.

FOLLOW UP ON PRIOR AUDIT COMMENTS

This section reports on the follow-up actions taken by the Oregon Racing Commission (commission) on findings presented in a previous audit issued March 22, 1993.

<u>Prior Audit Comments</u>	<u>Disposition</u>
Receipts are not always deposited in a timely manner.	See current audit comment.
Internal control over payroll lacks a proper separation of duties and supervisors do not review and approve all time sheets.	See current audit comment.
Documentation supporting receipts for unclaimed winning tickets was not retained.	See current audit comment.
Race meet operators contracts for the totalizator system should include guarantees of lost state revenues if the system fails.	Implementation in progress.

REPORT DISTRIBUTION

This report is a public record and is intended for the information of the Oregon Racing Commission and its management, the Department of Administrative Services' management, the governor of the state of Oregon, the Oregon Legislative Assembly, and all other interested parties.

COMMENDATION

The courtesies and cooperation extended by the officials and employees of the Oregon Racing Commission and the Department of Administrative Services during the course of our audit were very commendable and sincerely appreciated.

AUDIT TEAM

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