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STATE COMPTROLLER



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OFFICE OF THE STATE
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July 22, 1998

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

Re: Report 98-F-26

Dear Mr. Carnevale:

We have reviewed the actions taken by officials of the New York City Off-Track Betting Corporation (NYCOTB) as of March 31, 1998, regarding the issues raised in our report, *Staff Study: Allocation of Administrative Overhead and its Effect on Branch Profitability* (Report 96-N-10). Our report, which was issued April 3, 1997, concerned the allocation of administrative overhead to NYCOTB branches and its effect on their profitability.

Background

NYCOTB was created in 1970 by the State Legislature. Its statutory authority is defined in Article VI, Section 603 of the Racing, Pari-Mutuel Wagering and Breeding Law. It is a public benefit corporation established to operate an off-track pari-mutuel betting system in New York City. Its primary purposes are to obtain reasonable revenue for the support of government, and to prevent and curb unlawful bookmaking and illegal wagering on horse races.

As of April 1998, NYCOTB had 69 branches located throughout the five boroughs, as well as three teletheaters in Manhattan, two restaurant/sports pubs in Queens and in Brooklyn, and a telephone betting center that operates out of NYCOTB's corporate headquarters in Manhattan. In fiscal year 1997, NYCOTB reported total revenue of \$224.1 million and total expenses of \$100.8 million.

Summary Conclusions

In our prior report, we suggested that NYCOTB, in the interest of obtaining an additional perspective on branch profitability, consider allocating administrative overhead based on branch expenses. We also suggested that NYCOTB's new accounting system software provide an

adequate trail to support the overhead calculation. In our follow-up review, we found that NYCOTB officials had considered the expense method, but indicated they believe their current method of allocating overhead based on operating revenue is the best method. They have not yet installed the new accounting system software.

Summary of Status of Prior Report Issues To Be Considered

Of the two issues raised in our prior report, NYCOTB officials have considered one and have not considered the other.

Follow-up Observations

Issue To Be Considered

Should the New York City Off-Track Betting Corporation management consider using an overhead allocation methodology based on branch expenses and be provided with an additional measure of branch profitability?

Status - Issue Has Been Considered

Agency Action - NYCOTB management considered various methods of allocating overhead to its cost centers, including the overhead allocation methodology based on branch expenses. NYCOTB management concluded that the current method of allocating administrative overhead based on the amount of operating revenue earned by each branch is the best method of determining their profitability.

Issue To Be Considered

Does the new accounting system software provide an audit trail to support the overhead calculation and eliminate the need for manual calculations?

Status - Issue Has Not Been Considered

Agency Action - NYCOTB has not yet installed the new accounting system software that officials had said in their response to the prior report, "would greatly improve both the reporting capabilities and the flexibility of how the data is presented and it will greatly eliminate the need for manual calculations."

Auditors' Comments - The computer software that NYCOTB is currently using does not provide an adequate audit trail to support the overhead calculations. NYCOTB management needs to ensure that the new accounting system provides an adequate audit trail.

Major contributors to this report were John Gimberlein, John Lang, and Kezia Chacko.

We would appreciate your written response to this report within 30 days, indicating any action planned or taken to address the unresolved issues discussed in this report. We also thank New York City Off-Track Betting management and staff for the courtesies and cooperation extended to our staff during this review.

Very truly yours,

Frank J. Houston
Audit Director

cc: Joseph D. Magnani
Michael Hoblock