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STATE COMPTROLLER



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February 3, 1999

Mr. William A. Levin
Chairman
New York State Thoroughbred Breeding
and Development Fund Corporation
One Penn Plaza, Suite 725
New York, NY 10119

Re: Report 98-F-59

Dear Mr. Levin:

Pursuant to the State Comptroller's authority as set forth in Article X, Section 5 of the State Constitution, we have reviewed the actions taken by officials of the New York State Thoroughbred Breeding and Development Fund Corporation (Fund), as of November 30, 1998, to implement the recommendations contained in our audit report, *New York State Thoroughbred Breeding and Development Fund - Operating and Reporting Practices* (Report 95-S-134). Our report, which was issued on July 18, 1997, examined whether Fund officials had reported the results of their operations in compliance with the Pari-mutuel Wagering and Breeding Law (Law), and whether Fund activities had a positive impact on the development of the State's thoroughbred industry.

Background

The Fund was established in 1973 to expand and enhance the State's thoroughbred breeding industry. It encourages the breeding and maintenance of thoroughbred horses in New York by distributing financial incentives, such as purses and awards, to breeders and owners whose horses compete successfully in New York-based races. The Fund is required by Law to report annually to the Governor and the Legislature about certain aspects of its operations and thoroughbred breeding in New York State.

Approximately 1,100 new thoroughbreds are registered each year in the Fund's Thoroughbred Registry. The Fund receives yearly registration fees of more than \$135,000. The Fund also receives .5 percent of all pari-mutuel betting dollars wagered on thoroughbred racing events in New York - - approximately \$12 million a year. Most of the Fund's income is turned

over to breeders and owners in the form of financial incentives as noted above. The Fund can retain up to 9 percent of its gross receipts for Fund operating costs, spending no more than 4 percent for administration and up to 5 percent for promotion of the thoroughbred industry.

Summary Conclusions

Our prior audit found that the annual reports issued by the Fund did not contain all of the information required by Law. We also determined that Fund revenues and expenses, which are subject to legal restrictions, were underreported in the Fund's financial statements. In addition, we examined the Fund's effect on New York's thoroughbred industry and concluded that the Fund could be more aggressive in its promotional efforts and needed to develop performance standards for assessing the effectiveness of its efforts. In our follow-up review, we found that Fund officials have taken several steps to improve most of the operational deficiencies we had noted previously.

Summary of Status of Prior Audit Recommendations

Our prior audit contained 12 recommendations. We found that Fund officials have implemented ten of these recommendations; but have not implemented the remaining two recommendations.

Follow-up Observations

Recommendation 1

Include all information required by Law in the Annual Report.

Status - Implemented

Agency Action - Our review of the Fund's 1997 Annual Report, the most current available, found that it includes all of the information and statistics required by statute, including income production, economic indicators, public sale values of New York-breds, and the number of standing mares.

Recommendation 2

Develop meaningful performance measures and systems to determine the effect of Fund activities on the State's thoroughbred breeding industry, including the quantity and the quality of New York-breds.

Status - Implemented

Agency Action - Information included in the Fund's redesigned and enhanced Annual Report clearly illustrates the effect of its activities on the quantity and quality of New York-breds

as compared with preceding years. These comparisons serve as a measure of performance, over time, in specific evaluation categories. For example, the report includes a comparison of the number of mares bred and participating in the New York program from 1991 through 1997. This comparison was included to help measure the effect of the elimination of certain breeding laws on the growth of the New York industry. (The data showed the first increase in the number of mares bred to New York stallions since 1993.) Another measure included in the 1997 Annual Report was a comparison of the average earnings per New York-bred starter compared to those of other states for the last few years. (The figures showed that New York continually ranked in the top four, with average earnings increasing each year.)

Recommendation 3

Conduct an annual assessment of the Fund's impact on the industry. Report the conclusions of this assessment and the factors used in reaching those conclusions in the Fund's Annual Report to the Governor and Legislature.

Status - Implemented

Agency Action - The Fund's Annual Report now presents a comprehensive overall assessment of Fund activities and their impact on the thoroughbred industry. Also, the Fund included in its 1997 Annual Report, excerpts from a horse industry impact study that was commissioned by the American Horse Council and prepared by the Barents Group. The excerpts presented the horse industry's impact on the New York economy.

Recommendation 4

Reevaluate the effectiveness and cost-benefits of current promotional activities performed in-house and by the New York State Thoroughbred Breeders Association.

Status - Implemented

Agency Action - According to the minutes of the Fund's monthly Board of Directors' meetings, Fund officials have reevaluated the effectiveness and cost-benefits of their prior promotional activities and those of the Breeders Association. As a result of this reevaluation, they have developed a comprehensive marketing plan for enhancing and expanding their promotional activities.

Recommendation 5

Approve and monitor promotional activities contracted out to the New York State Breeders Association. If required services are not performed, make appropriate reductions in the amount paid to the Association.

Status - Implemented

Agency Action - Fund officials have developed a comprehensive marketing plan detailing their promotional objectives, including those to be executed by the Breeders Association. They have also renegotiated their contract with the Association, outlining the specific responsibilities of each party including Fund monitoring of contract compliance.

Recommendation 6

Seek bids on the contract for conducting promotional activities from qualified firms.

Status - Not Implemented

Agency Action - Fund officials renegotiated and renewed its contract with the Breeders Association without seeking bids from other qualified firms. Officials stated that they believe the Breeders Association, being representative of the industry, is best suited for this contract.

Auditors' Comments - Fund officials should assure themselves that they have obtained the best available services within their organization's budget. Soliciting new ideas and approaches through competitive bids from other qualified firms helps ensure that the best services are obtained at a reasonable price.

Recommendation 7

Define appropriate promotional activities, in writing, and submit the definition for Board approval. Ensure that adequate resources are devoted to promotional activities.

Status - Implemented

Agency Action - As noted in the agency actions reported for Recommendations 4 and 5, the Fund has developed and implemented a marketing plan that outlines various strategies for advertising in major trade publications, the broadcast media, direct mailings, and the Internet. We have confirmed the implementation of several of these plan items, including televised advertisements, the creation of a web page, and video tapes distributed to industry members.

Recommendation 8

Report administrative and promotional expenses accurately to reflect actual Fund activities. Cease classifying routine Registry-maintenance expenses as promotional expenses.

Status - Implemented

Agency Action - Under the guidance of its independent auditor, the Fund has analyzed its staff work efforts and has developed a pro-rata formula that appears to accurately reflect its administrative and promotional expenses.

Recommendation 9

Record all Registry income and payments to the New York State Thoroughbred Breeders Association on the Fund's financial statements so they will accurately reflect the full range of the Fund's activities, in accordance with generally accepted accounting principles.

Status - Implemented

Agency Action - The Fund's 1997 Annual Report displays Registry income and expenses in detail as a footnote to the financial statements. However, these items are still not recorded on the financial statements themselves, as a separate category of Fund revenue and as an addition to promotional expenses. Net Registry income continues to be reported as an offset to promotional expenses.

Recommendation 10

Maintain an active level of communications and personal contacts with breeders to solicit their concerns and suggestions for improving Fund operations.

Status - Implemented

Agency Action - The Fund has increased its efforts to enhance its relationship and level of communication with the breeders. It has done so via increased field visits and the use of electronic media. The Fund's 1997 Annual Report includes several examples of letters the Fund has received from satisfied customers.

Recommendation 11

Continue to address breeder concerns regarding Fund expenditures, promotional activities, staff availability and office location; and work to build consensus among breeders.

Status - Implemented

Agency Action - Fund officials have increased their efforts to work with breeders in all facets of their operations. For example, the Fund recently relocated to less-expensive office space that neighbors the offices of the State Racing and Wagering Board. The appointment of a new Executive Director may also address the breeders' concern regarding the former Executive Director's accessibility.

Recommendation 12

Implement the Fund's proposed system to account for staff time and attendance.

Status - Not Implemented

Agency Action - Although Fund officials maintain a log of employee vacations, they have not developed a formal system for recording staff time and attendance.

Major contributors to this report were Frank Patone and Joseph Giaimo.

We would appreciate your written response to this report within 30 days, indicating any additional actions planned or taken. We also thank the New York State Thoroughbred Breeding and Development Fund Corporation management and staff for the courtesies and cooperation extended to our staff during this review.

Very truly yours,

Frank J. Houston
Audit Director

cc: Robert L. King