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STATE OF NEW YORK
OFFICE OF THE STATE
COMPTROLLER

October 21, 1999

Mr. William P. Carnevale
President
New York City Off-Track Betting Corporation
1501 Broadway
New York, NY 10036

Re: New York City Off-Track Betting Corporation
Selected Operating Practices
Report 98-N-1

Dear Mr. Carnevale:

We have audited selected operating practices of the New York City Off-Track Betting Corporation. Our audit focused on the period of January 1, 1995 through June 30, 1998.

A. Background

The New York City Off-Track Betting Corporation (NYC-OTB) was created January 1, 1970 by the State Legislature. Its statutory authority is defined in Article VI, Section 603 of the Racing, Pari-Mutuel Wagering and Breeding Law. NYC-OTB is a public benefit corporation established to operate an off-track pari-mutuel betting system in New York City. Its primary purposes are to generate a reasonable revenue for the support of government, and to prevent and curb unlawful bookmaking and illegal wagering on horse races. NYC-OTB has a staff of 1,900 employees and operates 75 branch offices, including 3 teletheaters, 2 restaurant/bar facilities, and a telephone betting center. NYC-OTB's Board of Directors approves corporate policies, annual budgets, long-term leases, and the appointments of the President and executive staff. NYC-OTB's President serves as the chief administrative officer.

NYC-OTB retains a portion of the bets it collects to pay its operating expenses. According to statute, it also deducts a 5-percent surcharge (or tax) on most pari-mutuel off-track winnings for distribution to New York City and other local units of government in New York State and a 1-percent surcharge (or tax) from multiple, exotic, and super-exotic wagering pools to finance the acquisition, construction or equipping of offices, facilities or premises of NYC-OTB.

The following table summarizes NYC-OTB's reported operating results for the respective fiscal years ended June 30:

| Operating Statement Item | 1996 | 1997 | 1998 |
|--|---------------|---------------|---------------|
| Gross Handle | \$868,856,000 | \$908,445,000 | \$933,694,000 |
| Revenue & Interest Income | \$216,620,000 | \$225,334,000 | \$231,240,000 |
| Expenses | \$100,346,000 | \$100,854,000 | \$101,646,000 |
| Distributions Made Pursuant to Statutes | \$89,074,000 | \$92,239,000 | \$96,435,000 |
| Net Revenue Available for Distribution to | \$27,200,000 | \$32,241,000 | \$33,159,000 |
| * The amounts NYC-OTB reported as net revenue available for distribution to New York City is a combination of net income and surcharge collected for New York City from the winner's share of bets placed at its facilities. | | | |

B. Audit Scope, Objective and Methodology

We audited selected operating practices of the NYC-OTB for the period of January 1, 1995 through June 30, 1998. The objective of our financial-related audit was to determine whether NYC-OTB operates in a manner consistent with its statutory purpose to generate reasonable revenue for the support of government by incurring only necessary and reasonable expenses. To achieve our objective, we reviewed NYC-OTB policies and procedures, financial reports, organization charts, job descriptions, vehicle-use records, and Board of Directors' meeting minutes. We also analyzed staffing and financial information, and interviewed NYC-OTB officials.

We conducted our audit in accordance with generally accepted government auditing standards. Such standards require that we plan and perform our audits to adequately assess those operations which are included in our audit scope. Further, these standards require that we understand NYC-OTB's internal control system and compliance with those laws, rules and regulations that are relevant to the operations which are included in our audit scope. An audit includes examining, on a test basis, evidence supporting transactions recorded in the accounting and operating records, and applying such other auditing procedures as we consider necessary in the circumstances. An audit also includes assessing the estimates, judgments, and decisions made by management. We believe that our audit provides a reasonable basis for our findings, conclusions and recommendations.

We use a risk-based approach when selecting activities to be audited. This approach focuses our audit efforts on operations identified through a preliminary survey as having the greatest probability for needing improvement. Consequently, by design, finite audit resources are used to identify where and how improvements can be made. Thus, we devote little audit effort to reviewing operations that may be relatively efficient or effective. As a result, our audit reports

are prepared on an “exception basis.” This report, therefore, highlights those areas needing improvement and does not address activities that may be functioning properly.

C. Internal Control and Compliance Summary

Our consideration of NYC-OTB’s internal control structure identified major weaknesses in effective utilization of its vehicles that are further explained in the section of this report entitled “Vehicle Assignment and Usage.”

D. Results of Audit

NYC-OTB has been successful in controlling its operating expenses in recent years. However, we have noted potential opportunities where NYC-OTB may be able to reduce costs and improve operating efficiency in several areas. These areas include the assignment and use of corporate vehicles, and the deployment of security and repair and maintenance staff. The following are matters that NYC-OTB should review to ensure it operates as efficiently as possible, incurring only necessary and reasonable expenses.

1. Vehicle Assignment and Usage

NYC-OTB has a fleet of 90 vehicles for staff use. NYC-OTB has historically operated a fleet of no more than 100 vehicles, even when it had about 150 branches or twice as many as the 75 branches operated in 1998. Although some vehicles are assigned to senior management, much of the fleet is used to directly support branch operations. In responding to our draft report, OTB officials claim that vehicle usage has remained constant despite branch closings because branch operations have changed; 32 branches are open at night and 60 branches are open on Sundays. We have identified a number of issues related to the current usage of these vehicles that merit study to determine whether more efficient alternatives exist.

Sixty-three of the 90-vehicle fleet are used by operating departments to: provide security; maintain, clean, and repair facilities and equipment; and make deliveries and pickups from branch offices. The other 27 vehicles are assigned to specific individuals who perform various administrative functions. All of the vehicles used for administrative purposes and many of the other vehicles are used by staff for commuting to and from work. NYC-OTB officials believe that usage of vehicles for commuting is beneficial in instances where employees need to be available to conduct business at any time and where parking and security of vehicles are considerations.

NYC-OTB's corporate policies and procedures provide for the operators of NYC-OTB vehicles to record the destination, business purpose, and mileage for trips made using these vehicles and that such vehicles not be used for personal purposes. The policies and procedures do not prohibit using such vehicles for commuting to and from work. However, contrary to the policies and procedures, NYC-OTB’s management does not require the operators

of the 27 vehicles used for administrative functions to keep any records of the trips made using such vehicles. In response to our draft report, NYC-OTB officials stated that they maintain utilization records on all vehicles. However, this is contrary to what officials told us during our audit. NYC-OTB could not provide us with records to indicate how administrative vehicles are used. As a result, NYC-OTB officials rely on the judgment of the operators for ensuring these 27 vehicles are used properly and efficiently.

We judgmentally selected and analyzed the mileage for 15 of the 27 vehicles and determined that they were primarily used (i.e., 68 percent of 1997 mileage) for commuting to and from work. We also estimated that the annual cost to NYC-OTB of providing this benefit, which would otherwise be a personal expense to the 15 senior level NYC-OTB officials assigned to use these vehicles, to be more than \$45,000. We determined this cost by using vehicle odometer readings, computer mapping software to estimate daily commutation distance, an estimate of 220 days of commutation a year, and the IRS-accepted vehicle operating costs rate for 1998 of 32.5 cents per miles. We must stress that, in the absence of trip records, we had to estimate commuting mileage. (Although NYC-OTB officials now claim they do have utilization records for these vehicles, they have not provided documentation to dispute our estimates.) We also have no assurance that the non-commuting mileage was for business purposes. Some or all of the mileage could be for other personal purposes. The following table details our calculations of commuting costs:

| Primary Operator's Title | 1997 Total Mileage | 1997 Estimated Mileage for Commuting | Percentage of Mileage Driven for Commuting | Estimated Cost of Commuting |
|--|---------------------------|---|---|------------------------------------|
| Chief Financial Officer | 24,830 | 17,214 | 70% | \$5,594 |
| Senior Director, Branch Operations | 18,549 | 16,720 | 90% | 5,434 |
| VP - Media & TV Productions | 21,141 | 16,368 | 77% | 5,320 |
| Senior Director, Security | 19,600 | 13,728 | 70% | 4,462 |
| Senior VP, Security | 15,363 | 11,396 | 74% | 3,704 |
| Inspector General | 10,505 | 10,505 | 100% | 3,414 |
| VP - Business Affairs | 12,337 | 9,548 | 77% | 3,103 |
| Senior Director, Field Projects | 8,962 | 8,962 | 100% | 2,913 |
| Field Director, Security | 12,785 | 7,040 | 55% | 2,288 |
| VP, Telecom. & Computer Operations | 10,570 | 6,160 | 58% | 2,002 |
| Senior VP, Telephone Betting | 11,085 | 5,280 | 48% | 1,716 |
| Senior VP, Operations | 16,302 | 4,840 | 30% | 1,573 |
| Deputy Inspector General | 11,358 | 3,960 | 35% | 1,287 |
| VP, Branch Operations | 5,620 | 3,960 | 70% | 1,287 |
| Senior Director, Corporate Affairs/EEO | 5,961 | 3,420 | 57% | 1,111 |
| Total | 204,968 | 139,101 | 68% | \$45,208 |

The primary reason for assigning vehicles to these 15 senior officials is to ensure their availability to conduct business at any time. However, we believe NYC-OTB officials should determine whether more cost-effective methods of achieving this objective are available, including whether or not all 15 senior officials - as well as other staff - need to be assigned a vehicle. NYC-OTB officials indicated they fear the insurance ramifications if these employees were to use their own vehicles for work and are involved in accidents. However, absent appropriate usage records, officials cannot be certain how often personal vehicles would have to be used.

In addition, nearly every member of the facility maintenance department is assigned a van. In all, 19 vans are assigned to 20 employees. Because these employees often work together, NYC-OTB should review the vehicle assignments to determine whether the existing number of vehicles is necessary. (NYC-OTB officials did not respond to this observation in their response to our draft report.)

2. Security Staffing

NYC-OTB uses a combination of its own employees and contracts with private firms to provide security services. In 1998, NYC-OTB had an in-house security staff of 63 employees to, among other activities, patrol branches, inspect security systems, and respond to emergencies. Sixteen of these employees are assigned vehicles and drive to various branches throughout the day; they are not stationed at a particular branch on a full-time basis. NYC-OTB's cost of in-house security operations for the fiscal year ended June 30, 1997, was about \$1.9 million. NYC-OTB also contracts with a private security firm at an annual cost of \$700,000 to provide uniform guard services at selected OTB branches.

It does not appear that the NYC-OTB has made appropriate reductions in security staff considering the number of branches that have been closed over the years. According to information provided by NYC-OTB officials, the number of in-house security only decreased by five (7 percent) between 1984 and 1998 (68 employed in 1984 vs. 63 employed in 1998), even though the number of branches operated decreased from 130 branches to 75 (a decrease of 42 percent), during this same period. NYC-OTB officials claim that security staffing during this period was reduced by only a small percentage because the security requirements at the branches that were closed were minimal and not enough to alter staffing needs and because the hours of operation of the remaining branches increased. They also claim that the New York City Police Department (NYCPD) would not normally respond to the array of antisocial and other unlawful or improper behavior that their in-house security staff respond to. However, we believe the disparity between the number of branches closed and the reduction in security staff over the period warrants a review of current staffing levels.

In addition, in-house security staff may be more effectively deployed if they were stationed at those branches and during those periods that present the greatest security risk, rather than some staff being unassigned to a specific branch and responding to emergencies by car.

Assigning such security staff to specific branches could have a deterrent effect on security problems and may allow them to be in a better position to respond more quickly to emergencies at those branches. As part of this staffing approach, NYC-OTB could study how to place greater reliance on the NYCPD to respond to certain emergencies where, in the past, in-house staff were asked to respond by vehicle. This approach should be studied to determine the best way to provide security at the lowest cost.

In response to our draft report, NYC-OTB officials indicated they have had their security staffing methodology reviewed by a security expert from the Mayor's Office of Operations, who determined that no changes are necessary. He did recommend, however, that Branch Managers should be more involved in resolving minor incidents. NYC-OTB officials should periodically re-examine and determine the most efficient and effective way of providing branch security.

3. Repair and Maintenance

The facility maintenance department is responsible for maintenance and non-electrical repairs to branch offices and the supervision of branch office renovations performed by independent contractors. Its expenses were \$682,000 for the fiscal year ended June 30, 1997, and it employs 20 staff, 17 of whom are directly involved in repair and maintenance activities at the branch offices. The field support maintenance department maintains and repairs much of the electronic television, video display, and betting equipment used by NYC-OTB. Its expenses were about \$2.4 million for the fiscal year ended June 30, 1997, and it employs 36 staff, 22 of whom are directly involved in repair and maintenance activities at the branch offices. We found that the work schedules of staff assigned to these departments result in a significant amount of unproductive work time.

NYC-OTB has branch offices open seven days a week, from 11:30 a.m. to 7:30 p.m. The facility maintenance department utilizes 17 staff assigned to repair and maintain branch offices. These employees generally work Monday through Friday from 9:00 a.m. to 5:00 p.m., with some provision for weekend, on-call coverage. The field support maintenance department uses 20 staff to repair and maintain the electronic television, video display, and betting equipment at branch offices. These employees generally work three days a week from 7:00 a.m. to 6:30 p.m. in two groups with each group working three of the six days of Monday through Saturday, with some provision for on-call, Sunday coverage.

NYC-OTB officials have told us that employees of these departments do little, maintenance or repair work at the branches during branch hours of operations out of concern for interfering with the betting public. Therefore, a large portion of these employees' work days (as much as 59 percent for field support maintenance staff and 67 percent for the facility maintenance staff) are not productive. NYC-OTB officials also advised us that employees of these departments need to be scheduled to work during branch hours so they are available to respond to emergencies. NYC-OTB officials could not explain why only limited staffing is needed to handle emergencies

on Sundays, and in the case of the facility maintenance department, also on Saturday. Based on the significant amount of unproductive work time, NYC-OTB officials need to study ways of increasing productivity in the area of repair and maintenance. In responding to our draft report, OTB officials defended the 7:00 a.m. starting time because many duties performed by these employees must be done when OTB branches are closed. We agree. By having all facility maintenance and field support staff work from 7:00 a.m. to 3:00 p.m., the potential for unproductive time could be reduced. (NYC-OTB officials indicated they are reviewing the Sunday operation in order to reduce premium time.)

NYC-OTB officials also could not adequately justify their policy of using staff full time to monitor each branch renovation project that is performed by a contractor. For example, in April 1998 three staff persons were assigned full-time to monitor contractors' branch renovation work. Such work is to be done in accordance with NYC-OTB designs and specifications. Although periodic inspections of the quality of materials and regular checks to ensure that the design is followed properly are understandable, full-time monitoring of this work may not be necessary. In response to our draft report, NYC-OTB officials indicated they are in the process of concluding a Memorandum of Understanding with the New York City Department of Design and Construction to have that agency manage construction, renovation, and rehabilitation of facilities.

Recommendations

1. *Require all vehicle operators, regardless of position within the corporation, to maintain trip records concerning vehicle usage. Review these records periodically to assess the appropriateness of vehicle utilization and assignments.*
2. *As vehicles age and are considered for replacement, compare the cost/benefits of reimbursing administrative personnel for use of their personal vehicles for business-related trips with the cost of providing those employees with NYC-OTB-owned vehicles.*
3. *Study existing maintenance vehicle assignments to determine ways of reducing the number of vehicles used by staff, and sell vehicles not needed to conduct NYC-OTB business efficiently.*
4. *Periodically re-examine and determine the most efficient and cost-efficient way of providing security at the branches.*
5. *Study alternatives to the scheduling of facility maintenance and field support maintenance staff so they can be more productive.*
6. *Consider monitoring branch renovation work of contractors by monitoring such work periodically rather than full time.*

A draft copy of this report was provided to NYC-OTB officials for their review and comment. Their comments have been considered in preparing this final report, and are included as Appendix A.

Within 90 days after final release of this report, we request that the President of the New York City Off-Track Betting Corporation report to the State Comptroller, advising what steps were taken to implement the recommendations contained in the report, and where not implemented, the reasons therefor.

Major contributors to the report were Dominick Vanacore, Stanley Evans, John Gimberlein, Roseline David, John Lang, Kezia Chacko, Sheila Jones, Altagracia Rodriguez, Unal Sumerkan, Donna Sylvester, and Paul Bachman.

We wish to thank the management and staff of the New York City Off-Track Betting Corporation for the courtesies and cooperation extended to our auditors during this audit.

Very truly yours,

Frank J. Houston
Audit Director



New York City Off-Track Betting Corporation
1501 Broadway
New York, N.Y. 10036-5572

William P. Carnevale
President
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July 15, 1999

Mr. Frank J. Houston
Office of the State Comptroller
270 Broadway
New York, New York 10007

Dear Mr. Houston:

This letter is in response to the observations and recommendations contained in Report 98-N-1, New York City Off-Track Betting Corporation Selected Operating Practices. Our comments are segregated into each of the three areas covered in the report.

VEHICLE ASSIGNMENT and USAGE

The report fails to consider that vehicle usage has remained constant despite the decrease in the number of offices because business operations have changed considerably since 1984. The hours of operation have greatly expanded. Currently 32 branch offices are open at night; five offices are open until 3:00 A.M. to allow wagering on California and Australian racing and sixty branch offices are open on Sundays. The number of tracks and race cards have also increased considerably since 1984. We currently operate up to 15 tracks per day when NYRA is running and 11 tracks on NYRA dark days. The increase in daily operating tracks requires deliveries of more supplies and equipment and resulting in greater vehicle usage.

In addition, while there are fewer offices than 1984, the remaining branches are considerably older and require greater maintenance and repair. All of which necessitates more trips by maintenance and repair personnel, as well as electronic technicians.

In response to the two recommendations concerning vehicles, please be advised that the Corporation does maintain records on each vehicle and all vehicle utilization, assignments are reviewed periodically, and changes in vehicle assignments are made as need dictates.

With respect to the cost benefit of reimbursing administrative personnel for use of their personal vehicle for business related purposes, we have considered this in the past, but have not allowed it because of the insurance ramifications for the employee if he uses his vehicle for work and the fact that the Corporation requires high automobile insurance coverage.

Another reason the Corporation has chosen not to allow employees to use personal vehicles for OTB business is the potential liability that could ensue should an accident occur. The Corporation can be held liable if an employee has an accident with his personal vehicle.

SECURITY STAFFING

As in the section on automobile usage, the auditors fail to recognize that while the number of branch offices has decreased since 1984, the business operations have changed. The hours of operation have increased drastically since 1984. (see previous comments)

With respect to the manner in which the security staff is deployed, we have many years of experience in branch office security operations. We have obtained the best results in security staff utilization by using the Directed Patrol approach. Rather than station personnel permanently at branch offices, we direct them to high-risk branch offices and route them, as need dictates. The security specialists are only in their vehicles when they are enroute to a branch office.

The recommendation that we determine the most cost effective and the most cost efficient way of providing security at the branches had been done. In January a security expert from the Mayor's Office of Operations reviewed our security staffing methodology and determined that no changes were necessary. We are addressing his recommendation that Branch Managers should be more personally involved in resolving minor incidents at the branch before they evolve into more serious situations.

REPAIR and MAINTENANCE

We are currently in the process of concluding a memorandum of understanding with the New York City Department of Design and Construction whereby they would be responsible for the management services necessary to construct, renovate or rehabilitate our facilities. This change in operations will virtually eliminate the need for OTB maintainers to monitor or supervise the renovation work of contractors.

With respect to the scheduling of facility and maintenance and field support maintenance staff, we disagree with the auditors that much of the work day of these employees is unproductive. The field support maintenance departments use 29 staff to repair and maintain the electronic television, video display and betting equipment. These employees generally work three days a week in two groups with each group working three of the six days of Monday through Saturday, with some provisions for on-call Sunday coverage.

By current Union contract, the only schedules that can be worked is a 12 hour/day, three days per week, and a 7 hour/day, five days per week shift. The 5 day per week shift has been visited on several different occasions, and does not work well with OTB's hours of operation.

All technicians are used to support the maintenance operations. Thirteen (13) are assigned to "Depot Maintenance", sixteen (16) are assigned to "Field Maintenance". The Technicians are scheduled on a twelve (12) hour per day, three (3) days per week. This allows the Technicians to start at 7:00 A.M. and work until 6:45 P.M. The 7:00 A.M. start is necessary for several reasons:

- 1) To perform maintenance required work in the public area, (i.e. replacing large screen TV's, maintaining speaker systems, and running cables). These tasks require large ladders, and hydraulic lifts and cannot be accomplished while the public is in the branch office.
- 2) The Spectrum 2000 terminals and printers require (by contract) preventive maintenance every 45 days (some high use branches require more). To perform the maintenance, the operators MUST be off the windows. Blowing dust out of the TIM's and using cleaning chemicals, cause intolerable conditions during operating hours. Also during preventive maintenance, any open service calls are required.
- 3) Any reconfiguration of the branch offices (adding or removing terminals) must be completed prior to the branch office opening.

When the morning assignment is over, and the branch offices open for operation, the technicians are dispatched to branch offices that have open service calls. Servicing of defective electronic equipment within the branch office, while the branch office is open for business, is usually held to either simple repairs, or replacement of the equipment. This service technique restores the equipment to operate faster, and causes the least amount of confusion for the branch office personnel.

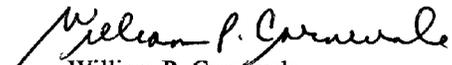
While we believe that our work schedule for technicians gives us the optimum flexibility and productivity, we are reviewing the Sunday operation in order to reduce premium time and will be implementing changes in the Sunday work schedule in the next few weeks.

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I want to express my appreciation to your staff for their efforts in preparing this report. I am pleased that the audit of various operations, of NYCOTB, including Management Staffing, Controls over Cellular Phones, Board of Directors, Governing Practices, Support Services and Control over Credit Cards resulted in only six recommendations.

Should you have need of further information or any questions, I may be contacted at 212/704-5101.

Very truly yours,


William P. Carnevale
President

WPC/sr