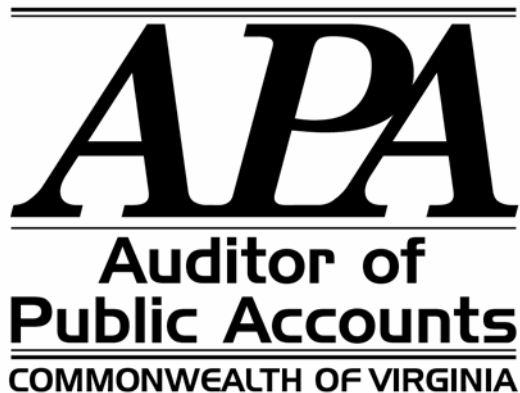


VIRGINIA RACING COMMISSION

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2005**



AUDIT SUMMARY

Our audit of the Virginia Racing Commission for the year ended June 30, 2005, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- matters involving internal control and the Commission's operations that we have communicated to management in the Audit Findings and Recommendations section of this report; and
- no instances of noncompliance with applicable laws and regulations.

We recommend that the Commission:

- update its operating policies and procedures to reflect its current operations including both manual and automated processes and
- improve the documentation of its process for conducting off-track betting facility inspections.

- TABLE OF CONTENTS -

	<u>Pages</u>
AUDIT SUMMARY	
AUDIT FINDINGS AND RECOMMENDATIONS	1-2
AGENCY HIGHLIGHTS	2-3
INDEPENDENT AUDITOR'S REPORT	4-5
AGENCY RESPONSE	6
AGENCY OFFICIALS	7

AUDIT FINDINGS AND RECOMMENDATIONS

Update Operating Policies and Procedures

The Virginia Racing Commission should update its operating policies and procedures to reflect current operations and include both manual and automated processes. The lack of adequately documented policies and procedures increases the likelihood that errors and improper payments could occur and go undetected. Further, documenting critical operating policies and procedures will ensure continuity of operations in the event of the loss of key personnel and in the hiring of new personnel to assist in operations. Having these policies will assist management in ensuring uniformity and consistency in day-to-day operations, analyzing performance, and recording transactions in the Commission's accounting systems.

While the Commission has documented some of its operating policies and procedures, it has not updated those policies and procedures to reflect changes in its operations. Further, the Commission's policies and procedures do not fully address some of the manual processes performed by the Commission's staff including daily and monthly reconciliations and its procedures for managing its responsibilities for the human resources and payroll functions. The Commission has desk procedures to address some of these activities; however, they need to incorporate these procedures into a comprehensive policies and procedures manual.

The documentation of accounting policies and procedures should be readily available to all employees with relevant responsibilities to ensure that accounting and administrative controls are operating as intended. The policies and procedures should delineate the authority and responsibility of all employees, especially the authority to authorize transactions, and indicate which employees are to perform the specific procedures.

The Commission has undergone changes in its operations in recent years. Due to these changes and the increased workload of staff, the Commission has not updated its policies and procedures. Further, the Commission is currently working with the Virginia Information Technologies Agency to update its internal accounting system, which may result in further changes to its operations. The Commission plans to complete its system enhancements by June 2007. Before that time, the Commission should focus its efforts on documenting its policies and procedures not significantly impacted by the system upgrade and ensure its documentation is sufficient for all critical operations.

Improve Documentation of Facility Inspections

The Commission should improve the documentation of its process for conducting off-track betting facility inspections. The Commission should document its process for determining the frequency of inspections, the responsibilities of its staff performing the inspections including the areas that should be covered in the inspection, the minimum required documentation of the results of the inspection including any violations noted, and follow-up procedures that should be performed related to violations.

As a part of their regulatory oversight, the Commission performs inspections of licensed off-track betting facilities. The Commission's internal policy is to perform monthly inspections of the facilities. However, during the racing season, it does not have enough staff to perform monthly inspections.

The Commission currently has a checklist that it uses to document the results of the inspections. However, in our review, we noted that the staff performing the inspections do not consistently document the results of the inspections on the checklist. For example, Section 59.1-387 of the Code of Virginia requires that off-track betting facility employees possess a permit issued by the Commission. Based on our review of a sample of inspection reports, there were instances where, due to a lack of documentation, we could not determine if the inspection staff reviewed this requirement.

Further, in some cases we could not determine whether the Commission adequately followed-up on and penalized facilities that had employees without permits. The Commission's policy with regard to addressing permit violations is to require the facility to remove the employee without the permit from the work schedule. However, in most cases when the inspector noted employees with expired permits at a facility, there was no documentation as to whether the employee renewed the permit during the site visit or whether the inspector requested that the employees removal from the work schedule.

AGENCY HIGHLIGHTS

The Virginia Racing Commission controls and prescribes regulations and conditions for all horse racing with pari-mutuel wagering privileges in the Commonwealth. It licenses horse racetracks and satellite facilities and ensures that all their employees have valid Commission permits. The Commission also issues permits to anyone associated with horse racing including horse owners, trainers, jockeys, grooms, veterinarians, and blacksmiths.

Pari-mutuel horse racing began in the Commonwealth in September 1997 at Colonial Downs, a privately held racetrack in New Kent County. The Code of Virginia permits up to ten satellite wagering facilities. Currently, there are six satellite facilities operated by Colonial Downs, which are located in Brunswick, Chesapeake, Hampton, Richmond (two), and Vinton. Voters approved referenda for three additional facilities in November 2004. The Commission monitors each of these facilities as a part of their regulatory oversight.

The Code of Virginia directs the distribution of the funds in the horse racing wagering pools. The percentage distribution varies based on factors such as the type of wagering, whether the race took place within or outside of the Commonwealth, and whether the wagering occurred at the racetrack or at a satellite facility. The Commonwealth retains as a license tax a portion of the wagering pools ranging from 0.75 to 2.25 percent as directed by the Code of Virginia. All revenues received by the Commission go to a special fund known as the State Racing Operations Fund. The Appropriation Act requires the Commission to transfer any funds in excess of the Commission's operating expenses to the General Fund of the Commonwealth.

The Code of Virginia also created the Virginia Breeders Fund to support an incentive program to foster the industry of breeding racehorses in Virginia. It receives a one percent distribution of the horse racing wagering conducted in the Commonwealth. The Commission contracted with the Virginia Thoroughbred Association and the Virginia Harness Horse Association to manage the fund.

Below are the results of the fiscal year 2005 financial operations of the Virginia Racing Commission. The Commission increased its budgeted revenue and expenses over the prior years in anticipation of additional race days and the opening of a new satellite wagering facility by December 2004. However, there were not as many additional race days as anticipated and the opening of the new satellite wagering facility did not occur until August 2005. These changes resulted in the variances between budgeted and actual taxes and pari-mutuel wagering revenues and contractual service expenses. In addition, the Commission did not use its appropriation for marketing expenses to ensure it had adequate funds to make transfers required by the Appropriation Act. The Appropriation Act allows the Commission to carry forward up to \$250,000 of its marketing budget to fiscal year 2006 as long as it makes its required transfer to the General Fund.

VIRGINIA RACING COMMISSION
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES
IN CASH BALANCES - BUDGET AND ACTUAL
For the year ended June 30, 2005

	Total Budget	Actual			Total Variance Positive/ (Negative)
		Breeder's Fund	Operating Fund	Total	
Revenues:					
Taxes and pari-mutuel wagering	\$ 4,530,000	\$ 1,488,552	\$ 2,641,610	\$ 4,130,162	\$ (399,838)
License and permit fees	150,000	-	122,070	122,070	(27,930)
Fines and assessments	-	-	12,450	12,450	12,450
Interest	35,000	20,744	2,020	22,764	(12,236)
Total revenues	4,715,000	1,509,296	2,778,150	4,287,446	(427,554)
Expenditures:					
Personal services	723,200	-	743,219	743,219	(20,019)
Contractual services	986,930	-	407,435	407,435	579,495
Supplies and materials	20,000	-	9,979	9,979	10,021
Incentive payments	2,005,000	1,694,044	283,817	1,977,861	27,139
Continuous charges	40,650	-	47,009	47,009	(6,359)
Equipment	20,350	-	8,768	8,768	11,582
Total expenditures	3,796,130	1,694,044	1,500,227	3,194,271	601,859
Transfers out:					
General fund	1,077,870	-	1,081,516	1,081,516	(3,646)
Literary fund	-	-	12,450	12,450	(12,450)
Total transfers	1,077,870	-	1,093,966	1,093,966	(16,096)
Revenues over/(under) expenditures and transfers out	(159,000)	(184,748)	183,957	(791)	158,209
Cash balance at June 30, 2004	919,511	919,511	-	919,511	-
Cash balance at June 30, 2005	\$ 760,511	\$ 734,763	\$ 183,957	\$ 918,720	\$ 158,209

Source: Commonwealth Accounting and Reporting System



Commonwealth of Virginia

Walter J. Kucharski, Auditor

Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218

September 30, 2005

The Honorable Mark R. Warner
Governor of Virginia
State Capital
Richmond, Virginia

The Honorable Lacey E. Putney
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

We have audited the financial records and operations of the **Virginia Racing Commission** for the year ended June 30, 2005. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objectives

Our audit's primary objectives were to evaluate the accuracy of the Commission's financial transactions as recorded in the Commonwealth Accounting and Reporting System, review the adequacy of the Commission's internal controls, and test compliance with applicable laws and regulations.

Audit Scope and Methodology

The Commission's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following significant activities, classes of transactions, and account balances:

Contractual services expenses	License and permit fees
Facility inspection process	Payroll expenses
Incentive payments	Tax and pari-mutuel wagering revenues

We performed audit tests to determine whether the Commission's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations. Our audit procedures included inquiries of appropriate personnel and observation of the Commission's operations. We inspected documents including reconciliations, deposit slips and certificates, wagering reports provided by Colonial Downs, revenue summary reports, timesheets, contracts, and off-track satellite facility review sheets. We reviewed the Commission's Board minutes and

appropriate sections of the Code of Virginia and the 2005 Virginia Acts of Assembly. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

Conclusions

We found that the Commission properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Commission records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

We noted certain matters involving internal control and its operation that require management's attention and corrective action. These matters are described in the section entitled "Audit Findings and Recommendations."

The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

EXIT CONFERENCE

We discussed this report with management on October 20, 2005. Management's response is included at the end of this report.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

SAH/kva



COMMONWEALTH of VIRGINIA

Virginia Racing Commission

*10700 Horsemen's Road
New Kent, Virginia 23124
(804) 966-7400; FAX (804) 966-7418*

November 1, 2005

Walter J. Kucharski
Auditor of Public Accounts
101 North 14th Street, 8th Floor
Richmond, VA 23219

Dear Mr. Kucharski:

On behalf of the Virginia Racing Commission and in my capacity as Executive Secretary, I have reviewed the findings and recommendations provided by the Auditor of Public Accounts in this report.

I generally concur with the findings and recommendations for the audit review for the period July 1, 2004-June 30, 2005 and offer the following additional comments:

1. All of the appropriate internal policies and procedures for the operation of the Racing Commission are in place. We have documentation of all operating policies and procedures except in the areas of daily and monthly reconciliations including the processing of bills to be sent to DOA for payment, preparation of payroll information being sent to DHRM for payment and inspections of the satellite wagering facilities. Our staff will develop the appropriate documentation in those areas by February 1, 2006.
2. Our computerized operating system was developed by DIT in 1997 and was updated prior to live racing in 2003. Effective December 31, 2006, our system no longer will be supported by Oracle and we are working with VITA to upgrade the system prior to the start of live racing in June 2007. We will make any adjustments in our operating system that the auditor deems appropriate as part of that changeover to the new system.

Sincerely,

A handwritten signature in cursive script that reads "Stanley K. Bowker".
Stanley K. Bowker
Executive Secretary

VIRGINIA RACING COMMISSION

Anne D.W. Poulson
Chairman

Mark T. Brown	David C. Reynolds
Peter C. Burnett	George W. Rimler

Stanley Bowker
Executive Secretary