

PERFORMANCE AUDIT
OF THE
OFFICE OF RACING COMMISSIONER
DEPARTMENT OF AGRICULTURE
December 1998

EXECUTIVE DIGEST

OFFICE OF RACING COMMISSIONER

INTRODUCTION	This report, issued in December 1998, contains the results of our performance audit* of the Office of Racing Commissioner (ORC), Department of Agriculture.
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AUDIT PURPOSE	This performance audit was conducted as part of the constitutional responsibility of the Office of the Auditor General. Performance audits are conducted on a priority basis related to the potential for improving effectiveness* and efficiency*.
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BACKGROUND	ORC has responsibilities relating to the licensing, enforcement, and regulation of horse race meetings* in Michigan and of the persons involved in those race meetings in accordance with Sections 431.301 - 431.336 of the <i>Michigan Compiled Laws</i> (the Horse Racing Law of 1995). The Racing Commissioner is appointed by the Governor, by and with the advice and consent of the Senate, for a term of four years.
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Revenue from authorized pari-mutuel wagering* taxes, license fees, and other miscellaneous fees is remitted to the State Treasurer for credit to the Michigan Agriculture Equine Industry Development Fund. A portion of this

* See glossary on page 17 for definition.

revenue is restricted for agriculture and equine industry development programs, for fairs* , and for Michigan-bred winning horses. The pari-mutuel racing program contributed approximately \$12.9 million in pari-mutuel wagering taxes and other revenue to the State in calendar year 1997. In addition, approximately \$1.8 million in uncashed winning ticket money was submitted to the Unclaimed Property Division, Department of Treasury.

During 1997, ORC licensed 9 racetracks, 1 of which did not conduct horse races. One racetrack closed down during 1997.

As of June 30, 1998, ORC had 56 full-time employees. ORC also employs seasonal employees, including veterinarians employed on a contractual basis for each race meeting at the racetracks. ORC's main office is in Livonia. Field offices are located at each racetrack. ORC recorded expenditures of approximately \$3.2 million for the calendar year ended December 31, 1997.

**AUDIT OBJECTIVES
AND CONCLUSIONS**

Audit Objective: To assess the effectiveness and efficiency of ORC in administering its licensing functions in accordance with statutory and administrative licensing requirements.

Conclusion: Our assessment disclosed that ORC was effective and efficient in administering its licensing functions in accordance with statutory and administrative licensing requirements.

Audit Objective: To assess the effectiveness of ORC in administering horse drug-testing functions in accordance with statutory and administrative requirements.

* See glossary on page 17 for definition.

Conclusion: Our assessment disclosed that ORC was effective in administering horse drug-testing functions in accordance with statutory and administrative requirements.

Audit Objective: To assess the effectiveness of ORC in administering the cash receipts and the revenue collection processes.

Conclusion: Our assessment disclosed that ORC was effective in administering the cash receipts and the revenue collection processes.

Audit Objective: To assess the effectiveness of ORC in administering the simulcasting* process.

Conclusion: Our assessment disclosed that ORC was effective in administering the simulcasting process.

**AUDIT SCOPE AND
METHODOLOGY**

Our audit scope was to examine the program and other records of the Office of Racing Commissioner. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

Our methodology included testing records and activities for the period of October 1, 1995 through June 30, 1998. In developing our audit methodology, we conducted a preliminary survey of ORC's operations. This included discussions with ORC staff regarding ORC's functions, responsibilities, policies and procedures, simulcasting,

* See glossary on page 17 for definition.

wagering tax revenues, horse drug testing, the licensing process, and the complaint process.

To assess the effectiveness and efficiency of ORC in administering licensing functions in accordance with statutory and administrative licensing requirements, we tested and analyzed licensing files and license inventory records.

To assess the effectiveness of ORC in administering horse drug-testing functions in accordance with statutory and administrative requirements, we tested and analyzed drug-testing files. We also reviewed and tested controls related to the taking and processing of drug-testing samples.

To assess the effectiveness of ORC in administering the cash receipts and the revenue collection processes, we reviewed and tested controls related to receipt forms, daily cash reconciliation forms, and licensee fines. We also reviewed and tested the racetracks' submission of State wagering taxes and uncashed winning ticket money.

To assess the effectiveness of ORC in administering the simulcasting process, we analyzed the permit application and approval process that is required before a race meeting licensee can simulcast horse races. We examined pari-mutuel audits performed by public accounting firms, daily audit reports submitted by racetracks, and weekly audit reports submitted by public accounting firms. We analyzed the submission of required revenue and expenditure reports to ORC by local units of government. We also analyzed ORC's submission of annual reports to the Governor.

PRIOR AUDIT
FOLLOW-UP

The agency had complied with the 5 prior audit recommendations included within the scope of our current audit.

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Mr. Douglas E. Darling, Chairperson
Commission of Agriculture
and
Mr. Dan Wyant, Director
Department of Agriculture
Ottawa Building
Lansing, Michigan

Dear Mr. Darling and Mr. Wyant:

This is our report on the performance audit of the Office of Racing Commissioner, Department of Agriculture.

This report contains our executive digest; description of agency; audit objectives, scope, and methodology and prior audit follow-up; comments; and a glossary of acronyms and terms. Our comments are organized by audit objective.

We appreciate the courtesy and cooperation extended to us during this audit.

AUDITOR GENERAL

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TABLE OF CONTENTS

OFFICE OF RACING COMMISSIONER DEPARTMENT OF AGRICULTURE

INTRODUCTION

	<u>Page</u>
Executive Digest	1
Report Letter	7
Description of Agency	10
Audit Objectives, Scope, and Methodology and Prior Audit Follow-Up	12

COMMENTS

Licensing Functions	14
Horse Drug-Testing Functions	14
Controls Related to the Cash Receipts and the Revenue Collection Processes	15
Controls Related to the Simulcasting Process	16

GLOSSARY

Glossary of Acronyms and Terms	17
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Description of Agency

The Office of Racing Commissioner (ORC) has responsibilities relating to the licensing, enforcement, and regulation of horse race meetings in the State of Michigan and of the persons involved in those race meetings in accordance with Sections 431.301 - 431.336 of the *Michigan Compiled Laws* (the Horse Racing Law of 1995). The Racing Commissioner is appointed by the Governor, by and with the advice and consent of the Senate, for a term of four years.

The Department of Agriculture is responsible for administrative functions, while ORC is responsible for administering program operations.

The legalization of full-card simulcasting* by the Horse Racing Law of 1995, effective January 1, 1996, resulted in an all-time high of pari-mutuel wagering at Michigan's racetracks for calendar year 1997. Simulcasting transformed Michigan racetracks into year-round operations creating full-time jobs where previously only seasonal work was available.

Revenue from authorized pari-mutuel wagering taxes, license fees, and other miscellaneous fees is remitted to the State Treasurer for credit to the Michigan Agriculture Equine Industry Development Fund. A portion of this revenue is restricted for agriculture and equine industry development programs, for fairs, and for Michigan-bred winning horses. The pari-mutuel racing program contributed approximately \$12.9 million in pari-mutuel wagering taxes and other revenue to the State in calendar year 1997. In addition, in 1997 approximately \$1.8 million in uncashed winning ticket money was deposited with the Unclaimed Property Division, Department of Treasury.

For 1997, ORC licensed nine pari-mutuel racetracks. The racetracks are Hazel Park Harness Raceway in Hazel Park, Jackson Harness Raceway in Jackson, Ladbrooke DRC in Livonia, Mount Pleasant Meadows in Mount Pleasant, Muskegon Race Course in Fruitport, Northville Downs in Northville, Saginaw Harness Raceway in Saginaw,

* See glossary on page 17 for definition

Sports Creek Raceway in Swartz Creek, and Allegan County in Allegan. Allegan County did not conduct horse races. Muskegon Race Course closed down in May 1997.

ORC's activities are funded with pari-mutuel wagering taxes and other revenues. As of June 30, 1998, ORC had 56 full-time employees. ORC also employs seasonal employees, including veterinarians employed on a contractual basis for each race meeting at the racetracks. ORC's main office is in Livonia. Field offices are located at each racetrack. ORC recorded expenditures of approximately \$3.2 million for the calendar year ended December 31, 1997.

Audit Objectives, Scope, and Methodology and Prior Audit Follow-Up

Audit Objectives

Our performance audit of the Office of Racing Commissioner (ORC), Department of Agriculture, had the following objectives:

1. To assess the effectiveness and efficiency of ORC in administering its licensing functions in accordance with statutory and administrative licensing requirements.
2. To assess the effectiveness of ORC in administering horse drug-testing functions in accordance with statutory and administrative requirements.
3. To assess the effectiveness of ORC in administering the cash receipts and the revenue collection processes.
4. To assess the effectiveness of ORC in administering the simulcasting process.

Audit Scope

Our audit scope was to examine the program and other records of the Office of Racing Commissioner. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

Audit Methodology

Our audit procedures were performed between March and July 1998 and included testing records and activities for the period of October 1, 1995 through June 30, 1998.

In developing our audit methodology, we conducted a preliminary survey of ORC's operations. This included discussions with ORC staff regarding ORC's functions, responsibilities, policies and procedures, simulcasting, wagering tax revenues, horse drug testing, the occupational licensing process and related administrative rules, and the complaint process.

To assess the effectiveness and efficiency of ORC in administering licensing functions in accordance with statutory and administrative licensing requirements, we tested and analyzed a sample of licensing files for documentation that the licensing process was complete, accurate, and in accordance with statutory and administrative licensing requirements. We also analyzed license inventory records.

To assess the effectiveness of ORC in administering horse drug-testing functions in accordance with statutory and administrative requirements, we tested and analyzed a sample of drug-testing files to determine whether horse drug tests were completed and whether ORC initiated appropriate action as a result of positive drug-test results in accordance with statutory and administrative drug-testing and enforcement requirements. We also reviewed and tested the controls related to the taking and handling of drug-testing samples.

To assess the effectiveness of ORC in administering the cash receipts and the revenue collection processes, we reviewed and tested controls related to using receipt forms, completing and processing daily cash reconciliation forms, and receiving licensees' fines on a timely basis. We also reviewed and tested the racetracks' submission of State wagering taxes and uncashed winning ticket money in accordance with statutory requirements.

To assess the effectiveness of ORC in administering the simulcasting process, we analyzed the permit application and approval process that is required before a race meeting licensee can simulcast horse races. We examined pari-mutuel audits performed by public accounting firms of race meeting operations at each racetrack, daily audit reports submitted by the racetracks, and weekly audit reports submitted by public accounting firms for compliance with statutory requirements and the pari-mutuel racing audit program. We analyzed the submission of required revenue and expenditure reports to ORC by local units of government. We also analyzed ORC's submission of annual reports to the Governor in accordance with statutory requirements.

Prior Audit Follow-Up

The agency had complied with the 5 prior audit recommendations included within the scope of our current audit.

COMMENTS

LICENSING FUNCTIONS

COMMENT

Background: The Office of Racing Commissioner (ORC) issues a total of approximately 9,000 licenses annually of the following types:

- a. Occupational, to individuals participating in, involved in, or otherwise having to do with horse racing, pari-mutuel wagering, or simulcasting at licensed race meetings in Michigan.
- b. Race meeting, to persons to conduct live horse racing, simulcasting, and pari-mutuel wagering on the results of live and simulcast horse races at a licensed race meeting in Michigan.
- c. Track, to persons to maintain or operate a racetrack where one or more race meeting licensees may conduct licensed race meetings in Michigan.

Audit Objective: To assess the effectiveness and efficiency of ORC in administering its licensing functions in accordance with statutory and administrative licensing requirements.

Conclusion: Our assessment disclosed that ORC was effective and efficient in administering its licensing functions in accordance with statutory and administrative licensing requirements.

HORSE DRUG-TESTING FUNCTIONS

COMMENT

Background: ORC conducts horse drug testing to detect the presence of a drug or foreign substance in the winning horses of every pari-mutuel horse race conducted in Michigan. ORC may also conduct drug testing for the presence of a drug or foreign

substance in any horse designated by race officials within the racetrack. Samples are collected by ORC field staff and forwarded to the Department of Agriculture's Equine Drug Testing Laboratory for analysis. A person who administers or conspires to administer a drug or foreign substance that could affect the racing condition or performance of a horse that is intended to be entered, is entered, or participates in a race or workout at a licensed race meeting in Michigan or who starts a horse in any race or workout at a licensed race meeting in Michigan knowing that the horse was administered a drug or foreign substance is guilty of a felony punishable by a fine and/or imprisonment.

Audit Objective: To assess the effectiveness of ORC in administering horse drug-testing functions in accordance with statutory and administrative requirements.

Conclusion: Our assessment disclosed that ORC was effective in administering horse drug-testing functions in accordance with statutory and administrative requirements.

CONTROLS RELATED TO CASH RECEIPTS AND THE REVENUE COLLECTION PROCESSES

COMMENT

Background: ORC performs licensing functions at each licensed racetrack. At the time of license application, ORC collects license and fingerprint fees. It also collects fines assessed licensees. Racetracks submit payments to ORC for uncashed winning ticket money. Racetracks also submit documentation related to pari-mutuel wagering taxes paid to ORC by way of direct deposits to a State account at local banks.

Audit Objective: To assess the effectiveness of ORC in administering the cash receipts and the revenue collection processes.

Conclusion: Our assessment disclosed that ORC was effective in administering the cash receipts and the revenue collection processes.

CONTROLS RELATED TO THE SIMULCASTING PROCESS

COMMENT

Background: The Horse Racing Law of 1995 legalized full-card simulcasting. Simulcasting is the live transmission, for the purpose of wagering, of video and audio signals conveying a horse race held either inside or outside Michigan to a licensed race meeting inside Michigan or to locations outside Michigan. Race meeting licensees must apply to the Racing Commissioner for a permit to televise simulcasts of horse races to viewing areas within the enclosure of the licensed racetrack where the applicant is licensed to conduct its race meeting.

Public accounting firms appointed by the State Treasurer and approved by the Racing Commissioner perform audits of pari-mutuel race meeting operations at each licensed racetrack within Michigan. The scope of the pari-mutuel audits is established by specifications prepared by the State Treasurer and approved by the Racing Commissioner. The scope included in the pari-mutuel racing audit program includes verifying the accuracy of calculations performed by the racetrack of payoffs to the public, the commission to the racetrack, the State wagering tax, and amounts submitted to the Unclaimed Property Division, Department of Treasury, related to uncashed winning ticket money.

Audit Objective: To assess the effectiveness of ORC in administering the simulcasting process.

Conclusion: Our assessment disclosed that ORC was effective in administering the simulcasting process.

Glossary of Acronyms and Terms

effectiveness	Program success in achieving mission and goals.
efficiency	Achieving the most outputs and outcomes practical for the amount of resources applied or minimizing the amount of resources required to attain a certain level of outputs or outcomes.
fair	Any county, district, community, or State fair.
full-card simulcasting	An entire simulcast racing program of one or more race meeting licensees located in Michigan or an entire simulcast racing program of one or more races simulcasted from one or more racetracks located outside Michigan for the purpose of wagering.
ORC	Office of Racing Commissioner.
pari-mutuel wagering	A system of betting on the results of horse races.
performance audit	An economy and efficiency audit or a program audit that is designed to provide an independent assessment of the performance of a governmental entity, program, activity, or function to improve public accountability and to facilitate decision making by parties responsible for overseeing or initiating corrective action.
race meeting	The entire period of consecutive days which is granted by the Racing Commissioner for the conduct of horse racing.
simulcasting	Transmitting video and audio signals conveying a horse race held inside or outside Michigan to a licensed race meeting in Michigan for the purpose of wagering.