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An Audit Report on

The Texas Racing Commission

May 2006

Report No. 06-039



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Overall Conclusion

The Texas Racing Commission (Commission) is charged with enforcing the Texas Racing Act, which includes monitoring the eight horse and greyhound racetracks across the state to help ensure accountability in the racing industry.

According to the Commission, wagers at Texas racetracks totaled approximately \$515 million in 2005.¹ The State received \$4.4 million (less than 1 percent) of that amount. All of the \$4.4 million came from simulcast races; the State did not receive any portion of the wagers from live races because the total wagers on live races did not reach the minimum amount required for the State to receive a portion.

- See Table 1 (“State Revenue, Purses Paid, and Wagers ...”) on page 2 of this report for additional details on state revenue from racing.
- See Table 4 (“Comparison of Horse Racing in Texas...”) on page 13 and Table 5 (“Comparison of Greyhound Racing in Texas ...”) on page 14 for a comparison of information for the racing industry in Texas with the racing industry in other states.

The Commission’s controls ensure that amounts wagered are allocated according to required percentages, but it should improve controls to ensure the integrity of the data on which allocations are based.

The Mission of the Texas Racing Commission (excerpt)

The Commission enforces the Texas Racing Act (Vernon’s Texas Civil Statutes, Article 179e) and its rules to ensure a consistent and accurate revenue stream to the State and racing participants, safe racing facilities, fair and honest racing activities, and accountable use of economic incentives funded through pari-mutuel racing.

The State’s Share of Wagers on Live and Simulcast Races

According to the Texas Racing Act, the State receives the following on live races:

- 1 percent of wagers above \$100 million at an individual racetrack.
- 2 percent of wagers above \$200 million at an individual racetrack.
- 3 percent of wagers above \$300 million at an individual racetrack.
- 4 percent of wagers above \$400 million at an individual racetrack.
- 5 percent of wagers above \$500 million at an individual racetrack

According to the Texas Racing Act, the State receives the following on simulcast races:

- 1 percent of wagers on “same species” simulcast races (“same species” means a horse racetrack is simulcasting a horse race or a greyhound racetrack is simulcasting a greyhound race).
- 1.25 percent of wagers on “cross-species” simulcast races (“cross species” means a horse racetrack is simulcasting a greyhound race or a greyhound racetrack is simulcasting a horse race).

¹ Total wager information is from the Texas Racing Commission’s unaudited 2005 Annual Report.

To facilitate races and wagering, racetracks use “totalisator” systems that are designed and operated by third-party vendors. These systems store and process all wager data and compute pay-offs at the racetracks. The Commission is responsible for ensuring that these systems can be relied upon to maintain the integrity of wagering and to ensure that the correct amount of revenue is forwarded to the State.

The Commission reviews the totalisator systems and reports at racetracks using two tests:

- **Pari-mutuel audits to verify actual calculations made by racetracks.** These audits verify that wagers that are in the system are allocated according to required percentages.
- **Electronic data processing (EDP) reviews of totalisator systems.** These reviews ensure that totalisator system software accurately calculates payouts of amounts wagered for winners and the total takeout amount that is designated to other parties (for example, the State and the racetrack). For horse races, these reviews are done before a series of races occurs or when totalisator system software is changed. For greyhound races, these reviews are done annually or when totalisator system software is changed.

The Commission has a good process for performing pari-mutuel audits to verify that wagers are allocated according to required percentages. However, it should improve its EDP reviews of totalisator systems to ensure that all wager amounts in these systems are complete and accurate and, therefore, that the distribution amounts are accurate. The Commission has rules for hardware, software, and management of totalisator systems, but it is not performing additional tests necessary to ensure the integrity of the data in totalisator systems.

The Commission does not ensure that breed registries distribute Texas Bred Incentive Program funds in accordance with all program requirements.

The Commission does not ensure that the funds from the Texas Bred Incentive Program are distributed by breed registries in accordance with all program requirements. (According to the Texas Racing Act, horse breed registries in Texas administer accredited Texas-bred requirements for specific breeds of horses; the greyhound breed registry in Texas establishes the qualifications of accredited Texas-bred greyhounds.) The Texas Bred Incentive Program is intended to assist the racing industry in Texas by providing additional funds to qualified owners and/or breeders of horses and greyhounds that have been bred in Texas. The Commission sends Texas Bred Incentive Program funds to the various breed registries in the state to disburse to qualified program recipients, but it does not ensure that the breed registries comply with program requirements (see Chapter 2 of this report for the specific program requirements).

In 2004, the Commission distributed approximately \$5 million in Texas Bred Incentive Program funds to the three largest breed registries in the state: the Texas Thoroughbred Association, the Texas Quarter Horse Association, and the Texas Greyhound Association.

The Commission's enforcement function substantially complies with the Texas Racing Act and the Commission's Rules of Racing, but specific improvements are needed.

Audit work on the Commission's enforcement function focused on the Commission's rulings against licensees and its racetrack inspection program. The Commission is consistently assessing penalties against licensees (such as jockeys and employees of racetracks) in accordance with the Texas Racing Act, its rules in the Texas Administrative Code, and its guidelines.

The Commission's racetrack inspection program is substantially compliant with the Texas Racing Act and the Commission's rules, but improvements are needed to ensure that Commission staff consistently follow policy and procedures and have sufficient information to perform inspections.

The Commission performs substantially all human and animal drug testing required by the Texas Racing Act and Commission rules.

The Texas Racing Act requires the Commission to conduct post-race testing. The Commission's rules require only that the first place horse in each race be tested, and its rules do not contain specific requirements for greyhound testing. The Commission tested 100 percent of first place horses in fiscal year 2004 and 99.9 percent of first place horses in fiscal year 2005. Although the Commission has not established documented rules and/or policies and procedures for the post-race testing requirement for greyhound racing to comply with the Texas Racing Act, it tested 72 percent of greyhound races in fiscal year 2005.

The Commission selects humans for drug testing based on reasonable suspicion and at the discretion of the racetrack officials. This practice is consistent with other states' procedures. According to the Commission, it performed 110 human drug tests in 2004; 65 of those drug tests had positive results and were referred to race stewards or judges.

Summary of Management's Response

The Commission agrees with the recommendations in this report.

Summary of Information Technology Review

The information technology component of this audit focused on the database the Commission uses to record and track information on licensees, penalties, rulings,

and wagers. The Commission should improve controls in areas such as (1) password management, (2) access controls and segregation of duties, and (3) using the database audit functionality to assist with monitoring activities. Auditors also discussed network issues that were identified during this audit with Commission management. During this audit, the Commission was in the process of hiring a network security administrator, which should help resolve many of the network issues identified.

As discussed above, auditors also reviewed the Commission's tests of racetracks' totalisator systems and identified several areas for improvement.

Summary of Objectives, Scope, and Methodology

The audit objectives were to determine if:

- The Commission has the appropriate controls in place to ensure that racetracks are reporting all wagers completely and accurately and forwarding the appropriate portion to the State.
- The Commission is ensuring that funds from the Texas Bred Incentive Program are distributed in accordance with all program requirements.
- The Commission's enforcement function is compliant with the Texas Racing Act and Commission Rules of Racing.
- The Commission is performing all required human and animal testing as required by the Texas Racing Act and the Commission's Rules of Racing.

The audit scope covered the Commission's oversight and management of (1) revenues the States receives from wagering at Texas racetracks, (2) funds distributed for the Texas Bred Incentive Program, (3) penalties assessed and racetrack steward and judge rulings, (4) human and animal testing, and (5) compliance with specific laws.

The audit methodology included collecting information and documentation, performing selected tests and other procedures, analyzing and evaluating the results of the tests, and conducting interviews with Commission management and staff of selected breed registries.

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Detailed Results

Chapter 1

The Commission's Controls Ensure That Amounts Wagered Are Allocated According to Required Percentages, But It Should Improve Controls to Ensure the Integrity of the Data on Which Allocations Are Based

"Totalisator" Systems Used by Racetracks

Horse and greyhound racetracks use totalisator systems (also called tote systems) to facilitate wagering.

These systems register and process all wager data and compute pay-offs at the racetracks.

Three third-party vendors operate totalisator systems in the United States. Racetracks contract with these vendors to process wagers.

To facilitate races and wagering, racetracks use "totalisator" systems that are designed and operated by third-party vendors. These systems register and process all wager data and compute pay-offs at the racetracks. The Commission is responsible for ensuring that these systems can be relied upon to maintain the integrity of wagering and to ensure that the correct amount of revenue is forwarded to the State.

The Commission reviews the totalisator systems and reports at racetracks using two tests:

- Pari-mutuel audits to verify actual calculations made by racetracks. These audits verify that wagers that are in the system are allocated according to required percentages.
- Electronic data processing (EDP) reviews of totalisator systems. These reviews ensure that totalisator system software accurately calculates payouts of amounts wagered for winners and the total takeout amount that is designated to other parties (for example, the State and the racetrack). For horse races, these reviews are done before a series of races occurs or when totalisator system software is changed. For greyhound races, these reviews are done annually or when totalisator system software is changed.

The Commission has a good process for performing pari-mutuel audits to verify that race wagers are allocated according to required percentages. However, it should improve its EDP reviews of totalisator systems to ensure that all wager amounts in these systems are complete and accurate and, therefore, that the distribution amounts are accurate. The Commission has rules for hardware, software, and management of totalisator systems, but it is not performing additional tests necessary to ensure the integrity of the data in totalisator systems.

According to the Commission, wagers at Texas racetracks totaled approximately \$515 million in 2005. The State received \$4.4 million (less than 1 percent) of that amount. All of the \$4.4 million came from simulcast races. The State receives a percentage of wagers on live races only when the total wagers exceed \$100 million. The State has not received any money from live races.

Table 1 summarizes state revenue from live and simulcast horse and greyhound races in 2003, 2004, and 2005.

Table 1

State Revenue, Purses Paid, and Wagers on Horse and Greyhound Races in Texas 2003-2005						
Type of Race	State Revenue from Wagers on Live Race	State Revenue from Wagers on Simulcast Races	Total State Revenue	Purses Paid	Total Wagered	Percentage of Total State Revenue to Total Wagers
2003						
Horse	\$ 0	\$3,807,178	\$3,807,178	\$41,385,523	\$442,632,627	0.86%
Greyhound	0	808,072	808,072	5,729,025	114,894,990	0.70%
Total	\$ 0	\$4,615,250	\$4,615,250	\$47,114,548	\$557,527,617	0.83%
2004						
Horse	\$37 ^a	\$3,892,668	\$3,892,705	\$52,987,732	\$461,586,639	0.84%
Greyhound	0	757,694	757,694	5,180,651	102,710,710	0.74%
Total	\$37	\$4,650,362	\$4,650,399	\$58,168,383	\$564,297,349	0.82%
2005						
Horse	\$ 0	\$3,724,676	\$3,724,676	\$39,039,804	\$420,988,824	0.88%
Greyhound	0	717,014	717,014	5,046,060	94,085,661	0.76%
Total	\$ 0	\$4,441,690	\$4,441,690	\$44,085,864	\$515,074,485	0.86%
^a According to the Commission, the \$37 was from wagers on a combination of live and simulcast races. Because it was a combination that included a simulcast race, the State received a portion of the wagers based on the percentage of wagers the State receives on a typical simulcast race.						

Source: Unaudited information from the Texas Racing Commission's 2003, 2004, and 2005 annual reports (as of December 31 of each year).

The Commission has a good process for performing pari-mutuel audits.

The Commission performs pari-mutuel audits to verify that wagers are allocated according to required percentages. The day after a race, wagering pool information is transmitted to the Commission via a file generated by racetracks' totalisator systems. Auditors verified that percentage distributions used by the Commission are in compliance with laws and racetrack contracts. Tests results indicated that the information is substantially accurate. For example:

- All 315 live racing percentage distributions tested in the Commission's database complied with the requirements related to horse and greyhound racing, deductions from pool, and allocations of shares and breakage contained in Vernon's Texas Civil Statutes, Article 6, Sections 6.08 and 6.11.

- Auditors also tested 16 simulcast contracts to ensure the distributions in the contract matched those in the Commission’s database and noted only minor discrepancies.
- Auditors tested a sample of pari-mutuel audits for each racetrack and did not identify any material discrepancies.

Although the Commission has a good pari-mutuel audit process, it could be strengthened by ensuring the reliability of the wager information in the totalisator systems (as described in the EDP review section below) and by documenting the procedures used to perform a pari-mutuel audit.

The Commission should strengthen its EDP reviews to ensure the integrity of the data in totalisator systems.

Tests that the Commission performs during its EDP reviews do not ensure the integrity of the wager information in the totalisator systems.

The EDP review verifies that the software is calculating the payouts correctly by simulating different race results and comparing those results to expected race results. The Commission performs EDP reviews prior to a series of live races for horses and once a year for greyhounds or any time totalisator system software is changed.

Auditors identified the following weaknesses in the Commission’s EDP reviews:

- The Commission does not test user access to totalisator systems to obtain reasonable assurance that the data is reliable and properly controlled as required by Title 16, Texas Administrative Code, Section 321.107.
- All of the transactions the Commission tests during its EDP reviews are run through only one of the many terminals (ticket issuing machines) at a racetrack. Title 16, Texas Administrative Code, Section 321.105 (g), requires that each terminal “may not access, alter, change, or manipulate the wagering database except to conduct the wagering or cashing functions necessary to serve the public.” Without testing all of the terminals in use at a racetrack, the Commission cannot determine whether all terminals comply with that requirement.

Not testing all terminals could allow a track to increase its revenue by modifying an untested terminal to prevent wagering information from being updated in the totalisator system and then keeping the wagers.

- The Commission does not document the totalisator system settings (such as settings for calculating how wagers are broken out) that it tests. These settings could be changed by totalisator system personnel accidentally or intentionally after the completion of the test.

- The Commission does not have detailed procedures for how to perform its EDP reviews. Having documented, detailed procedures is important to ensure the completeness and consistency of these tests. Not having such procedures makes it difficult to verify whether all of the aspects of the test were performed as required.
- The Commission does not compare the results of its EDP reviews to a file generated by the totalisator system that shows simulcast and live wagers for the racetrack (this file is referred to as the “TRA file”). The TRA file shows how much money was entered into the various live and simulcast wagering pools. Comparing the results of its EDP reviews to the TRA file would help to ensure that information in the TRA file is being reported and that wagers are distributed correctly.

In addition, we found that although racetracks are required to obtain annual independent financial opinion audits, at least one of the racetrack’s external auditors relies upon the Commission’s tests of controls when conducting its audit. Relying on the Commission’s tests of controls is not sufficient to ensure the integrity of the totalisator system.

One racetrack recently began requiring the vendor for its totalisator system to obtain a review of automated controls in compliance with the American Institute of Certified Public Accountants’ (AICPA) Statement on Auditing Standards No. 70. However, the Commission has not required all racetracks to require their totalisator system vendors to obtain these reviews. Requiring totalisator system vendors to obtain this type of review could improve assurance that totalisator systems have adequate security.

Recommendations

The Commission should:

- Ensure that access to totalisator systems at racetracks is properly controlled.
- Ensure that its EDP reviews properly test all aspects of the operations of the totalisator systems.
- Ensure that the totalisator system settings tested during its EDP reviews are properly documented and remain in effect for as long as required.
- Design, approve, and properly document the procedures used to conduct totalisator system EDP reviews and pari-mutuel audits. These procedures should encompass all procedures required by Commission rules governing totalisator systems.

Management's Responses

The agency agrees that it should enhance its EDP reviews and develop more detailed documentation of EDP reviews and pari-mutuel audits.

Over the past six years, technological advances in information systems and data communications have enabled the totalisator companies to dramatically change their operations. These companies now reduce their costs and achieve greater efficiency by consolidating their server and processing functions on a national level. Prior to 2005, 75% of the totalisator systems serving Texas racetracks were physically located at the track. Today, that number has dropped to 62.5%, and it will decrease to 37.5% by the end of the biennium. As a result, conducting a complete and thorough EDP review is no longer possible without looking beyond the physical boundaries of a racetrack, and generally beyond the boundaries of the state.

Recognizing the need for a more global view in order to regulate and test these systems, the Commission formed the Texas Pari-Mutuel Advisory Committee, an agency-working group that includes industry and regulatory experts from across North America. In 2001, the Committee proposed, and the agency adopted, totalisator standards for Texas racetracks that apply regardless of the physical location of the totalisator operations. Our agency counterparts in other states have recognized these standards as an innovative model for regulating totalisator operations.

The agency strives to extend and improve this model by working diligently with our regulatory counterparts in the Association of Racing Commissions International (ARCI). This organization seeks to enhance and strengthen wagering integrity by developing national totalisator standards, strengthening EDP reviews of the totalisator systems, and developing a real-time, on-line, and independent monitoring system for pari-mutuel wagering systems.

However, the agency has two budget constraints that restrict its ability to implement these recommendations. First, the agency has only \$5,000 in total out-of-state travel authority per fiscal year. In order to complete its regulatory responsibilities, agency staff must physically inspect totalisator operations, yet these facilities are increasingly located in other states. In addition, agency staff must travel to out-of-state working meetings if it wishes to participate fully in the development of ARCI's standards. The agency has sufficient overall travel funds, but it needs additional out-of-state travel authority to enable it to achieve these regulatory objectives. Second, the agency does not have an EDP/Information Systems auditor. The agency will seek additional appropriations to either contract for such expertise or hire a qualified individual.

The Commission Does Not Ensure That Breed Registries Distribute Texas Bred Incentive Program Funds in Accordance With All Program Requirements

The Commission does not ensure that the funds from the Texas Bred Incentive Program are distributed by breed registries in accordance with all program

Texas Bred Incentive Program Requirements for Funds Used for Horses

The majority of these funds are awarded to an owner, breeder, or stallion owner of an accredited Texas-bred thoroughbred or quarter horse that finishes first, second, or third in races in Texas.

An accredited thoroughbred must be:

- Registered with the Jockey Club.
- Accredited with the Texas Thoroughbred Association (TTA) and foaled in Texas out of a mare accredited with the TTA that is permanently domiciled in Texas.

An accredited quarter horse must be:

- Registered with the American Quarter Horse Association or the Jockey Club.
- Accredited with the Texas Quarter Horse Association.
- Permanently domiciled in Texas.

Texas Bred Incentive Program Requirements for Funds Used for Greyhounds

These funds are awarded to an owner of a registered Texas-bred greyhound that wins a pari-mutuel race in Texas.

A greyhound must:

- Be whelped in Texas.
- Remain domiciled in Texas for the first six months of life.

Source: Title 16, Texas Administrative Code, Section 303 and Vernon's Texas Civil Statutes, Article 179e

requirements (see text box for details regarding those requirements). The Texas Bred Incentive Program is intended to promote, develop, and improve breeding in Texas by providing additional funds to qualified owners and/or breeders of horses and greyhounds.

The Commission sends Texas Bred Incentive Program funds to the various breed registries in the state to disburse to qualified program recipients (Table 2 on the following page presents information on funds received and distributed by the three largest breed registries). However, the Commission does not adequately review breed registries or the reports breed registries submit to ensure that the breed registries distribute funds appropriately.

The Commission receives quarterly and annual performance reports and annual financial audit reports from the breed registries. The Commission does not thoroughly review or analyze these reports, and these reports do not provide adequate assurance that the breed registries spend funds in accordance with requirements.

Table 2

Texas Bred Incentive Program Funds Distributed to and by the Three Largest Breed Registries Calendar Year 2004				
Breed Registry	Amount Distributed by the Commission to the Breed Registry	Amount Distributed by the Breed Registry for Horses and Greyhounds	Amounts Not Distributed by Breed Registry ^a	Percent Not Distributed by Breed Registry
Texas Thoroughbred Association	\$3,015,775	\$2,710,465	\$305,309	10.12%
Texas Quarter Horse Association	1,272,440	1,201,806	70,634	5.55%
Texas Greyhound Association	697,211	611,605	85,606	12.28%
Totals	\$4,985,426	\$4,523,876	\$461,549	9.26%
^a According to Title 16, Texas Administrative Code, Section 303.92, for thoroughbreds, amounts not distributed can eventually be transferred to the breed registry's general fund. According to Title 16, Texas Administrative Code, Section 303.93, for quarter horses, amounts not distributed must remain available for distribution to qualified recipients. According to Title 16, Texas Administrative Code, Section 303.102, for greyhounds, amounts not distributed will eventually be returned to a pool for redistribution.				

Source: Unaudited information from the Texas Racing Commission's annual performance measures reports for calendar year 2004 for thoroughbred, quarter horse, and greyhound associations and Commission reports.

Recommendations

The Commission should:

- Monitor the Texas Bred Incentive Program funds distributed by breed registries to ensure that breed registries distribute funds in accordance with program requirements.
- Consider revising the quarterly and annual performance reports submitted by breed registries to provide better assurance that breed registries distribute funds in accordance with program requirements.

Management's Response

The agency agrees that additional and better information should be developed to improve oversight of funds distributed under the Texas-Bred Incentive Program. To implement these improvements, the agency will broaden the types of audit information and performance measures to be submitted by the breed registries. This will assist in compensating for the loss of the incentive program audit staff position in the state budget cuts of 2003. The agency will also improve its review, monitoring and analysis of all information submitted under Section 6.092 of the Texas Racing Act, and the agency will require additional audits as necessary to ensure compliance with all program requirements.

The Commission's Enforcement Function Substantially Complies with the Texas Racing Act and the Commission's Rules, But Specific Improvements Are Needed

Audit work on the Commission's enforcement function focused on the Commission's rulings against licensees and its inspection program.

Inspection Requirements

Title 16, Texas Administrative Code, Section 309.104(a) states:

- (1) The executive secretary shall develop a comprehensive program to periodically inspect racetrack facilities for compliance with the Rules.
- (2) The inspection program shall identify the various items that must be inspected at each racetrack facility, the persons responsible for conducting the inspections, and the procedure for conducting the inspections.

According to the Commission, all inspections should occur once a year for greyhound racetracks, and prior to a live meet for horse racetracks, except for administrative operations inspections, which should occur annually.

The Commission can also perform random inspections that are prompted by complaints, injuries, observations, or noncompliance.

The Commission is consistently assessing penalties in accordance with the Texas Racing Act (Vernon's Texas Civil Statutes, Article 179e), its rules in the Texas Administrative Code, and its guidelines. The Commission's racetrack inspection program is substantially compliant with the Texas Racing Act and the Commission's rules, but improvements are needed to ensure that the Commission consistently follows policy and procedures and provides inspectors with sufficient information to perform inspections.

The Commission does not consistently follow its procedures for racetrack inspections.

The Commission did not follow its procedures in 11 (approximately 11 percent) of the 96 racetrack inspections auditors tested. Most of the procedures not followed were procedures for inspection of administrative operations. Inspections of administrative operations include inspecting

the patron area for compliance with the Commission's rules in areas such as cleanliness and accommodations for disabled individuals.

The Commission also does not have a written schedule of when racetrack inspections should be performed. According to the Commission:

- Racetrack inspections should be made annually for greyhound racetracks.
- Racetrack inspections should be made prior to a "live meet" (a group of live races) for horse racetracks, but the inspections of administrative operations should occur annually.

The Commission complied with the above guidelines for inspections of greyhound racetracks in fiscal years 2004 and 2005; however, 21 percent of the horse racetracks did not have all of the inspections performed prior to a live meet in fiscal years 2004 and 2005.

The Commission's inspection forms do not contain sufficient guidance for the Commission staff who perform inspections. For example, the forms include only rule numbers (for example, "Rule 309.132") and titles (for example, "Racing Equipment Approvals" and do not include specific information on

what inspectors should look for when performing inspections. The Commission performs the following types of inspections at racetracks:

- Safety and security inspections, which are performed by the Commission's Enforcement Division.
- Administrative operations inspections, which are performed by the Commission's Executive Division.
- Greyhound racing operations inspections, which are performed by the Commission's racing judges.
- Lives horse racing operations inspections, which are performed by the Commission's racing stewards.
- Greyhound and horse health and safety and drug testing operation inspections, which are performed by the racing veterinarians.
- Pari-mutuel wagering facility inspections, which are performed by the Commission's Pari-Mutuel and Audit Division.

The Commission is substantially compliant with the Rules of Racing and its guidelines for assessing penalties against licensees.

Requirements Regarding Penalties Against Licensees

Title 16, Texas Administrative Code, Section 307.64, states that, for each violation of the Texas Racing Act or Commission rule, the stewards or racing judges may (1) impose a fine of not more than \$5,000; and (2) suspend an occupational license for not more than one year.

The Commission levied \$360,425 in fines on licensees from 2001 to 2005. It has collected all but \$22,925 (6 percent) of that amount. Licensees are individuals to whom the Commission has issued a license to participate in racing with pari-mutuel wagering (examples include jockeys and racetrack employees). The Commission assessed penalties in accordance with its guidelines, and the penalties were assessed consistently in accordance with the Texas Racing Act and the Commission's rules.

Recommendations

The Commission should:

- Create a schedule showing when racetrack inspections should be completed and develop a process to ensure that these inspections are completed in accordance with that schedule.
- Create more detailed racetrack inspection forms, or develop more specific documented procedures for racetrack inspections, so that inspectors will know what they should be specifically looking for when conducting inspections.

Management's Response

The agency agrees that the inspection program needs improvement. The agency will update the Racetrack Inspection Program Manual to incorporate current operating procedures and establish policies to ensure a coordinated inspection process across department lines. This will include developing a system that enhances scheduling and tracking of both regularly scheduled inspections, such as annual and pre-meet inspections, and random inspections.

Inspections are based entirely on the requirements of the pertinent Rules of Racing. The agency will conduct an in-depth review of each pertinent rule, which cover the five general areas of inspection, and will add specificity to inspection documents where needed.

The Commission Performs Substantially All Human and Animal Drug Testing Required by the Texas Racing Act and Commission Rules

The Commission performs substantially all human and animal drug testing that is required by the Texas Racing Act and Commission rules. The Texas Racing Act states that the Commission shall require post-race testing, and the Commission has developed rules that require it to test the first place horse from each race. However, there are no rules or policies and procedures requiring post-race testing of greyhounds. The Texas Racing Act and the Commission's rules allow for drug testing of licensees (such as employees of racetracks) if there is a reasonable belief that such a test is necessary, or the Commission may perform random testing.

Horse and Greyhound Testing

Auditors tested 100 percent of the horse races conducted in fiscal years 2004 and 2005 and determined that the Commission substantially complied with the requirement to test the first place horse. The Commission tested 100 percent of first place horses in fiscal year 2004 and 99.9 percent of first place horses in fiscal year 2005 (see Table 3 below).

Although the Commission has not established documented rules and/or policies and procedures for post-race greyhound testing to comply with the Texas Racing Act, the Commission tested nearly 74 percent of greyhound races in fiscal year 2004 and 72 percent of greyhound races in fiscal year 2005.

Table 3

Summary of Horse and Greyhound Drug Testing the Commission Performed Fiscal Years 2004 and 2005				
Fiscal Year	Number of Races	Number (Percent) of Races For Which Animals Were Tested	Number (Percent) of Races For Which Animals Were Not Tested	Number of Animals Tested
Horse Races				
Fiscal Year 2004	3,370	3,370 (100.0%)	0 (0.0%)	7,342
Fiscal Year 2005	3,011	3,007 (99.9%)	4 (0.1%)	6,653
Greyhound Races				
Fiscal Year 2004	11,956	8,805 (73.6%)	3,151 (26.4%)	18,595
Fiscal Year 2005	11,346	8,164 (72.0%)	3,182 (28.0%)	17,971

Source: Analysis performed by auditors using data obtained from the Texas Racing Commission's Oracle database.

Human Testing

The Commission selects humans for drug testing based on reasonable suspicion and at the discretion of the racetrack officials. This practice is consistent with other states' procedures. According to the Commission, it performed 110 human drug tests in 2004; 65 of those drug tests had positive results and were referred to race stewards or judges.

Recommendation

The Commission should develop procedures for post-race testing of greyhounds.

Management's Response

The agency agrees that the rules do not contain a specific requirement for post-race greyhound testing. The Commission rules do, however, provide for drug testing of greyhounds and authorize the Commission veterinarians and racing judges to use their professional judgment in selecting individual animals for testing. The veterinarians and judges have developed policies for selecting greyhounds to test that includes both pre- and post-race testing. The agency will assess its current procedures and ensure that its post-race testing policy is effectively documented and implemented as part of its overall drug-testing program

Information on the Texas Racing Industry and the Racing Industries in Other States

Table 4 compares information for horse racing in Texas with horse racing in ten other states.

Table 4

Comparison of Horse Racing in Texas with Horse Racing in Other States 2004					
State	Total Amount Wagered	Total Purses Paid	State Revenue from Pari-Mutuel Wagering ^a	Number of Racetracks	Types of Horse Racing
California	\$4,231,411,447	\$143,522,293	\$39,510,451	14	<ul style="list-style-type: none"> ▪ Thoroughbred ▪ Harness ▪ Quarter horse ▪ Mixed
New York	\$2,718,165,569	\$168,209,782	\$12,826,122	11	<ul style="list-style-type: none"> ▪ Thoroughbred ▪ Harness
Kentucky ^b	\$1,780,202,749	\$ 88,779,769	\$ 6,469,186	8	<ul style="list-style-type: none"> ▪ Thoroughbred ▪ Harness
Illinois	\$1,059,383,287	\$ 97,409,769	\$12,161,581	6	<ul style="list-style-type: none"> ▪ Thoroughbred ▪ Harness
Pennsylvania	\$ 1,047,440,661	\$ 42,567,031	\$23,044,355	4	<ul style="list-style-type: none"> ▪ Thoroughbred ▪ Harness
Florida ^c	\$ 748,362,620	\$ 57,495,029	\$11,267,930	4	<ul style="list-style-type: none"> ▪ Thoroughbred
West Virginia	\$ 608,702,457	\$ 86,353,461	\$ 1,079,949	2	<ul style="list-style-type: none"> ▪ Thoroughbred
Maryland	\$ 492,258,510	\$ 38,744,905	\$ 1,694,187	6	<ul style="list-style-type: none"> ▪ Thoroughbred ▪ Harness
Texas	\$ 461,586,639	\$ 52,987,732	\$ 3,892,705	5	<ul style="list-style-type: none"> ▪ Thoroughbred ▪ Quarter horse ▪ Mixed
New Mexico	\$ 166,086,354	\$ 44,688,267	\$ 515,574	5	<ul style="list-style-type: none"> ▪ Thoroughbred ▪ Quarter horse
Colorado	\$ 70,612,157	Not Available	\$ 530,235	1	<ul style="list-style-type: none"> ▪ Mixed

^a State revenue amounts include only revenue from certain sources, such as admission tax and pari-mutuel wagering tax. These revenue amounts do not include revenue from occupational licenses fees or uncashed tickets.

^b Amounts for the state of Kentucky are for calendar year 2003.

^c The state of Florida's fiscal year goes from July 1, 2004, through June 30, 2005.

Source: Unaudited information from 2004 annual reports prepared by racing commissions in the states listed in the table.

Table 5 compares information for greyhound racing in Texas with greyhound racing in five other states.

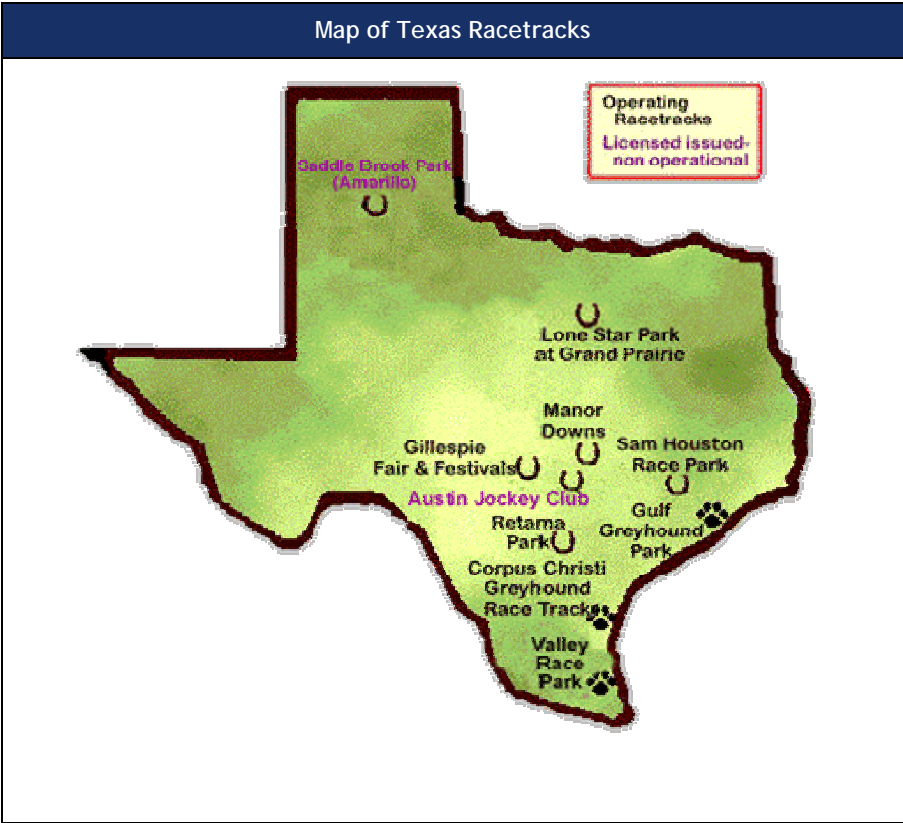
Table 5

Comparison of Greyhound Racing in Texas with Greyhound Racing in Other States 2004				
State	Total Amount Wagered	Total Purses Paid	State Revenue from Pari-Mutuel Wagering ^a	Number of Racetracks
Florida ^b	\$448,189,414	\$29,118,910	\$12,712,832	18
Colorado	\$115,558,421	Not Available	\$ 3,584,048	5
Texas	\$102,710,710	\$ 5,180,651	\$ 757,694	3
West Virginia	\$ 65,063,195	\$30,443,054	\$ 2,126,952	2
Kansas	\$ 53,578,388	\$ 3,561,340	\$ 1,779,167	3
Iowa ^b	\$ 46,495,858	\$12,265,544	\$ 397,865	2
^a State revenue amounts include only revenue from certain sources, such as admission tax and pari-mutuel wagering tax. These revenue amounts do not include revenue from occupational licenses fees or uncashed tickets. ^b The state of Florida's and the state of Iowa's fiscal years go from July 1, 2004, through June 30, 2005.				

Source: Unaudited information from 2004 annual reports prepared by racing commissions in the states listed in the table.

Figure 1 shows the locations of all racetracks in Texas.

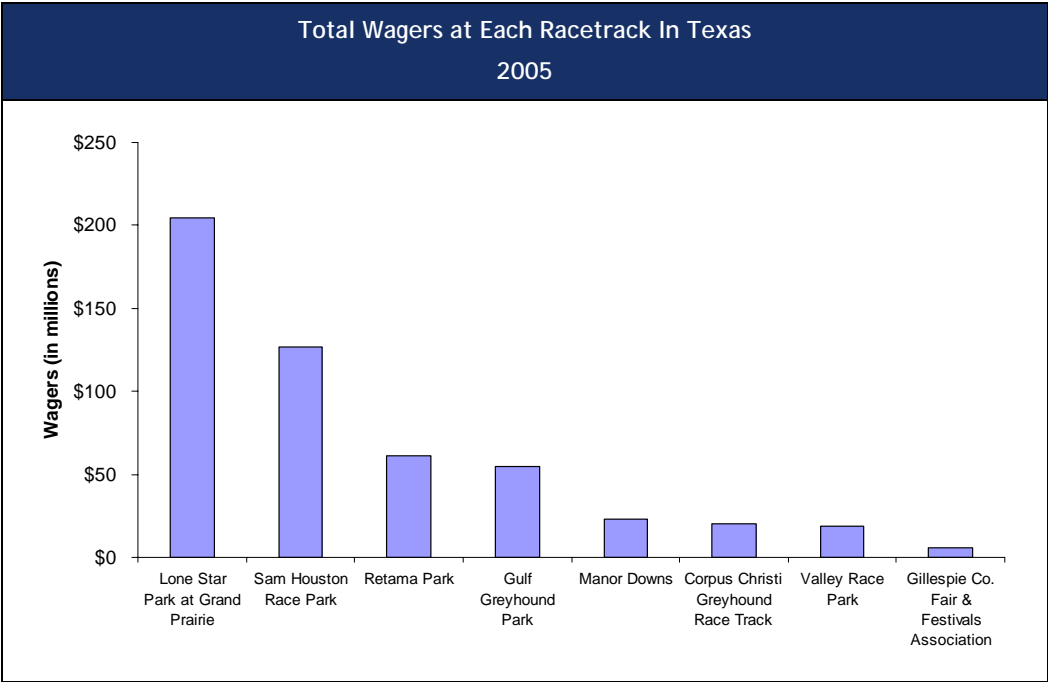
Figure 1



Source: Texas Racing Commission's Web site.

Figure 2 shows the total amounts wagered at each racetrack in Texas.

Figure 2



Source: Texas Racing Commission's 2005 Annual Report.

Appendix

Objectives, Scope, and Methodology

Objectives

The audit objectives were to determine if:

- The Commission has the appropriate controls in place to ensure that racetracks are reporting all wagers completely and accurately and forwarding the appropriate portion to the state.
- The Commission is ensuring that funds from the Texas Bred Incentive Program are distributed in accordance with all program requirements.
- The Commission's enforcement function is compliant with the Texas Racing Act and the Commission's Rules of Racing.
- The Commission is performing all required human and animal testing as required by the Texas Racing Act and Commission Rules of Racing.

Scope

The scope of this audit included reviews and analyses of the Commission's:

- Wagering data from racetracks' totalisator system for 2004 and 2005
- Inspections for fiscal years 2004 and 2005
- Penalty and human and animal testing data from the Commission's database for fiscal years 2004 and 2005
- Collection and distribution of revenue for the Texas Bred Incentive Program for calendar year 2004
- Compliance with specific laws and statutes

The scope also included a review of the automated systems used for processing wagering data at the racetracks and the Commission's internal database used to track and record licensees, inspections, and rulings at the racetracks.

Methodology

The audit methodology consisted of collecting information and documentation, performing selected tests and other procedures, analyzing and evaluating the results of the tests, and conducting interviews with Commission management and staff.

Information collected and reviewed included the following:

- Information from interviews with Commission management and staff
- Commission policies and procedures
- Data in the Commission's Oracle database
- Data from the racetracks' totalisator systems
- Information from interviews with the three largest breed registries in the state
- Information from an interview with the external auditor for the Sam Houston racetrack
- Contracts at the racetracks for simulcast wagering and select contracts between racetracks and totalisator system vendors
- Performance reports from the breed registries

Procedures and tests conducted included the following:

- Analyzed EDP audits conducted by the Commission for two track totalisator systems in fiscal year 2005 that accounted for 65 percent of the dollars wagered. These audits were tested to ensure the Commission's controls provided assurance that the State is receiving all revenue from the various totalisator systems at the racetracks.
- Tested 100 percent of the live racing wager distribution percentages (for fiscal year 2000 through fiscal year 2006 to date) included in the Commission's Oracle database for compliance with statute.
- Tested pari-mutuel reconciliations the Commission performed at each of the Texas racetracks for compliance with Commission procedures.
- Reviewed racetracks' contracts with the totalisator system vendors.
- Reviewed the most recent simulcast contracts with each of the eight Texas racetracks to determine whether the percentage distributions matched the Commission's internal database.
- Conducted walk-throughs of several key inspections processes at the Manor Downs racetrack.
- Tested all inspections for fiscal years 2004 and 2005 for compliance with the Commission rules.
- Tested a sample of rulings by stewards and judges for compliance with the Texas Racing Act and the Commission's rules and guidelines.

- Analyzed fiscal year 2004 and 2005 data on horse and greyhound testing for compliance with the Texas Racing Act and the Commission's rules.
- Compared horse and greyhound racing industry information from other states to racing industry information in Texas.
- Reviewed the Commission's Oracle database procedures, physical security, network controls, and access controls for appropriateness.

Criteria used included the following:

- Texas Racing Act (Vernon's Texas Civil Statutes, Article 179e)
- Title 16, Texas Administrative Code, Chapters 303, 309, 311, 313, 315, 319, 321, and 323
- General Appropriations Act (78th Legislature)
- Commission policies and procedures
- Control Objectives for Information and related Technology (COBIT)

Audit fieldwork was conducted from December 2005 through April 2006. This audit was conducted in accordance with generally accepted government auditing standards. The following members of the State Auditor's staff performed the audit:

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