
**Thomas P. DiNapoli
COMPTROLLER**



Audit Objective..... 2

Audit Results - Summary..... 2

Background..... 2

Audit Findings 3

Quality of Internal Control
Certification 3

Audit Scope and Methodology..... 5

Authority 6

Reporting Requirements..... 6

Contributors to the Report 6

Appendix A - Auditee Response 7

**OFFICE OF THE
NEW YORK STATE COMPTROLLER**

**DIVISION OF STATE
GOVERNMENT ACCOUNTABILITY**

**NEW YORK STATE RACING
AND WAGERING BOARD**

**QUALITY OF INTERNAL
CONTROL CERTIFICATION**

Report 2008-S-119

AUDIT OBJECTIVE

Our objective was to determine whether the New York State Racing and Wagering Board (Board) submitted a quality internal control certification to the Division of Budget by April 30, 2008.

AUDIT RESULTS - SUMMARY

The Division of the Budget (DOB) requires agencies to certify compliance with the State's Internal Control Act annually by submitting an internal control certification, which includes both an internal control summary report as well as a signed certification to attest that they met required internal control provisions.

In order to determine if the Board submitted a quality certification, we reviewed the certification to see if they followed the certification instructions outlined in the Budget Policy and Reporting Manual Item B-350, and followed the internal control requirements outlined in the NYS Internal Control Act Implementation Guide and the Internal Control Task Force Recommendations in the Standards for Internal Control in New York State Government, which are the basis for the certification. In addition, we determined a quality certification should show evidence an agency responded to all the questions, provided explanation and detail when required, and answered the questions accurately. We also reviewed supporting documentation of the certification provided by the Board to determine if the information reported was accurate.

We determined the Board submitted a quality internal control certification to DOB, however; it was submitted a month late. The Board's certification addressed all the requirements of Budget Policy and Reporting

Manual Item B-350 including detailed responses to questions in the internal control summary and task force recommendations. In addition, we found adequate support to confirm the information in the certification was accurate.

This report, dated September 11, 2008, is available on our website at: <http://www.osc.state.ny.us>.

Add or update your mailing list address by contacting us at: (518) 474-3271 or Office of the State Comptroller
Division of State Government Accountability
110 State Street, 11th Floor
Albany, NY 12236

BACKGROUND

Internal controls are the integration of the activities, plans, attitudes, policies, and efforts of the people of an organization working together to provide reasonable assurance that the organization will achieve its objectives and mission. While the overall purpose of internal control is to help an organization achieve its mission, internal control also helps an organization to promote orderly, economical, efficient and effective operations, and produce quality products and services consistent with the organization's mission; safeguard resources against loss due to waste, abuse, mismanagement, errors and fraud; promote adherence to laws, regulations, contracts and management directives; develop and maintain reliable financial and management data, and accurately present that data in timely reports.

The Division of Budget's Budget Policy and Reporting Manual (BPRM) Bulletins B-350 and B-1177 require the head of each covered State agency and public authority to certify compliance with the State's Internal Control Act (the Act) by March 31 of each year by submitting a Certification and Internal

Control Summary of the internal control activities undertaken during the previous year. The current requirements in the BPRM B-350 internal control certification has been updated with a list of agencies required to establish and maintain an internal audit function and also requires agencies identify specific actions taken to implement each of the recommendations in the Internal Control Task Force report "*The New York State Internal Control Act Implementation Guide: Strengthening Compliance with the Act and Standards*". These recommendations include specific guidance for agencies, the Internal Control Task Force, NYS Division of Budget and the NYS Comptroller's Office. The recommendations were developed to provide agencies with an improved level of assurance that an appropriate set of controls are in place within the agency and are functioning properly. Recommendations directed toward agencies relate to internal control coordination, implementation, education and training as well as internal audit organization, staffing, processes, and continuing education.

Established in 1973, the State Racing and Wagering Board (Board) provides general jurisdiction over all horse racing activities and all pari-mutuel betting activities (both on-track and off-track) in the State and over the corporations, associations and persons engaged therein. The Board's mission is to ensure New York State's legalized pari-mutuel operations, charitable gaming activities and Class III Indian Gaming facilities operate with integrity and are in full compliance with New York's statutes, the Board's rules and the tribal-State Class III Indian Gaming Compacts, respectively.

The Board's Internal Control Officer (ICO) is responsible for coordinating the Board's internal control review process. The ICO has developed a review schedule based on each business function's assessed risk (high,

moderate or low); with high risk functions reviewed annually. The ICO works with unit managers in developing internal control testing methodologies and in performing internal control testing. The ICO develops corrective action plans, discusses the proposed corrective actions with unit managers, and annually surveys the unit managers for implementation progress. The ICO reports internal control testing results to executive management.

AUDIT FINDINGS

Quality of Internal Control Certification

The Division of Budget (DOB) requires agencies to certify compliance with the State's Internal Control Act annually by submitting an internal control certification, which includes both an internal control summary report as well as a signed certification to attest that they met required internal control provisions.

In order to determine if the Board submitted a quality certification, we reviewed the certification to see if they followed the certification instructions outlined in the Budget Policy and Reporting Manual Item B-350, and followed the internal control requirements outlined in the NYS Internal Control Act Implementation Guide and the Internal Control Task Force Recommendations in the Standards for Internal Control in New York State Government which are the basis for the certification. In addition, we determined a quality certification should show evidence an agency responded to all the questions, provided explanation and detail when required, and answered the questions accurately. We also reviewed supporting documentation of the certification provided by the Board to determine if the information reported was accurate.

The Board certified as required in 2007-08 by submitting both documents. We determined the Board submitted a quality internal control certification to DOB, however; it was one month late. The Board's certification addressed all the requirements of Budget Policy and Reporting Manual Item B-350 including detailed responses to questions in the internal control summary and task force recommendations. The Board's certification: explained its internal control review process; provided a listing of high risk functions that were reviewed; provided a list of deficiencies found and proposed corrective actions; outlined training that was provided to Board employees and specific actions taken to comply, or actions that will be taken to comply, with the Task Force's recommendations. In addition, we found adequate support to confirm the information in the certification was accurate.

Certification

The internal control summary report asks agencies to respond to a series of questions regarding the agency's internal control system and also requests information on the specific actions taken by the agency to implement the recommendations made by the Internal Control Task Force. Most of the questions require the agency to provide detailed responses. Throughout the Board's certification, officials provided sufficient answers to the questions asked, including specific actions taken to implement the Internal Control Task Force's recommendations. For example, one of the questions related to internal control testing stated:

- Summarize specific actions the agency has taken to install a compliance testing program in accordance with the methods presented in the Managers Guide: Testing Compliance with Internal Control Requirements.

The Board responded: Forms designed by the Board's internal control program incorporate and capture elements in accordance with the Manager's Guide. Functions tested in a given year, test methodology, test approach, sample size (for transaction or report based functions) are addressed in discussions with unit managers are documented in emails. Test method consists of past transactions, review of reports and/or other documents that are used to record work for a function, review of procedures manuals and/or instructions, as well as personal interview. The files are maintained with the ICO. Given the small size of the agency, it is deemed more efficient and effective for the ICO to conduct testing along with unit managers.

As another example, the Board included a chart that outlines the specific actions it has taken to implement the Task Force's recommendations. The chart lists the implementation status, action and date for each recommendation. For example, one of the recommendations addressing management's communication of internal controls to agency staff stated:

- Each agency/authority head should provide a communication to all staff in support of its internal control program.

The Board's response indicated that this recommendation was implemented in May 2007 by including a communication to all staff on the importance of internal controls in its employee handbook.

Supporting Documentation

As part of its internal control program, the Board was divided into 15 business units responsible for 80 business functions. For each function, unit managers completed an 'Internal Control Function Description Form.' This form provides a general overview of the function including the function description, objective(s), estimated revenues, estimated expenditures, written policies and whether the function is regulated by any statutes. Based on the nature of the business function, the ICO assessed each functions risk has high, moderate or low. The ICO used the assessed risk to develop an internal control review schedule with high risk functions tested every year, moderate risk functions tested every two years and low risk functions tested every three years. During fiscal year 2007-08, the Board reviewed 51 functions.

For functions tested in a given year, the ICO and the unit managers will discuss and agree on the testing approach, transaction sample size and other information that will be assessed during the review (i.e. written policies). The ICO documents any control weaknesses in a 'Corrective Action' form. The Board's 'Corrective Action' form identifies, and proposes corrective action for, control weaknesses. For functions that have been tested in a prior year, the ICO will survey the unit managers for any significant changes to the business function and implementation status of any corrective actions. The ICO maintains all testing documentation and files for each function.

To determine if the Board could support its certification, we reviewed a sample of 13 (7 high risk; 6 moderate risk) of 51 business functions reviewed in 2007/08. We found the reviews to be well documented and thorough. The testing files including detailed testing

results; completed function description forms; corrective action plans; communications between the ICO and unit managers addressing testing approaches and corrective actions and copies of units' policies and procedures.

Additionally, we found the Board could support specific actions identified in its certification related to the Task Force's recommendations. For instance, we found that the Board's employee handbook includes the Executive Director's statement on the importance of internal controls. Also, we found the Board's internal control program to have established a frequency of reporting for each risk assessment and internal control review; and established documentation standards for the internal control program.

AUDIT SCOPE AND METHODOLOGY

We conducted our performance audit in accordance with generally accepted government auditing standards. We audited the quality of the Racing & Wagering Board's (RWB) 2007/08 B-350 Internal Control Certification. To do our audit we interviewed agency officials to learn about their control activities and reviewed all documentation of internal controls provided by RWB to support their certification.

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated duties as the chief fiscal officer of New York State, several of which are performed by the Division of State Services. These include operating the State's accounting system; preparing the State's financial statements; and approving State contracts, refunds, and other payments. In addition, the Comptroller appoints members to certain boards, commissions and public authorities, some of who have minority voting rights. These

duties may be considered management functions for purposes of evaluating organizational independence under generally accepted government auditing standards. In our opinion, these management functions do not affect our ability to conduct independent audits of program performance.

AUTHORITY

The audit was performed pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law.

REPORTING REQUIREMENTS

Draft copies of this report were provided to RWB officials for their review and comment. Their comments were considered in preparing this report and are attached as Appendix A.

CONTRIBUTORS TO THE REPORT

Major contributors to this report include David R. Hancox, Walter Irving, Melissa Little, Scott Heid, Mark Radley and Andrew Davis.

APPENDIX A - AUDITEE RESPONSE



Chairman
John D. Sabini

Members
Daniel D. Hogan
John B. Simoni

**STATE OF NEW YORK
RACING AND WAGERING BOARD**

Executive Director
John G. Cansdale

Secretary to the Board
Gail Pronti

August 18, 2008

Mr. David R. Hancox
Audit Director
Office of the State Comptroller
Division of State Government Accountability
110 State Street, 11th Floor
Albany, New York 12236

Re: Audit Report 2008-S-119

Dear Mr. Hancox:

Thank you for the draft report on your review of the Board's Internal Control Certification. Our staff remains committed to maintaining the highest possible internal control standards. Accordingly, I am very pleased with your findings on the quality of our internal control certification.

Very truly yours,

A handwritten signature in black ink that reads "John G. Cansdale".

John G. Cansdale,
Executive Director

cc: Chairman Sabini
Kevin Dempsey
Tom Lukacs, Division of the Budget

1 Broadway Center, Suite 600, Schenectady, NY 12305-2553
Telephone (518) 395-5400 FAX: (518) 347-1250
<http://www.racing.state.ny.us>