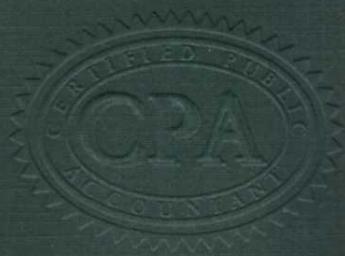


INTERNAL AUDIT OF CASH DISBURSEMENTS
AS OF JANUARY 25, 2016
AT THE
TEXAS RACING COMMISSION
(Report No: TxRC 016-001)



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 Cash Disbursement processes of the Texas Racing Commission (Commission) as of January 25, 2016. 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 the Commission has implemented good controls over the cash disbursement processes. However, we noted an opportunity for enhancing the processes. The report that accompanies this letter summarizes our comments and recommendation.

We appreciate the courtesy and cooperation shown by the management of the Texas Racing Commission during the course of this engagement.

Monday Rufus & Co., P.C.

January 25, 2016
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; and
4. License, regulate, and enforce all aspects of pari-mutuel wagering and participants in pari-mutuel racing.

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.

In fiscal year 2015, the Texas Legislature appropriated the Texas Racing Commission a budget of \$8,315,407 with 52.6 FTE employees.

At the time of the audit, there were four (4) equine and three (3) greyhound active racetrack locations in the state:

Equine Racetracks:

1. Gillespie County Fair & Festivals Association (Fredericksburg)
2. Lone Star Park at Grand Prairie (Grand Prairie)
3. Retama Park (San Antonio)
4. Sam Houston Race Park (Houston)

Greyhound Racetracks:

1. Gulf Coast Racing (Corpus Christi)
2. Gulf Greyhound Park (La Marque)
3. Valley Race Park (Harlingen)

Summary of Internal Audit Results

The Commission has cash disbursement processes in place to provide reasonable assurance that the Racing Commission is in adherence and compliance with the State of Texas cash disbursement policies, procedures, laws and regulations.

Written policies and procedures have been developed by the Commission in the processing of cash disbursements to comply with agency and legislative reporting requirements.

Management can enhance the cash disbursement process by ensuring that all purchase voucher invoices be date-stamped when received by the Commission and that purchase and travel vouchers be reviewed for accuracy and completeness during the cash disbursement process.

Summary of Management's Response

The Commission would like to thank Monday Rufus & Co for the internal audit work performed on our Cash Disbursement processes. The audit found that the Commission is in compliance with the State of Texas cash disbursement policies and procedures and has established good internal control over expenditure processing. Management agrees with the audit findings and has taken the appropriate measures to correct the identified errors.

Objectives, Observations, Recommendations, and Management's Response

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

The Commission personnel are knowledgeable of applicable State guidelines for processing purchase vouchers.

Accounting personnel follow the State Comptroller of Public Accounts guidelines in the processing of purchase vouchers to ensure proper recording and reporting in the Uniform Statewide Accounting System (USAS) and the Commission's accounting system.

All Commission purchases are approved by the respective section management with the Chief Financial Officer signing the purchase vouchers for payments.

All purchase vouchers tested had supporting documentation.

There is proper employee segregation regarding the entry and release of purchase vouchers into USAS.

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

Purchase vouchers are paid timely in compliance with the Prompt Payment Law.

Purchase vouchers are signed by Commission employees listed with the Texas Comptroller's of Public Accounts as designated individuals authorized to approve Texas Racing Commission expenditures.

Commission management has taken corrective actions on the State Comptroller's Office Post-Payment audit conducted for FY 2012 regarding travel transactions, internal control structure, and security.

FINDING : Some Purchase Vouchers Invoices Tested Were Not Date-Stamped When Received, And Two Travel Vouchers Tested Were Not Properly Completed

Criteria:

All purchase voucher invoice documents received at the Texas Racing Commission should be date-stamped when received at the agency in order to ensure compliance with the Prompt Payment Act, Chapter 2251, Texas Government Code which requires paying purchase vouchers within 30 days.

Travel voucher documents should be properly completed and reviewed during processing to ensure accuracy and that corresponding supporting document(s) amounts agree with amount paid.

Condition:

Out of 40 purchase and travel vouchers for Fiscal Year 2015 cash disbursements randomly selected, we noted the following:

- Six (6) purchase voucher invoices did not have the date stamped or written on the invoice document(s) to show when it was received by the Texas Racing Commission.
- Two (2) travel vouchers did not include a breakdown of the expense categories which made up the totals.

Cause:

There were breakdowns in the controls which resulted in incomplete documentation.

Effect:

- The lack of date-stamping purchase voucher invoices when received at the Texas Racing Commission poses risks of not complying with the Prompt Payment Act, Chapter 2251, Texas Government Code and paying vendors interest after the required 30 days.
- By not properly completing and reviewing purchase /travel vouchers and supporting documents during processing, there is a risk that errors and misclassification of expenditure object codes may occur without timely detection by management of the Commission.

Recommendation:

- Management should ensure that all agency employees receiving purchase voucher invoices date-stamp the invoice document when it is received in order to ensure compliance with the Prompt Payment Act, Chapter 2251, Texas Government Code.
- Management should ensure that all purchase vouchers and travel vouchers are properly completed and reviewed prior to processing payments.

Management's Response

The Commission would like to thank Monday Rufus & Co for the internal audit work performed on our Cash Disbursement processes. The audit found that the Commission is in compliance with the State of Texas cash disbursement policies and procedures and has established good internal control over expenditure processing. Management agrees with the audit findings and has taken the appropriate measures to correct the identified errors.

In response to the finding that six invoices were not date stamped when received, it is the agency's policy to date stamp all invoices when they are received. However, as the agency transitioned to the electronic receipt of invoices, we became aware of this issue and implemented the changes needed to ensure all invoices are date stamped when received via mail, and a copy of the transmittal email is attached when received by email. All invoices were paid in compliance with the Prompt Payment Act. A courtesy audit of a sample of current vouchers was performed by the auditors and all invoices audited were in compliance with this policy.

In response to the audit finding that two travel vouchers did not include a breakdown of expense categories, the Commission is currently conducting training sessions on travel policy and how to properly complete the travel voucher. The two travel vouchers were coded correctly and paid correctly.

Internal Audit Objective 3: Efficiency and Effectiveness of Operating Procedures

The Commission is currently revising and enhancing the procurement and cash disbursement processes by electronically developing forms and consistent purchasing procedures to be followed by all employees.

Internal Audit Objective 4: Safeguarding of Assets

There is adequate segregation of duties among Commission personnel during the cash disbursement processes. There are several Commission personnel who participate in the initiation, purchasing, receiving, reviewing, approval, and signing of documents during the procurement and processing of cash disbursements.

Managers must approve purchases from their sections in order for them to be processed and before invoices received can be paid by the Finance personnel.

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 audit work included ensuring compliance with the Texas Racing Commission's cash disbursements operating policies and procedures and required legislative reporting requirements. The scope included interviews with the Commission's Chief Financial Officer, Director of Administration, and appropriate division staff. Cash disbursement processing forms and reports, policies and procedures, and other pertinent reports and documents were tested for accuracy and compliance.

Methodology

Meetings were held with the Chief Financial Officer and Director of Administration to obtain documents and reports relating to the functions and procedures used in the processing of cash disbursements and identify controls in place to ensure the cash disbursement process is monitored, reviewed, and in compliance with written policies and procedures.

Information collected and reviewed included the following:

- Texas Racing Commission FY 2016 Procurement Plan (November 2015) manual
- Texas Racing Commission Fiscal Year 2015 General Appropriation Act Budget
- Texas Racing Commission Annual Financial Report for Fiscal Year 2015
- State Auditor's Office Audit Reports
- State Comptroller's Post-Payment Audit Report (FY 2012)
- Internal Auditors Reports
- Texas Racing Commission Website
- Texas Racing Commission Strategic Plan (2015-2019)

Procedures and tests conducted included the following:

- Interviewed Commission executive management and staff to obtain an understanding of the cash disbursement processes and controls.
- Reviewed FY 2016 Procurement Plan manual policies and procedures
- Reviewed Financial Section's cash disbursement activities, required forms, and management approval process.
- Randomly selected test samples of cash disbursements processed from fiscal year 2015 for compliance testing.
- Tested cash disbursement transactions processed for compliance with the Commission policies and procedures and for supporting documentation.
- Tested for controls in place in processing cash disbursements transactions and timely payments.

Criteria Used included the following:

- Cash Disbursements policies and procedures
- State Comptroller's Office Uniform Statewide Accounting System (USAS) requirements
- State Auditor's Office annual financial reporting requirements
- Texas Racing Commission Website
- Review of Other pertinent reports and documents

Other Information

Our audit was conducted in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States. 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 audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Our 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 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.

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 Licensing, Investigations, Veterinarian/Drug testing, Stewards/Judges, Pari-mutuel Wagering, and Compliance who report to the Deputy Executive Director, who reports to 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 assessed to racetracks and occupational licensees. 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:

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