

**STATE BOARD OF ACCOUNTS**  
**302 West Washington Street**  
**Room E418**  
**INDIANAPOLIS, INDIANA 46204-2769**

REVIEW REPORT  
OF  
INDIANA HORSE RACING COMMISSION  
STATE OF INDIANA  
May 1, 2008 to September 30, 2010



**FILED**  
10/31/2011



## TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Agency Officials .....	2
Independent Accountant's Report.....	3
Review Comments:	
Verification of Tote Report Data .....	4
Internal Controls Over Horsemen's Purses .....	4-5
Outs Revenue.....	5
Satellite Facility Taxes.....	5-6
Internal Controls Over Opening Mail .....	6
Cash Book .....	6-7
Bond Coverage.....	7
Exit Conference.....	8
Official Response .....	9-10

AGENCY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Executive Director	Joseph Gorajec	07-01-07 to 06-30-11
Chairman	Sarah McNaught	04-01-05 to 09-01-14



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
302 WEST WASHINGTON STREET  
ROOM E418  
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513  
Fax: (317) 232-4711  
Web Site: [www.in.gov/sboa](http://www.in.gov/sboa)

INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE INDIANA HORSE RACING COMMISSION

We have reviewed the receipts, disbursements, and assets of the Indiana Horse Racing Commission for the period of May 1, 2008 to September 30, 2010. The Indiana Horse Racing Commission's management is responsible for the receipts, disbursements, and assets.

Our review was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on the receipts, disbursements, and assets. Accordingly, we do not express such an opinion.

Financial transactions of this office are included in the scope of our audits of the State of Indiana as reflected in the Indiana Comprehensive Annual Financial Reports.

Based on our review, nothing came to our attention that caused us to believe that the receipts, disbursements, and assets of the Indiana Horse Racing Commission are not in all material respects in conformity with the criteria set forth in the Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, and applicable laws and regulations, except as stated in the review comments.

STATE BOARD OF ACCOUNTS

December 28, 2010

INDIANA HORSE RACING COMMISSION  
REVIEW COMMENTS  
September 30, 2010

**VERIFICATION OF TOTE REPORT DATA**

The Indiana Horse Racing Commission (Commission) did not have adequate procedures in place to verify the validity of daily Tote report data generated at the Hoosier Park and Indiana Downs race tracks as well as five off track betting satellite facilities. The information presented within the Tote reports includes, but is not limited to, total amount wagered, number of tickets sold and redeemed, and total amount paid out. This information is used to compute the percentage of tax revenue remitted to the State which includes, but is not limited to, pari-mutuel taxation of amounts wagered, pari-mutuel satellite facility taxes, breakage revenue (odd cents from winnings distributions), and outs revenue (unclaimed pari-mutuel tickets). Tote report data is also used to compute amounts due to the horsemen's "purse" accounts, and the Commission's breed development funds.

Indiana Code 4-31-3-8 states:

"The commission shall initiate safeguards as necessary to account for the amount of money wagered at each track or satellite facility in each wagering pool."

Each agency, department, quasi, institution or office should have internal controls in effect to provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and forms of information processing are part of an internal control system. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview, Summary of Agency Accounting Responsibilities)

**INTERNAL CONTROLS OVER HORSEMEN'S PURSES**

While the Commission implemented 71 IAC 4-2-7 concerning purse monies, effective November 15, 2009, and subsequently began performing audits of the purses, the Commission did not have adequate internal controls in place to verify the accountability of purse monies prior to the implementation of 71 IAC 4-2-7. This Indiana Administrative Code provides that unfunded purse liabilities of the racetracks which accrued prior to November 15, 2009, were due to be paid to the purse accounts on or before July 1, 2010. We noted that while the Commission's audit procedures included verification that unfunded liabilities were paid to the respective purse accounts, the Commission's audit procedures did not include verifying the accuracy of the existing purse account balances as of November 15, 2009.

Indiana Code 4-31-3-11 states:

"A permit holder shall give each racing inspector full and free access to the books, records, and papers pertaining to the pari-mutuel system of wagering and to the enclosure or space where the pari-mutuel system is conducted, for the purpose of ascertaining whether the permit holder is retaining the proper amount of commission. The racing inspector shall investigate and ascertain whether this article or rules adopted by the commission are being violated at the racetrack or enclosure. The racing inspector shall immediately report a violation in writing and under oath to the commission."

INDIANA HORSE RACING COMMISSION  
REVIEW COMMENTS  
September 30, 2010  
(Continued)

Each agency, department, quasi, institution or office should have internal controls in effect to provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview, Summary of Agency Accounting Responsibilities)

***OUTS REVENUE***

Outs revenue is generated from the unclaimed winnings at both tracks, their satellite facilities, and also from simulcast races shown at out-of-state tracks and/or satellite facilities.

The Commission did not have adequate procedures in place to verify the completeness and accuracy of outs revenues that the Commission received. Sixty days after the conclusion of the calendar year in which tickets were purchased, the Commission receives a check and summary report from each track for the total value of unclaimed or unrepresented pari-mutuel tickets. While the Commission compared the amounts of the checks to the summary totals, the Commission did not verify the summary totals to supporting documentation such as a detailed listing of unclaimed tickets and related Tote reports.

Indiana Code 4-31-3-11 states in part, the commission shall employ or contract for racing inspectors to attend each recognized meeting held under a permit issued under this article. A permit holder shall give each racing inspector full and free access to the books, records, and papers pertaining to the pari-mutuel system of wagering and to the enclosure or space where the pari-mutuel system is conducted, for the purpose of ascertaining whether the permit holder is retaining the proper amount of commission. The racing inspector shall investigate and ascertain whether this article or rules adopted by the commission are being violated at the racetrack or enclosure. The racing inspector shall immediately report a violation in writing and under oath to the commission.

Each agency, department, quasi, institution or office should have internal controls in effect to provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview, Summary of Agency Accounting Responsibilities)

***SATELLITE FACILITY TAXES***

The Commission did not have procedures in place to verify the completeness and accuracy of satellite facility taxes due to the State from the racetracks' off track betting satellite facilities. Even though Indiana Code 4-31-9-9 provides that the permit holder or racetrack shall forward to the Auditor of State the amount of the satellite facility tax and the Auditor of State shall distribute these funds to the Indiana State Fair Commission and the Livestock Industry Promotion and Development Fund, it is still the Commission's responsibility to verify the amount of taxes generated at and remitted by each satellite facility.

Indiana Code 4-31-3-8 states:

"The Commission shall initiate safeguards as necessary to account for the amount of money wagered at each track or satellite facility in each wagering pool."

INDIANA HORSE RACING COMMISSION  
REVIEW COMMENTS  
September 30, 2010  
(Continued)

Indiana Code 4-31-3-11 states:

"A permit holder shall give each racing inspector full and free access to the books, records, and papers pertaining to the pari-mutuel system of wagering and to the enclosure or space where the pari-mutuel system is conducted, for the purpose of ascertaining whether the permit holder is retaining the proper amount of commission."

Each agency, department, quasi, institution or office should have internal controls in effect to provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview, Summary of Agency Accounting Responsibilities)

***INTERNAL CONTROLS OVER OPENING MAIL***

The Commission did not have adequate controls in place for opening mail in its main office. We noted that mail, which includes revenues in the form of a check, was usually opened by one employee without the direct observation of another employee.

When mail is opened by one employee without the direct observation of another employee, the possibility that funds may be misplaced or stolen increases.

Each agency, department, quasi, institution or office should have internal controls in effect to provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and forms of information processing are part of an internal control system. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview, Summary of Agency Accounting Responsibilities)

***CASH BOOK***

The Commission did not properly maintain a cash book of revenues collected at its main office. We noted that the cash book was incomplete as it did not specifically identify the amounts deposited with the Treasurer of State and lacked corresponding deposit ID numbers. Additionally, we found no evidence that the cash book was approved by the State Board of Accounts.

When a cash book is not properly utilized, the possibility that funds could be misplaced or stolen increases.

Indiana Code 5-13-5-1(a) states:

"Every public official who receives or distributes public funds shall:

- (1) keep a cash book into which the public officer shall enter daily, by item, all receipts of public funds, and
- (2) balance the cash book daily to show funds on hand at the close of the day."

INDIANA HORSE RACING COMMISSION  
REVIEW COMMENTS  
September 30, 2010  
(Continued)

If money is received on a regular basis, some type of cash book (paper or electronic) is required. This cash book must list the revenue by classification and amount in detail. The cash book may include the receipt number or daily summaries from a source document or data processing listing. The amount deposited with the Treasurer of State and the corresponding ENCOMPASS Deposit ID must also be shown on the cash book. This is a method of assuring that these monies reconcile with the actual deposits with the TOS. Since there is no standard cash book prescribed for state agencies, all types of internal cash books or journals must be approved in writing by the State Board of Accounts. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, 4.4.1.2)

***BOND COVERAGE***

The Commission did not have bond coverage in effect as required by IC 4-31-3-6 for one of the commissioners since that commissioner's appointment in 2007.

IC 4-31-3-6 states:

"Each member of the commission shall execute a surety bond in the penal sum of ten thousand dollars (\$10,000)."

INDIANA HORSE RACING COMMISSION  
EXIT CONFERENCE

The contents of this report were discussed on May 24, 2011, with Sarah McNaught, Chairman; Alan J. Armstrong, Vice Chairman; Joseph Gorajec, Executive Director; and Wendi Samuelson-Dull, Controller. The official response has been made a part of this report and may be found on pages 9 and 10.



# Indiana Horse Racing Commission State of Indiana

Mitchell E. Daniels, Jr., Governor

[www.in.gov/ihr](http://www.in.gov/ihr)

TO: Bruce A Hartman, State Examiner  
State Board of Accounts

FROM: Sarah McNaught  
Chairman

Joe Gorajec  
Executive Director

DATE: June 3, 2011

RE: Official Response to Review Results and Comments for the Period  
05/01/08 through 09/30/10

The Indiana Horse Racing Commission (hereinafter the "Commission") has oversight or control over a number of funds that, in the aggregate, total several millions of dollars. Some of these funds and their approximate annual amounts include: IHRC operating budget appropriations (\$2.4 million), standardbred breed development (\$11.9 million), thoroughbred breed development (\$10.3 million), Quarter Horse breed development (\$1.3 million) and standardbred advisory board (\$240,000).

Utilizing these funding sources, the Commission pays all of its operating expenses and over \$20,000,000 in awards and purse supplements to horse owners, breeders, pari-mutuel and county fair tracks annually.

The Commission is pleased to note that during the course of the review period that spans almost two and a half (2 ½) years, ***no findings have been made that would suggest or lead to the conclusion that any of these funds have been inappropriately processed, used or otherwise expended.***

The State Board of Accounts has, however, made comments and suggestions regarding some of the Commission's internal controls during the relevant time period. The Commission would generally note that compliance with these findings will enable the Commission to continue to improve the service it provides to the public. Accordingly, the Commission is appreciative of and would like to thank the State Board of Accounts for its thoughtful review. As always, representatives of the State Board of Accounts have conducted themselves with the highest degree of professionalism.

The following are the Commission's responses to the specific findings contained in the review:

1) VERIFICATION OF TOTE REPORT DATA

**We concur.** This has been an issue that has long perplexed and stymied regulators across the nation. Until recently, there has not been a reliable, accessible and cost efficient way to independently determine the accurate implementation of state specific software requirements. It is important to note that both Indiana vendors (United Tote and Scientific Games) have periodic independent SAS 70 Audits that have given regulators a certain level of comfort as to the integrity of their tote systems. The Commission is pleased to be one of the first jurisdictions in the nation to have internationally recognized Gaming Laboratories International perform totalizator testing at its pari-mutuel facilities. The Commission approved GLI's proposal for totalizator testing at its public meeting on January 25, 2011. The result of GLI's review will be made available to the public upon its completion.

2) INTERNAL CONTROLS OVER HORSEMEN'S PURSES

**We concur.** The Commission has amended its regulation (71 IAC 4-2-7) which now requires an annual audit or review for each horse industry trust purse account.

3) OUTS REVENUE

**We concur.** The agency accountant and controller have solicited information from other jurisdictions relating to their policies and procedures in place for auditing outs. Once received, the Commission will be working on establishing and implementing similar policies and procedures.

4) SATELLITE FACILITY TAXES

**We concur.** The Commission accountant and controller are working on policies and procedures to "verify the completeness and accuracy of satellite facility taxes due the State from the racetracks' off track betting satellite facilities."

5) INTERNAL CONTROLS OVER OPENING MAIL

**We concur.** The Commission staff will work to insure there are two employees present when opening the mail in the main office.

6) CASH BOOK

**We concur.** The Commission currently has a cash book in place that will be updated and submitted to the State Board of Accounts for approval.

7) BOND COVERAGE

**We concur.** Subsequent to the review period, bond coverage had been obtained for the Commissioner referenced in the finding.