

REPORT BY THE  
AUDITOR GENERAL  
OF CALIFORNIA

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**THE CALIFORNIA HORSE RACING BOARD  
NEEDS TO IMPROVE ITS REGULATORY  
CONTROL OF HORSE RACING**

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REPORT BY THE  
OFFICE OF THE AUDITOR GENERAL  
TO THE  
JOINT LEGISLATIVE AUDIT COMMITTEE

076

THE CALIFORNIA HORSE RACING BOARD  
NEEDS TO IMPROVE ITS  
REGULATORY CONTROL OF HORSE RACING

MARCH 1982

# California Legislature

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The Honorable President pro Tempore of the Senate  
The Honorable Speaker of the Assembly  
The Honorable Members of the Senate and the  
Assembly of the Legislature of California

Members of the Legislature:

Your Joint Legislative Audit Committee respectfully submits the Auditor General's report concerning the California Horse Racing Board. The report recommends improved procedures to increase the board's regulatory control of horse racing activities.

Respectfully submitted,


  
WALTER M. INGALLS  
Chairman, Joint Legislative  
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## SUMMARY

The California Horse Racing Board (board) regulates the horse racing industry in the State and has jurisdiction and supervision over horse race meetings where wagering is conducted. The board has a range of responsibilities to help ensure and promote the integrity of horse racing, to protect the betting public, and to ensure that the State receives its share of revenue from wagering. Wagering in 1980 exceeded \$1.8 billion, and the State's share amounted to over \$132 million.

We reviewed both the operations of the board and its financial records, using performance and financial audit techniques to evaluate the adequacy of the board's supervision of horse racing activities. We found that the board needs to improve procedures for monitoring and controlling certain critical activities in horse racing. Specifically, we found that the board has not established comprehensive guidelines for the auditing of parimutuel wagering activities. As a result, parimutuel audits do not include certain important steps that are necessary to provide the board adequate assurance that revenues are reported accurately.

Also, the board does not require racing associations to submit an audited statement of charity race day revenues given to charity foundations for distribution to charitable organizations. Further, although the board does require charity foundations to submit audit reports, only one-half of these reports were available for our review for calendar year 1980.

We also found that the board has no formal system for monitoring the quality of testing conducted by its official racing laboratory. As a result, the board has no assurance that testing is conducted accurately and that racing participants are adhering to the board's drug and medication regulations.

Further, board staff have not fully defined the role and duties of the board's investigators. As a result, some important enforcement activities are receiving less investigative attention than the board members believe they should.

Finally, the board has not fingerprinted all applicants to enable the California Department of Justice to conduct investigations of criminal background. As a result,

there is the potential for licensing persons who would not be allowed to participate in racing because of prior criminal convictions.

To improve its regulatory control of horse racing activities, we recommend the California Horse Racing Board adopt certain measures. To ensure that the state revenues are correct, the board should develop, implement, and maintain standardized guidelines for the audit of parimutuel operations. In addition, the board should also improve the monitoring of charity race day proceeds by requiring audit reports to verify that proceeds have been calculated correctly and distributed properly.

We also recommend that the board improve procedures for enforcing certain horse racing laws and regulations. The board should improve the enforcement of drug and medication regulations by developing and implementing a quality control program to assess the work of its official racing laboratory. The board should also fully define the role and duties of its investigators by developing detailed duty statements and procedural manuals. The board should also improve its licensing activities by ensuring that all applicants for licenses are fingerprinted.

We also performed a complete financial audit of the board for the fiscal year ending June 30, 1981. Included in this report is our expression of an unqualified opinion on the fairness of presentation of the board's financial records for that period.



## INTRODUCTION

In response to a request by the Joint Legislative Audit Committee, we have reviewed the operations and examined the financial records of the California Horse Racing Board (board). This audit was conducted under the authority vested in the Auditor General by Sections 10527 through 10528 of the Government Code.

This section provides background information on the board's authority, staffing, and funding. It also explains the scope and methodology of our review. The performance audit section contains the results of our review of the ongoing activities of the board and provides other information requested by the Legislature. The financial audit section contains the results of our audit of the board's financial records.

## Background

The California Horse Racing Board regulates all horse race meetings in the State where parimutuel wagering is conducted.\* Specifically, the board regulates parimutuel wagering to protect the betting public, promote the horse racing and breeding industries, and ensure that the State receives its share of revenue from wagering. The principal activities of the board include licensing all participants in horseracing, contracting with stewards to officiate at the races, enforcing the regulations and laws under which racing is conducted, and collecting the State's share of horse racing revenues.

The board consists of seven members appointed to four-year terms by the Governor. These members receive only per diem and expenses for each day of official duty. The members elect their chairman, who presides over the meetings of the board. The board also appoints a secretary who acts as the board's administrative and executive officer. The secretary manages a staff that currently includes 34 persons organized into an Administrative Services Section and a Field Operations Section.

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\* "Parimutuel wagering" is a system of betting on races that returns to the winning ticket holders a percentage of the total amount bet in proportion to the amount wagered after deducting license fees, commissions, purses and other awards.

The Administrative Services Section maintains all the board's records, processes appeals, prepares proposed racing schedules, processes racing associations' license applications, and performs accounting and personnel functions. The Field Operations Section, under the direction of a chief investigator, is responsible for licensing participants, investigating observed or reported racing offenses, and enforcing activities relating to offenses connected with horse racing. The majority of the board's investigation and licensing personnel are assigned to the Field Operations Section and perform their duties at field offices on site at each racing meet.

The board relies upon stewards and other racing officials for supervising the conduct of the race. The board contracts with three stewards to serve as the senior umpires of each horse racing meet. The board delegates to these stewards powers over all participants and other racing officials, including various judges, clerks, veterinarians, inspectors, and timers. These other racing officials are paid by the association conducting the meet and are subject to approval by the board.

The State's revenue from horse racing is based principally upon a percentage of the parimutuel wagering pools, breakage, and unclaimed tickets.\* The law requires that all parimutuel wagers be handled through an approved totalisator system.\*\* Additional revenue is derived from licenses issued to horse owners, trainers, jockeys, grooms, and others and from fines and miscellaneous sources.

The board requires each association conducting a horse race to employ a parimutuel auditor to provide an ongoing audit of the parimutuel operation. The parimutuel auditor remains on duty throughout the race.

During the 1,002 days of racing in 1980, the total amount wagered exceeded \$1.8 billion. The board's expenditures for fiscal year 1980-81 were \$1.2 million, while the State's total revenues from horse racing activities were over \$132 million.

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\* "Breakage" means the odd cents by which the amount payable on each dollar wagered exceeds a multiple of ten cents (\$0.10).

\*\* "Totalisator" is a general term assigned to the mechanical system that accumulates bets. The AmTote 300 system is the predominant totalisator system used in California.

## Scope and Methodology

Our staff used performance and financial audit techniques to evaluate the adequacy of the board's supervision of horse racing activities. The performance audit evaluated the economy, efficiency, and results of program operations. This evaluation included reviews and analyses of the board's procedures for monitoring parimutuel operations, drug testing, licensing, investigations, and enforcement activities. Specific performance audit techniques included the following:

- An analysis of the internal control features of parimutuel wagering systems using the AmTote 300 totalisator computer system;
- A review of the audit scope and procedures used by the parimutuel auditors;
- An analysis of the drug testing program;
- A review of the activities of the board's staff investigators; and
- An analysis of the board's procedures for licensing racing participants.

The financial audit included an examination of the board's combined balance sheet and the related statement of revenue, expenditures, and changes in fund balance for the year

ended June 30, 1981. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included tests of the accounting records maintained by the board and a study and evaluation of the internal control features of the board's accounting systems and procedures.

In gathering our data, we visited 8 separate ongoing racing meets. We observed operations and reviewed the functions of board employees, racing officials, and parimutuel auditors. In addition, we obtained the services of a computer fraud expert to assist in the evaluation of the AmTote totalisator system.

#### Limitations

It was suggested that we audit the outstanding winning parimutuel tickets for two meets conducted in 1979. However, we were unable to complete this review because all of the tickets cashed by the association during the allowed 60 days following the meet have been destroyed. Therefore, we could not determine the validity of those tickets that were cashed.

Our study and evaluation of the parimutuel wagering system was designed to determine the nature, timing, and extent of the auditing procedures that would be necessary for

expressing an opinion on the State's revenue from parimutuel activities. However, our review did not include detailed audit tests of the totalisator system or the association's money room.

## PERFORMANCE AUDIT RESULTS

### I

#### INSUFFICIENT PROCEDURES LIMIT THE CALIFORNIA HORSE RACING BOARD'S REGULATORY CONTROL OF HORSE RACING

The California Horse Racing Board (board) needs to improve its regulatory control of critical activities in horse racing. We found that the board and its state staff have not developed sufficient procedures for monitoring parimutuel wagering activities and for enforcing some horse racing laws and regulations.

We found that the board has not established comprehensive guidelines for the auditing of parimutuel wagering activities. As a result, parimutuel audits do not include certain important steps that are necessary to provide adequate assurance that revenues are reported accurately.

We also determined that the board does not require associations to submit an audited statement of charity race day revenues given to charity foundations for distribution to charitable organizations. Further, although the board does require charity foundations to submit audit reports, only one-half of these reports could be located at the board for



calendar year 1980. Thus, the board has no assurance that the proper amounts are being contributed to charitable foundations and only limited assurance that the foundations are properly allocating the proceeds to authorized charities.

Our review further disclosed that the board has no formal system for monitoring the quality of testing conducted by its official racing laboratory. Consequently, the board has no assurance that testing results are accurate and that racing participants are adhering to the board's drug and medication regulations.

In addition, the board has not fully defined the role and duties of its investigators. As a result, some important enforcement activities are receiving less investigative attention than the board members believe they should.

Finally, we found that the board has not fingerprinted all applicants for licenses. As a result, the California Department of Justice is not able to conduct criminal background investigations, and there is the potential for licensing persons who would not be allowed to participate in racing.

To fulfill its regulatory responsibilities, the board relies on its own state staff, contract personnel, and personnel employed by the racing associations to monitor and control racing activities on a daily basis. The board's executive officer is primarily responsible for the identification, development, and implementation of the procedures necessary for controlling the activities governed by the board's policy. The board members do not normally become involved in developing or approving specific procedures unless the secretary includes an item for consideration on the board's agenda. According to the secretary, most of the procedures developed in the past were based on his observations or on the recommendations of staff. Further, most of the procedures currently in effect were developed in response to identified problems; however, there has been only limited time available for reviewing the need for new or revised procedures. Even though this system has led to the development of a number of efficient methods for controlling certain activities, it has not produced the procedures necessary for fulfilling several of the board's regulatory responsibilities.

The Board Needs to Improve  
Its Procedures for Monitoring  
Parimutuel Wagering Activities

The California Horse Racing Board lacks sufficient procedures for monitoring parimutuel wagering activities to assure itself that revenues are reported accurately. Money distributed from parimutuel wagering is calculated by totalisator equipment, reconciled by the staff of the track's money room, and verified by parimutuel auditors who are employed by racing associations and subject to board approval. Internal control features of the totalisator system and the association's money room appear adequate to ensure that no material irregularities could occur in computing the payoffs and the State's revenue and go undetected provided there are sufficient audit tests. To date, however, the board has not developed comprehensive guidelines outlining the minimum audit tests that parimutuel auditors should conduct. We found that the parimutuel auditors are not conducting certain standard audit tests to confirm that the system's internal controls are operating as designed. As a result, there is a potential that an irregularity could occur that might affect the accuracy of the computing of pay-offs or state revenue.

## Internal Control Features of Parimutuel Wagering Systems

California horse racing associations generally employ two key controls to ensure that the parimutuel operation accurately pays off bets and distributes to the State its share of the total money wagered. First, the associations contract with a private corporation to provide a computerized betting system called "a totalisator." The totalisator records bets, calculates payoffs, and identifies the State's share of the total revenue. Second, racing association employees control cash collected from wagering transactions in a central location called a "money room." Employees in the money room count the total money received and reconcile the amount received to the totalisator calculations. The parimutuel auditor hired by each association verifies the totalisator computation of the State's revenue and other payoffs and submits a copy of his or her calculations to the board.

The American Totalisator Systems (AmTote), a division of the General Instrument Corporation, provides totalisator services to most of the 17 California race tracks that are regulated by the board. An electronic totalisator, the AmTote 300, is now employed at major race tracks in California and is used for calculating more than 95 percent of the total horse racing revenue that is due to the State. With the AmTote 300 system, each parimutuel clerk is assigned to a

terminal that provides computer-controlled wagering, cancelling, and cashiering capabilities. The computer system maintains control over the use of the terminals, maintains a history of all transactions, and issues reports that can be used to reconcile cash records and resolve contested transactions.

At each race track, personnel in the association's money room reconcile their cash records to AmTote reports that summarize the various transactions processed by each clerk. Any differences between the actual cash count and the AmTote report are investigated, and the responsibility for errors is fixed on either the clerk or the AmTote system. Any shortages are paid by the responsible party, either the parimutuel clerk or the company.

We found that the internal control features of both the AmTote 300 system and the money room cash processing system are generally adequate to ensure that no material misstatement of payouts to bettors or of the State's revenue could occur and go undetected if the systems operate as designed. To ensure that these systems operate properly, the board relies upon reviews conducted by each parimutuel auditor.

Improvements Needed in the  
Auditing of Parimutuel Operations

The board relies upon the parimutuel auditor for verifying the correctness of the association's calculations of the payoff and the State's revenue. We found that the parimutuel audits do not include certain audit tests to verify that the association's internal control system operates as designed.

The American Institute of Certified Public Accountants has promulgated generally accepted auditing standards in its codification of statements on auditing standards. One of the more important field work standards requires that a study and evaluation of existing internal controls be conducted to determine how much audit work should be performed to gather sufficient evidence for forming an opinion. To comply with this standard, the auditor must develop audit procedures for reviewing the internal control systems. In the case of parimutuel operations, the systems that should be reviewed include the totalisator and the money room. If the controls in these two systems are adequate, the next test would logically be an attempt to reconcile the two systems.

The California Horse Racing Law gives the board authority to establish accounting and reporting requirements and to place expert accountants in a licensee's place of business to ensure compliance with the State's rules and regulations. Thus, the board has the authority to define standards and procedures for parimutuel audits that will ensure that revenues are reported accurately.

Even though the board approves which audit firm is hired by the associations, it has not developed guidelines outlining the minimum audit steps that parimutuel auditors should conduct. Under current procedures, the board sends a new parimutuel auditor a copy of a previous audit report and a copy of the Horse Racing Law. On occasion, board staff may issue verbal instructions about the percentages to be used in calculating the State's revenue for a particular meet if the auditors request this information. The current audit procedures consist primarily of verifying totalisator payout calculations based on totals that were accumulated by the totalisator itself. Current procedures do not include a verification that the totalisator accumulation is correct or that it is reconciled with the calculations made by personnel in the money room.

Because the board has no formal audit guidelines, we surveyed 12 firms that audit 30 racing associations to determine the amount of guidance given by the board to the parimutuel auditor and to determine what procedures the auditors had developed independently of the board. Eight audit firms, representing 15 associations, responded to our survey. Ten of these associations used the AmTote 300 system. The results of our survey showed that no firm received written audit guidelines and that only four of the eight audit firms had received some verbal guidance from the board. None of the firms reviewed the internal controls of either the AmTote system or the money room system as part of the parimutuel audit.

The responses to our survey indicate that the internal control features of the totalisator system are not being studied and evaluated. Even though our review indicated that there are adequate controls in the AmTote 300 system, the lack of regular reviews of computer controls increases the potential for persons to break the controls in the system without being detected. Our computer consultant identified ways in which the system could be abused by an illegal wiretap or by exploiting insufficient controls over history tapes (magnetic tape recordings of wagering information). For example, it is possible for a person to use a wiretap to record



the wagering information that is transmitted on the wiring between various parts of the system or that is contained in the history tapes, decipher the information, and then print counterfeit winning tickets. If the parimutuel auditors review and test the internal controls of the AmTote system, the probability of such abuse going undetected would be extremely low.

As mentioned previously, our survey also indicated that parimutuel auditors did not review the operations of the money room. Without an independent review of the operations of the association's money room, the board has no assurance that money room personnel are properly reconciling their calculations with those of the totalisator or that contested transactions are handled properly. During our review, we received numerous complaints (primarily from parimutuel tellers) about irregularities in the money room and about contested transactions resulting from totalisator malfunctions. Some tellers felt that they were inappropriately charged for totalisator errors. We could not assess the validity of these complaints because there were no verifiable records of the alleged irregularities and malfunctions. Further, the parimutuel auditors had not conducted independent reviews of the money rooms to ensure that contested transactions were resolved properly. If the parimutuel auditors had conducted sufficient reviews of money room operations, the board would

have added assurance that the associations' money room personnel were properly reconciling their calculations with those of the totalisators and that contested transactions were being resolved properly.

In September of 1976, the Auditor General issued a report entitled "The California Horse Racing Board: A Comprehensive Review of its Operations" (Report No. 280). The report stated that the board did not have the personnel with the necessary expertise to monitor the parimutuel wagering system to ensure that the State is receiving its lawful share of all money wagered. The need for such a review is even greater today because the level of automation has increased since 1976. The executive officer of the board stated that the board attempted to create a position for a person experienced in developing monitoring guidelines but that the Department of Finance would not approve the budget authorization.

Nevertheless, there are other ways for the board to obtain the required guidelines. For example, the State of Michigan has contracted with a CPA firm to prepare an audit guideline for the State's parimutuel operations. Although it does not address computerized totalisators, this guideline includes sufficient audit procedures to review the parimutuel system, and there are plans to include a review of computerized

systems in the future. Michigan's consultant recommended that the state develop its computer audit techniques in coordination with other states.

The Board Needs to Improve  
Its Procedures for Monitoring  
Charity Race Day Proceeds

The California Horse Racing Board has not established sufficient procedures for monitoring the collection and distribution of charity race day proceeds. The board has no requirement for an audit of the associations' charity race day income that is contributed to foundations for distribution to charitable organizations in accordance with the Horse Racing Law. Further, even though the board requires yearly audit reports from the foundations, we found that the board has neither adequately reviewed these reports nor required them to be submitted promptly. Specifically, we found that only seven of fourteen audit reports for distributions made during 1980 were available for our review; several of the reports were for two-year periods rather than for the required one-year period. As a result, the board has no assurance that racing associations are contributing proper amounts to charitable foundations and only limited assurance that the charitable foundations are allocating charity proceeds to authorized charities.

The California Horse Racing Law requires racing associations to designate from three to five racing days, depending on the length of their meets, as charity race days.\* The associations contribute the net proceeds from these days to charitable organizations. Charity day proceeds include income from parimutuel wagering, admissions, parking, program sales, and concessions. Associations may deduct certain expenses incurred in conducting races on these days; they may not deduct expenses for overhead or fixed costs.

Only nonprofit charity foundations selected by the associations and approved by the board may distribute charity race day proceeds. These foundations are responsible for distributing charity proceeds to authorized charitable organizations such as the United Way, the Boy Scouts, and the Horsemen's Benevolent Association. All charity foundations and the charitable organizations they contribute to must be exempt or entitled to a federal and state tax exemption certificate. The foundations' distributions to charitable organizations are approved by the board.

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\* This does not apply to the California Exposition and State Fair or to county or district agricultural association fairs.

We found that the board has not established sufficient requirements for a comprehensive audit of racing associations' charity race day income or the expenses that may and may not be deducted. Although the parimutuel auditor verifies the parimutuel revenue for an association's charity race days, the board has not established any audit requirements for determining the charity race day revenue received from admissions, parking, program sales, and concessions. Further, the board does not require verifications of the allowable deductions of expenditures to determine the net proceeds from charity race days. As a result, the board cannot ensure that racing associations have complied with the law and contributed the correct amounts to the designated foundations for distribution to charitable organizations.

The board has established requirements for charity foundations to submit certified audit reports within three months after the close of the foundation's fiscal year. The board requires that the auditors preparing these reports follow generally accepted auditing standards and that they include an inspection of the federal and state tax exemption certificates of all charitable organizations that received charity proceeds to ensure that they were qualified as charities.

According to the board's annual report, during 1980, 14 charity foundations distributed approximately \$1.9 million to various charitable organizations. In late October 1981, we asked the board's staff to provide the charity foundation audit reports for our review. However, only 2 were available at that time, and even though the board made a follow-up request in November 1981, only 7 of the 14 reports were made available by January 4, 1982. Therefore, we were unable to verify the distribution of \$1.9 million included in the annual report.

Furthermore, several of the available audit reports described results for a two-year period rather than the required one-year period. Consequently, because it has not required timely reporting by the charity foundations and because it has not reviewed audit reports to see that they comply with board requirements, the board cannot monitor the charity foundations' allocations of charity race day proceeds to authorized charities.

The board's manager of administrative programs stated that some years ago the Department of Finance conducted audits of the associations' charity race day income. However, the board terminated its interdepartmental agreement with the Department of Finance because of budget constraints. Further, even though certain reports that were originally required by

the Department of Finance are still required and submitted, there is currently no audit report submitted to the board that verifies the accuracy of the charity race day income as reported by the associations.

The Board Needs to  
Improve Monitoring of Its  
Official Racing Laboratory

The California Horse Racing Board has not regularly reviewed or evaluated its official racing laboratory to ensure the quality of testing performed by the laboratory. The laboratory analyzes post-race urine and other samples to help ensure that horses are not under the influence of drugs or unauthorized medications while racing. Although the board conducted a quality assurance evaluation in 1980, the board did not conduct similar evaluations for at least three years before 1980. Furthermore, the 1980 quality control evaluation was of limited value because it did not assess all of the laboratory's testing procedures. Without an ongoing quality control program, the board has no assurance that testing results are accurate and that racing participants are adhering to the board's drug and medication regulations.

The California Horse Racing Board promulgates rules and regulations regarding the use of all medications for racing purposes. Medications are generally classified as prohibited

drugs or permitted medications. A prohibited drug is any drug recognized as a stimulant, depressant, narcotic, or local anesthetic; such drugs cannot be used on a race horse for racing purposes. A permitted medication is any medication not included in the class of prohibited drugs; with few exceptions, these drugs may be administered except on a day the horse is to race.\* The use of any medication must be reported to the board's official veterinarian at the race track.

After each race, the official veterinarian and his representatives take samples (usually urine samples) as a means of controlling and monitoring the use of drugs and medications. The detection of any medication that has not been previously reported is grounds for disciplinary action. If prohibited drugs are discovered, the trainer and any other person having care or custody of the horse may be fined, have their licenses suspended or revoked, or be denied access to the track. In addition, board regulations state that the horse shall be

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\* The board filed new administrative rules and regulations relating to medication on October 29, 1981; these became effective on the 30th day after filing. The new regulations do not use the term "prohibited drug," and they further restrict the number and type of medications that may be administered.



disqualified from the race and any purse or award be forfeited.\* The outcome of parimutuel wagering, however, is not affected.

Board regulations require that urine samples be taken from the winner of every race, from horses finishing first, second, or third in any stakes race with a purse of \$10,000 or more, and from other horses selected by the stewards or the official veterinarian. After each race, horses to be tested are brought to a detention area where samples are taken by the official veterinarian and his representatives. Although board regulations require the taking of samples, the board has no comprehensive written procedures or guidelines for the taking of these samples. The board's official racing laboratory analyzes the samples and reports findings of any prohibited substances, as well as any permitted medications. Analyses are usually completed and reported one day after receipt of the samples.

Since 1939, there has only been one laboratory in California approved and designated as the board's official racing laboratory. The board has no formal contract or agreement with the laboratory for the provision of services.

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\* The new regulations no longer stipulate that a horse be disqualified and required to forfeit its purse or award if a prohibited drug is discovered.

During 1980, the laboratory analyzed 27,075 samples. The total cost for these analyses, which was paid by the various racing associations, was \$430,492.

To be effective, a drug enforcement program must not only include the capability for drug testing but must also include a quality control component to ensure that such testing is performed accurately. The National Association of State Racing Commissioners, recognizing the need for a quality assurance program to assure the competency of drug testing laboratories, approved a Uniform Drug Testing and Quality Assurance Program during its 47th annual convention in April 1981. Furthermore, in a survey we conducted of six other states that permit horse racing, three of five states responding indicated that they conducted quality control tests of their laboratories at least once a year. One state conducted these tests on a weekly basis.

We found that the board has not regularly conducted evaluations of the laboratory to assure itself of the quality of the testing performed. Although the board conducted a quality assurance evaluation in 1980, it had not conducted quality assessments for at least three years previously. For the 1980 quality assurance evaluation, the board sent portions of urine samples to the official racing laboratory of another

state. According to the board's secretary, the board determined the race days from which samples were selected. However, the board allowed personnel of the board's laboratory to select the specific samples that were to be sent to the quality control laboratory for evaluation. Furthermore, the board requested that the quality control laboratory identify only prohibited substances. Since the board's laboratory must also identify permitted medications, the test did not fully assess the quality of testing conducted by the laboratory. In addition, the quality control laboratory reported difficulty in analyzing the samples because of the presence of large amounts of non-steroidal, anti-inflammatory drugs, which are permitted medications in California. Since the quality control laboratory did not identify any prohibited substances in the samples, it concluded that the board's laboratory appeared to be doing a satisfactory job. However, because of the limitations in the conduct of the test, we do not feel that the board comprehensively assessed the quality of testing conducted by its official racing laboratory.

In our review, we discovered that the board has not conducted quality control evaluations on a regular basis because it has no policy for regularly assessing the quality of testing that is conducted by the official racing laboratory. The board, however, has recognized the need for evaluating the laboratory's performance, and it has adopted, in principle, the

National Association of State Racing Commissioners' proposed Uniform Drug Testing and Quality Assurance Program. Under this program, laboratories will be required to analyze known and unknown samples, thus allowing an evaluation of the laboratory and its personnel. The primary objective of the program is to assure the competency of the participating laboratories. The board's secretary indicated, however, that funding was not available to allow California to participate in the program (estimated by the board's secretary to cost \$40,000 per year). In addition, the cooperation of neighboring states would be needed to establish the proposed program.

The board's laboratory has also recognized the need for proficiency tests of its work by voluntarily participating in a quality assurance program sponsored by the Canadian Department of Agriculture. Under this program, the laboratory will receive and analyze samples containing various drugs on a monthly basis. The cost of participating in this program is \$500 for one year. The laboratory's chief chemist feels that these proficiency tests will improve the laboratory's methods of analysis. However, the board should also be conducting independent assessments of the laboratory to ensure that the testing performed in the day-to-day operations is accurate.

The Board Has Not  
Fully Defined the Role and  
Duties of Its Investigators

The California Horse Racing Board has not fully defined the role and responsibilities of its investigators, the staff persons primarily responsible for enforcing horse racing laws and regulations. As a result, we found that there were variations between the functions that members of the board expect investigators to perform and the activities actually performed by the investigators. Because the board has not provided investigators with adequate direction, some important enforcement activities are receiving less attention than the board members believe they should. Furthermore, the board currently has only 14 investigators for the entire State. According to board staff, this number is sometimes not sufficient to provide one investigator on duty at all times at each meet; this situation also increases the need for direction from the board. The board has experienced difficulty in obtaining budget authorizations for increased staffing. However, we could not determine the board's staffing requirements because of the absence of defined roles and responsibilities and the lack of workload data pertaining to investigators.

According to the Penal Code, the board's investigators are state peace officers whose primary responsibility is the enforcement of the Horse Racing Law and other laws within the racing enclosure area. The investigators are the senior staff people on site and as such are required to perform a variety of duties. Although the board assigns them enforcement duties, it has not formally defined the investigators' responsibilities beyond what is contained in the broad definition of peace officers outlined in the Penal Code and the State Personnel Board's general job specification for investigators. Although the state specification for the chief investigator's position includes some specific requirements relating to horse racing, the state specification for the board's other investigators lists only the basic qualifications required for state service but does not indicate the type or importance of duties pertinent to particular state agencies.

Although the board's regulations delineate the overall duties and responsibilities of stewards and other racing officials and of the racing associations, the regulations do not delineate the investigators' role in enforcing these regulations. The board has not developed duty statements for investigators that detail and rank specific duties by importance. The board staff considers the State Personnel Board (SPB) specification for the investigator class

as a duty statement. However, SPB staff indicated that this is a general state specification used by such diverse investigative operations as the Department of Justice and the Department of Motor Vehicles and that organizations should develop their own detailed job descriptions. SPB staff also indicated that the detailed job descriptions should specify the percentage of time that investigators should spend on various duties.

We also found that the board has not developed an adequate procedural manual for its investigators or its licensing staff. The board's field staff operate according to the numerous memoranda issued by the board's headquarters. As of July 1981, the investigator's manual consisted of a collection of various memoranda, directives, letters, and miscellaneous documents. Some of the documents included were issued during the 1960's and 1970's, and some are apparently out of date. In addition, some documents were undated while others consisted of excerpts from magazines. Furthermore, some documents instructed readers to reply to the board's office in Los Angeles; the board's office was moved to Sacramento in 1977.

Further, formal definitions of staff duties are needed to clarify supervisory relationships. The board's current organizational structure separates the investigation

and licensing functions. This situation is further complicated by the fact that even though there are two supervising investigators--one in the northern region and one in the southern region of the State--there is only one supervising license clerk who is usually stationed in the northern region. A recent staff analysis of this situation concluded that southern region operations were unorganized and inefficient because of this organizational structure and because of the supervising investigator's disinterest in overseeing the licensing function.

Because the board lacks written policy covering the activities of investigators, we interviewed the executive secretary and board members to obtain their perceptions of various staff activities, including the role and responsibilities of the investigators. We asked, among other questions, whether the board had analyzed staff duties and responsibilities, what the investigators' duties and responsibilities were supposed to include, and whether board members felt the board was adequately staffed.

According to the board's secretary, the investigator's role is much like that of a "cop-on-the-beat." The secretary expects the investigator to monitor the licensing process, serve as the direct representative of the stewards,



and investigate all matters referred from headquarters. The secretary also relies on the investigators to monitor each association's overall supervision of the race.

Six of the seven board members indicated that they had not formally analyzed staff duties and responsibilities. However, most members felt that an investigator should function like a detective, with emphasis on conducting investigations to uncover violations and to resolve reported offenses such as bookmaking and security violations. While board members expressed different opinions on which investigative duties should have top priority, five of seven members stated that resolving financial matters between individuals (such as clearing bad checks and resolving unpaid bills) should receive the lowest priority. In addition, most of the board members felt that current staffing was insufficient. Board members indicated that one investigator on duty at a large track was simply not enough. Also, they said that additional staff were needed for planning and research and that the limited staff may not analyze problem areas sufficiently.

We attempted to assess investigative activity by reconstructing the work patterns for a sample of investigators based on records maintained at the board's headquarters and at

the field offices. However, we found that these records were insufficient; therefore, we had to rely on interviews to determine investigators' typical work patterns.

We interviewed ten investigators on duty at the tracks we visited. We asked the investigators to define their duties and responsibilities and to estimate the percentage of time they spent on various activities. Most of the investigators indicated that their primary duty was to enforce the horse racing law and the board's rules. However, in estimating the time they devoted to various duties, they indicated that they spent a substantial amount of time resolving financial matters between individual licensees. The investigators estimated that resolving financial matters consumed between 10 and 62 percent of their time. Activities of this type do not generally pertain to the board's primary responsibility of protecting the betting public and ensuring the State's receipt of racing-related revenue.

The investigators also estimated that they spent considerable time on licensing activities. These activities consumed from 5 to 35 percent of their time. Further, some indicated that fingerprinting, a part of the licensing process normally performed by investigators, could be done by noninvestigative personnel.

The following table, based on the board's annual report for 1980, presents the type and number of investigations carried out by investigators during 1980.

TABLE 1  
INVESTIGATIONS CONDUCTED  
DURING 1980

<u>Type of Investigation</u>	<u>Number</u>	<u>Percent of Total</u>
Relating to license violations	184	30.4%
Relating to financial responsibility	183	30.2%
Relating to other medication violations	108	17.8%
Relating to prohibited drugs	12	2.0%
Relating to possession of contraband	10	1.6%
Miscellaneous	<u>109</u>	<u>18.0%</u>
Total	<u>606</u>	<u>100.0%</u>

As the table shows, 183 of 606 or 30.2 percent of the investigations conducted in 1980 related to matters of financial responsibility, an area that most board members felt should receive the lowest priority. The large number of investigations dealing with financial matters appears to result from the board's rules on financial responsibility. These rules allow for complaints regarding bad checks and unpaid bills to be filed with the board.

As a result of the board's failure to define staff roles and responsibilities fully, investigators have not properly allocated their time to those areas that the board members feel are of highest priority. Most of the board members felt that duties such as investigating violations and resolving reported offenses should receive highest priority. However, investigators spend more time on activities that board members consider to be least important and that appear to be the least related to the primary regulatory responsibilities of the board.

Although the board members feel that the board is understaffed, we could not determine the appropriate staffing needs because of the absence of defined roles, responsibilities, and workload data pertaining to investigators. The investigators we interviewed indicated that they worked very little overtime; most felt, however, that they could use additional staff at certain times of the year. According to the board's secretary, the current staff of 14 investigators is not sufficient to provide one investigator on duty at all times at each meet. Further, in January 1982, the secretary said that his attempt to obtain authorization for increased staffing for fiscal year 1982-83 had been rejected by the Department of Finance. Therefore, formal definitions of staff duties are needed for guidance to enable investigators to

use their time efficiently by concentrating on the most important areas. Also, such definitions could serve as a basis for determining the need for increased staffing.

The Board Needs to  
Improve Its Procedures for  
Fingerprinting License Applicants

The California Horse Racing Board has not taken fingerprints of all its licensees and, as a result, has not conducted criminal background investigations on these licensees. The board uses the services of the California Department of Justice to report on an applicant's California criminal record. We found that the Department of Justice could not locate the fingerprint cards for 35 percent of our sample of licensees. Since licenses may be refused to persons who have been convicted of certain types of criminal activity, background investigations are an integral and necessary means of obtaining information on an applicant's qualifications and fitness for a license. As a result of not conducting background investigations through the Department of Justice, the board may potentially license persons who would not be allowed to participate in racing activities.

The statutes and regulations of the California Horse Racing Board require licenses for persons participating in horse racing activities. The board requires licenses for horse

owners, jockeys, trainers, parimutuel employees, and other participants. According to the board, it had issued approximately 40,000 licenses as of 1980, and it issues about 10,000 new licenses annually.

The board may refuse to issue a license to a person who has been convicted of a crime that is punishable by imprisonment in a state prison, has been convicted of a crime involving moral turpitude, or has made any material misrepresentation or false statement in a license application. The board does not necessarily deny licenses to applicants who have criminal records. Board regulations regarding grounds for refusal of a license are open to wide interpretation and therefore allow discretion in deciding which applicants should be licensed.

To obtain information on an applicant's qualifications and fitness for a license, the board includes on its application forms questions regarding any convictions by a court or suspensions or revocations of a racing license. In addition, the board takes fingerprints of applicants to enable the California Department of Justice to search its files for an applicant's California criminal record. According to the board's executive secretary, fingerprints are to be taken of all applicants for new licenses. The Department of Justice uses fingerprint cards to initiate the search for criminal

records and to keep a record of all license applicants. This enables the Department of Justice to notify the board when the department obtains new information on applicants.

To test whether the board had fingerprinted applicants, we selected a random sample of 434 licensees who applied for licenses between 1978 and 1981. We asked the California Department of Justice to search its files to verify that the board had submitted fingerprint cards for these licensees. The department reported that it could not locate fingerprint cards for 170 licensees, 39 percent of our sample. We searched the board's files and found evidence that fingerprint cards for 16 of the 170 licensees had been submitted by the board. However, for the remaining 154 licensees, or 35 percent, we could find no evidence that the board had submitted fingerprint cards. We therefore conclude that the board did not conduct criminal background investigations of these licensees.

Although we could not specifically identify why the fingerprint cards were not on file at the California Department of Justice, we found some factors that appeared to contribute to this situation. We found, for example, that as of October 1981, there was no system for keeping track of fingerprint cards. The board did not keep lists of names of those

individuals whose cards had been submitted to the Department of Justice. As a result, the board could not ascertain whether the department received, processed, and responded to all fingerprint cards submitted. In addition, the board assumed that persons whom it had previously licensed had been fingerprinted. These persons were therefore not fingerprinted when they reapplied for a license.\* However, this assumption was not supported by the results of our analysis. Of the 154 licensees for whom we found no evidence that fingerprints had been sent to the Department of Justice, 46 percent indicated that they had previously been licensed by the board.

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\* According to the board's executive secretary, until December 15, 1978, licenses had to be renewed on a yearly basis. Since then, licenses are granted for 3-year periods.



## CONCLUSION

The California Horse Racing Board needs to improve its procedures for monitoring and controlling certain critical activities in horse racing. The board does not have sufficient procedures for monitoring parimutuel wagering activities and for enforcing some horse racing laws and regulations. Specifically, the board has not established comprehensive guidelines for monitoring parimutuel wagering activities, and it has not adequately monitored the collection and distribution of charity race day proceeds. Further, the board has not regularly monitored the quality of testing conducted by its official racing laboratory.

Because of the lack of monitoring, the board has only limited assurance that the state revenues collected are correct, that charity race day proceeds are collected and distributed properly, and that certain critical activities are being conducted in accordance with the law and in a manner that promotes the integrity of horse racing.

Furthermore, we found that the board has not fully defined the role and responsibilities of its investigators. And finally, the board has not fingerprinted all its licensees.

#### RECOMMENDATION

We recommend that the California Horse Racing Board adopt the following measures to improve its regulatory control of horse racing activities:

- Develop, implement, and maintain standardized guidelines for the audit of parimutuel operations. These guidelines should require the parimutuel auditors to review the accuracy of the totalisator accumulation of wagering pools by verifying that the total dollars reported agrees with the amount of cash collected. Further, the auditors should periodically review the internal controls of the totalisator system and the money room. If the board is unable to obtain sufficient qualified staff, it should consider establishing an interagency agreement or contracting with a private firm for the development of audit guidelines.

- Develop and implement improved procedures for monitoring charity race day proceeds. These procedures should require that the associations submit audit reports verifying their net proceeds for charity race days. Further, the board should institute controls to ensure that foundation audits are submitted on time and are properly reviewed by staff.
- Develop and implement a program to conduct quality control tests of the racing laboratory at least once a year. This program should include formal written procedures for conducting the entire drug testing process.
- Further define the role and responsibilities of investigators by developing detailed duty statements that rank investigators' duties. The board should also assign noninvestigative duties to other staff and develop procedural manuals for all field staff (both licensing and investigative).
- Improve its licensing procedures by establishing controls to ensure that no license application is processed without preparing a fingerprint card or verifying that a card is already on file

at the California Department of Justice. The board should also institute controls to track fingerprint cards to ensure that the department processes and responds to all fingerprint cards submitted.

#### Corrective Action Taken

During our review of the charity race day foundation audit reports, the board's administrative manager issued a letter of instruction to all foundations requesting that they immediately submit audit reports due for the 1979-80 and 1980-81 fiscal years.

Also during our review, the board instituted a system to track fingerprint cards to ensure that the Department of Justice processes and responds to all cards submitted by the board. The system became operational in December 1981. The board, as of February 8, 1982, also established controls to ensure that each license contains information about whether an applicant has been fingerprinted.

## II

### OTHER INFORMATION REQUESTED BY THE LEGISLATURE

During our examination of the operations and the financial records of the California Horse Racing Board, we also reviewed certain other issues as requested by the Legislature. The following section contains the results of our review, which determined (1) the propriety of disbursements from the stewards' trust fund account, (2) the financial impact of Assembly Bill 3383, which amended the Horse Racing Law to decrease the State's percentage of revenue from parimutuel wagering, and (3) the effect of requiring daily deposits of the State's share of revenue from parimutuel wagering.

#### Stewards' Trust Fund Account

The California Horse Racing Law requires the California Horse Racing Board to assess racing associations in order to raise funds to pay racing stewards' salaries and fringe benefits. The board maintains these funds in a separate trust account in the State Treasury and disburses the funds to meet the requirements of the stewards' compensation program.

We reviewed Section 19442 of the Business and Professions Code, interviewed board staff, and reviewed claim schedules for operating expenditures and equipment paid from the stewards' account to determine whether the board has disbursed these funds correctly. Specifically, we determined whether the board improperly used the funds to purchase equipment and services, such as photographic supplies and postage.

Although Section 19442 of the Business and Professions Code only addresses stewards' salaries and fringe benefits, we found that the board, at the recommendation of the Department of Finance, also assesses racing associations \$2.20 per day per steward as an administrative overhead charge. This overhead charge is used to pay for travel, transcripts of administrative hearings, and other operating expenses and equipment that might be required for the stewards to fulfill their functions. Thus, the law does not prohibit the use of the stewards' account for purchasing equipment or services. We found that the board correctly processed all of the claim schedules for operating expenditures and equipment paid out of the stewards' account.

Impact of Assembly Bill 3383  
(Chapter 1043 Statutes of 1980)

Assembly Bill (AB) 3383, which became law effective on January 1, 1981, provides financial relief to the horse racing industry by decreasing the distribution to the State of its share of the percentage of the total amount wagered, increasing the distribution to racing associations and the horsemen for their percentage of the total amount wagered, and increasing the total number of racing days.

We estimated the financial impact of AB 3383 by analyzing and comparing revenues, distribution percentages, and the number of racing dates for the 1980 and 1981 calendar year racing meets for the three types of race meetings--thoroughbred, harness, and quarterhorse. For those meets that were still in progress, we estimated the impact by using the amounts collected to the date of our calculations. We did not include revenues from county fairs.

The following table presents the results of our analysis, showing the total increase (or decrease) in millions of dollars and the percentage change of the total amount wagered and the various distributions for the years 1980 and 1981.

TABLE 2

ESTIMATED TOTAL AMOUNT WAGERED AND  
DISTRIBUTED IN 1980 AND 1981:  
CHANGES RESULTING FROM AB 3383<sup>a</sup>

		<u>Dollars (in millions)</u>			<u>Percent</u>
	<u>Type of Meet</u>	<u>1980</u>	<u>1981</u>	<u>Change</u>	<u>Change</u>
Payment to Public	Thoroughbred	1,058.4	1,258.5	+200.1	+19
	Harness	149.9	138.3	- 11.6	- 8
	Quarterhorse	<u>146.6</u>	<u>160.4</u>	<u>+ 13.8</u>	<u>+ 9</u>
	Total	<u>1,354.8</u>	<u>1,557.2</u>	<u>+202.3</u>	<u>+15</u>
State Racing Revenue	Thoroughbred	100.3	101.0	+ 0.7	+ 1
	Harness	11.4	5.5	- 5.8	-52
	Quarterhorse	<u>11.7</u>	<u>8.1</u>	<u>- 3.5</u>	<u>-30</u>
	Total	<u>123.3</u>	<u>114.7</u>	<u>- 8.6</u>	<u>- 7</u>
Payment to Associations	Thoroughbred	69.6	89.5	+ 19.9	+29
	Harness	12.8	16.3	+ 3.4	+27
	Quarterhorse	<u>11.7</u>	<u>15.3</u>	<u>+ 3.6</u>	<u>+31</u>
	Total	<u>94.1</u>	<u>121.1</u>	<u>+ 26.9</u>	<u>+29</u>
Horsemen Fee	Thoroughbred	59.7	83.7	+ 24.0	+40
	Harness	11.0	13.4	+ 2.4	+22
	Quarterhorse	<u>8.8</u>	<u>12.1</u>	<u>+ 3.2</u>	<u>+36</u>
	Total	<u>79.6</u>	<u>109.2</u>	<u>+ 29.6</u>	<u>+37</u>
Total Amount Wagered	Thoroughbred	1,288.0	1,532.7	+244.7	+19
	Harness	185.1	173.5	- 11.6	- 6
	Quarterhorse	<u>178.7</u>	<u>195.9</u>	<u>+ 17.1</u>	<u>+10</u>
	Total	<u>1,651.8</u>	<u>1,902.0</u>	<u>+250.2</u>	<u>+15</u>

<sup>a</sup> Table contains minor rounding differences.



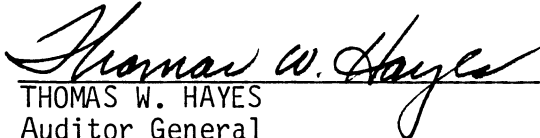
As the table indicates, the total amount wagered increased by \$250.2 million from 1980 to 1981. This increase was due primarily to the additional 94 days of racing held in 1981. However, we found that distributions to the public increased by over \$202.3 million. We also found that the State's total horse racing revenue decreased by \$8.6 million because of the reduction in the percentage of the total amount wagered going to the State. At the same time, both the racing associations and the horsemen received increased revenues. The racing associations' share increased by \$26.9 million, while the horsemen's share increased by \$29.6 million.

Daily Deposits of  
Association License Fees

California Horse Racing Law requires racing associations to deposit the State's share of revenues from parimutuel wagering on a weekly basis. During a previous audit of the board in 1976, we noted that the board could seek legislation to require daily rather than weekly deposits. At that time, we estimated that the State could earn additional interest of \$44,000 per year if the associations made daily deposits.

During the present audit, we calculated the additional interest income that the State would earn if the law were changed to require the daily deposit of the State's revenues. To determine the effect that daily deposits would have on the State's interest income, we used the average interest rate earned by the State Treasury for fiscal year 1980-81, which was 10.78 percent. We analyzed 54 percent of the State's total revenue generated by parimutuel wagering for the period from June 23, 1980, to August 21, 1981, and calculated the interest revenue that the State would have earned if associations had made daily deposits. Based on our analysis, we estimate that the State would have earned approximately \$186,000 in additional interest income. If the State Treasury interest rate for the first half of fiscal year 1981-82 (12.9 percent) were used, we estimated that the increase in interest revenue would be approximately \$210,000. The board's management stated that there may be some additional staff cost to the State if daily deposits were required. To institute the change requiring daily rather than weekly deposits, the Legislature must pass enabling legislation.

Respectfully submitted,

  
THOMAS W. HAYES  
Auditor General

Date: March 1, 1982

FINANCIAL AUDIT RESULTS

FINANCIAL AUDIT OF THE CALIFORNIA  
HORSE RACING BOARD FOR THE FISCAL YEAR  
ENDED JUNE 30, 1981

I

AUDITOR'S OPINION


We have examined the combined balance sheet of the California Horse Racing Board and the related statements of revenues, expenditures, and changes in fund balance and operating clearing for the year ended June 30, 1981. Our examination was made in accordance with generally accepted auditing standards and thus included such tests of the accounting records and other auditing procedures that we considered necessary.

In our opinion, these financial statements present fairly the financial position of the California Horse Racing Board at June 30, 1981 and the results of operations and the changes in fund balance and operating clearing for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The column amounts on the accompanying financial statements captioned "Total--Memorandum Only" for June 30, 1981, are not necessary for a fair presentation of the financial statements.

They are presented as additional data and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.

OFFICE OF THE AUDITOR GENERAL

By:   
KARL W. DOLK, CPA  
Assistant Auditor General

Date: January 4, 1982

II

FINANCIAL STATEMENTS

CALIFORNIA HORSE RACING BOARD  
COMBINED BALANCE SHEET  
ALL FUND TYPES AND ACCOUNT GROUPS  
JUNE 30, 1981

<u>Assets</u>	<u>Governmental Fund Types</u>		<u>Fiduciary Fund Type</u>	<u>Account Group</u>	<u>Total (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Expendable Trust</u>	<u>General Fixed Assets</u>	
Cash	\$1,890,887	\$ 189,614	\$2,084,855	\$ --	\$4,165,356
Accounts Receivable	--	4,502	153,462	--	157,964
Expense Advance to Employees	--	17,848	--	--	17,848
Due from Other Funds	731,859	--	--	--	731,859
Equipment	--	--	1,029	37,881	38,910
<b>Total Assets</b>	<b><u>\$2,622,746</u></b>	<b><u>\$ 211,964</u></b>	<b><u>\$2,239,346</u></b>	<b><u>\$37,881</u></b>	<b><u>\$5,111,937</u></b>
 <u>Liabilities and Fund Equity</u>					
Liabilities:					
Accounts Payable (Note 2)	\$ --	\$ 82,854	\$1,500,362	\$ --	\$1,583,216
Track Operators' Deposits (Note 4)	--	--	90,000	--	90,000
Due to Other Funds	--	731,859	--	--	731,859
<b>Total Liabilities</b>	<b><u>\$ --</u></b>	<b><u>\$ 814,713</u></b>	<b><u>\$1,590,362</u></b>	<b><u>\$ --</u></b>	<b><u>\$2,405,075</u></b>
Fund Equity:					
Investment in Fixed Assets	\$ --	\$ --	\$ 1,029	\$37,881	\$ 38,910
Fund Balance:					
Reserved for Encumbrances	--	1,043	--	--	1,043
Reserved for Stallion Awards (Note 5)	--	--	7,866	--	7,866
Reserved for Stewards' Compensation Assessments (Note 6)	--	--	136,626	--	136,626
Reserved for California Standardbred Sire Stakes (Note 7)	--	--	242,602	--	242,602
Reserved for Research/ Racetrack Security (Note 8)	--	--	260,861	--	260,861
Operating Clearing (Note 9)	<u>2,622,746</u>	<u>(603,792)</u>	<u>--</u>	<u>--</u>	<u>2,018,954</u>
<b>Total Fund Equity</b>	<b><u>\$2,622,746</u></b>	<b><u>\$(602,749)</u></b>	<b><u>\$ 648,984</u></b>	<b><u>\$37,881</u></b>	<b><u>\$2,706,862</u></b>
<b>Total Liabilities and Fund Equity</b>	<b><u>\$2,622,746</u></b>	<b><u>\$211,964</u></b>	<b><u>\$2,239,346</u></b>	<b><u>\$37,881</u></b>	<b><u>\$5,111,937</u></b>

The notes to the financial statements are an integral part of this statement.

CALIFORNIA HORSE RACING BOARD  
 COMBINED STATEMENT OF REVENUES,  
 EXPENDITURES, AND CHANGES IN FUND BALANCES  
 ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 1981

	<u>Governmental</u> <u>Fund Types</u>		<u>Fiduciary</u> <u>Fund Type</u>	<u>Totals</u> <u>(Memorandum Only)</u>
	<u>General</u>	<u>Special</u> <u>Revenue</u>	<u>Expendable</u> <u>Trust</u>	<u>Year Ended</u> <u>June 30, 1981</u>
Revenues: (Note 3)				
Parimutuel License Fees	\$102,334,471	\$15,605,996	\$ --	\$117,940,467
Breakage	8,402,487	--	--	8,402,487
Fines	54,176	--	--	54,176
Unclaimed Parimutuel Tickets	2,011,748	--	--	2,011,748
Occupational License Fees	620,110	--	--	620,110
Miscellaneous Income	6,580	--	--	6,580
Stallion Awards (Note 5)	--	--	859,928	859,928
Stewards' Compensation				
Assessments (Note 6)	--	--	875,406	875,406
California Standardbred				
Sires Stakes (Note 7)	--	--	1,263,413	1,263,413
Research and Racetrack				
Security (Note 8)	--	--	260,936	260,936
Horseman's Organization				
Welfare (Note 8)	--	--	260,936	260,936
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total Revenues	<u>\$113,429,572</u>	<u>\$15,605,996</u>	<u>\$3,520,619</u>	<u>\$132,556,187</u>
Expenditures:				
Personal Services	\$ --	\$ 854,833	\$ --	\$ 854,833
Operating Expenses	--	393,216	920,187	1,313,403
Purses and Awards	--	--	3,092,771	3,092,771
Other Uses:				
Miscellaneous Adjustments	7,899	32,090	--	39,989
Transfer of Accountability				
to State Controller (Note 9)	<u>115,385,873</u>	<u>15,355,442</u>	<u>                    </u>	<u>130,741,315</u>
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total Expenditures and	<u>115,393,772</u>	<u>16,635,581</u>	<u>4,012,958</u>	<u>136,042,311</u>
Other Uses				
Excess of Expenditures and				
Other Uses Over Revenues	(1,964,200)	(1,029,585)	(492,339)	(3,486,124)
Fund Balance--July 1	--	--	1,141,323	1,141,323
Operating Clearing--July 1	<u>4,586,946</u>	<u>426,836</u>	<u>                    </u>	<u>5,013,782</u>
Fund Balance--June 30	--	--	<u>\$ 648,984</u>	\$ 648,984
Operating Clearing--June 30	<u>\$ 2,622,746</u>	<u>(\$ 602,749)</u>	<u>                    </u>	<u>\$ 2,019,997</u>

The notes to the financial statements are an integral part of this statement.

CALIFORNIA HORSE RACING BOARD  
SPECIAL REVENUE FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN OPERATING CLEARING--BUDGET AND ACTUAL--LEGAL BUDGETARY BASIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1981

	<u>Legal Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Operating Clearing, Legal Budgetary Basis, July 1, 1980	--	\$ 426,836	\$ --
Adjustments of Prior Year Accruals	--	(34,798)	--
Adjustments of Prior Year Appropriations	--	<u>2,708</u>	--
Fund Balance, Legal Budgetary Basis, July 1, 1980, as adjusted	--	<u>\$ 394,746</u>	--
Revenues: (Note 3) Parimutuel License Fees	--	<u>\$15,605,996</u>	--
Expenditures and Transfer of Accountability to the State Controller:			
Personal Services	\$ 855,648	\$ 854,833	815
Operating Expenses	370,923	394,259	(23,336)
Transfer of Accountability to State Controller (Note 9)	<u>--</u>	<u>15,355,442</u>	<u>--</u>
Total Variance Legal Budget to Actual	--	--	<u>\$(22,521)</u>
Total Expenditures and Transfer of Accountability to the State Controller	<u>\$1,226,571</u>	<u>\$16,604,534</u>	
Excess of Expenditures and Transfer of Accountability to the State Controller Over Revenues	--	<u>\$ 998,538</u>	
Operating Clearing, Legal Budgetary Basis, June 30, 1981 (Note 9)	--	<u>\$ (603,792)</u>	

The notes to the financial statements are an integral part of this statement.



III

CALIFORNIA HORSE RACING BOARD  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 1981

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements reflect the financial position, the results of operations, and the changes in fund balance and operating clearing of the California Horse Racing Board. The statements have been prepared in conformance with generally accepted accounting principles applicable to state and local governments as prescribed by the American Institute of Certified Public Accountants and by the National Council on Governmental Accounting.

As required by generally accepted accounting principles, the accompanying financial statements are presented by fund types and account groups. The California Horse Racing Board accounts for only its portion of the Governmental Fund Type category. The State Controller maintains the central accounts for all state funds and publishes fund statements annually.

## GOVERNMENTAL FUND TYPES

Governmental Fund Types are those through which most governmental functions are financed. The acquisition, use, and balances of the government's expendable financial resources and the related current liabilities--except for those accounted for in Proprietary Funds--are accounted for through governmental funds. The General Fund and the Special Revenue Fund are the Governmental Fund Types used by the California Horse Racing Board.

### General Fund

The General Fund includes all financial resources not accounted for in another fund.

### Special Revenue Fund

This fund is used to account for specific revenues and expenditures designated for particular activities. The special revenue fund used by the California Horse Racing Board is called the Fair and Exposition Fund. The Fair and Exposition Fund is used to account for the collection of horse racing license fees and the operations of the California Horse Racing Board. In addition, this fund helps finance the various activities of state, county, and

agricultural district fairs. The Department of Food and Agriculture administers the portion of the fund related to the operations of the state, county, and agricultural district fairs.

All governmental fund types are maintained on the modified accrual basis of accounting, the more significant elements of which are as follows:

#### Income

Throughout the fiscal year, all income including revenues and transfers is accounted for on a cash basis. At June 30, the accounts are adjusted to accrue all earned but uncollected income which is expected to be collected within the next fiscal year.

#### Expenditures

Expenditures are accounted for on a cash basis during the year. At the end of the year, state agencies accrue obligations from performed but unpaid contracts as expenditures and accounts payable. Unperformed contracts, i.e., contracts for which goods and services have not been received by June 30, are recorded in the reserve for encumbrances. Encumbrances outstanding at the end of the year, in general, can be carried over for two subsequent years.

## Liabilities

Retirement Plan - Regular employees are members of the Public Employees' Retirement System (PERS), which is a defined benefit, contributory retirement plan. The amount that the agency and the employees contribute to PERS is actuarially determined under a program in which contributions plus retirement system earnings provide the necessary funds to pay retirement costs as accrued. Retirement contributions for the year totalled \$123,955. The board's share of the retirement liability at June 30, 1981, is not available.

Vacation and Sick Leave - The costs of vacation and sick leave are charged at the time the benefits are used rather than when they are earned. Although there is a liability for both of these items, there is no satisfactory basis for estimating the amount of the liability.

## FIDUCIARY FUND TYPES

These funds are used to account for assets held by a governmental unit as a trustee or as an agent for individuals, private organizations, or other governmental

units. The fiduciary fund type used by the California Horse Racing Board is called the Special Deposit Fund and is classified as an Expendable Trust Fund.

#### Expendable Trust Fund

An Expendable Trust Fund is one whose principal and income may be expended in the course of its designated operations. The board uses this fund to account for deposits and revenues designated by law for breeders' awards, stewards' compensation, various horsemen's programs, and deposits that secure parimutuel license fee payments from the racing associations.

#### ACCOUNT GROUP

The Account Group is used to account for General Fixed Assets. Assets purchased are recorded as expenditures in the appropriate fund in the year of acquisition.

#### 2. ACCOUNTS PAYABLE

Accounts Payable include all unpaid liabilities for goods and services received as of June 30. Accordingly, they also include liabilities for which disbursement requests were submitted to the State Controller by June 30 but which had not been paid as of that date.

3. BUDGETED REVENUES, EXPENDITURES, AND OTHER FINANCING SOURCES (USES)

Revenues, detail composition of expenditures, and other financing sources or uses are not included in the Legislative Budget Act.

4. TRACK OPERATORS' DEPOSITS

Each application for a license to conduct a horse racing meet requires a deposit of \$10,000 to secure the payment of the license fee. When the horse racing meet ends and the license fees are paid, the deposit is returned to the licensee.

5. RESERVED FOR STALLION AWARDS

Any association conducting a thoroughbred racing meeting at which the parimutuel handle (total amount bet) exceeds a specified amount must deposit a percentage of such amount in a separate account with a depository approved by the board. Stallion awards are then distributed on a pro-rata basis to the owners of qualified thoroughbred stallions.

6. RESERVED FOR STEWARDS' COMPENSATION

Chapter 416, Statutes of 1981, provided an assessment from each racing association for an amount equal to the pay, fringe benefits, and miscellaneous expenses to be paid to the stewards assigned by the board to the horse racing meeting.

7. RESERVED FOR CALIFORNIA STANDARDBRED SIRES STAKES

To encourage agriculture and the breeding of horses in the State of California, a portion of parimutuel breakage fees from standardbred races is contributed toward the California Standardbred Sires Stakes program. The amounts collected are deposited in a separate account and are awarded to the owners of qualified standardbreds.

8. RESERVED FOR RESEARCH AND HORSEMAN'S ORGANIZATION WELFARE

A portion of unclaimed parimutuel monies deposited to the credit of the board is specified by law to support research on matters pertaining to horse racing and racetrack security and to be paid to a welfare fund established by a horseman's organization.

9. OPERATING CLEARING AND TRANSFER OF ACCOUNTABILITY TO STATE CONTROLLER

Operating clearing is the connecting link between the records of various agencies and the central fund accounts maintained by the State Controller for the General Fund and other funds not accounted for entirely by an agency. The balance at June 30 represents the net assets and liabilities for which the board is accountable. The Transfer of Accountability to State Controller represents the assets for which the board transferred accountability to the State Controller during the year.

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**CALIFORNIA HORSE RACING BOARD**

SACRAMENTO, CALIFORNIA 95814

916-322-9228



February 25, 1982

Mr. Thomas W. Hayes  
Auditor General  
State of California  
925 L Street, Suite 750  
Sacramento, CA 95814

Dear Mr. Hayes:

In accordance with the rules established by the Joint Legislative Audit Committee, the response to the Report of the Office of the Auditor General as to its management audit of the California Horse Racing Board is hereby presented.

The California Horse Racing Board is pleased to note that one of the most critical areas of its responsibility, that of the integrity of the parimutuel totalisator system, was reviewed in detail by the staff of the Auditor General and that the following statement is made in the report:

"We found that the internal control features of both the AmTote 300 system and the money room cash processing system are generally adequate to ensure that no material misstatement of payouts to bettors or of the State's revenue could occur and go undetected if the systems operate as designed."  
(Report; page 13)

The California Horse Racing Board and its staff have in all respects cooperated fully with the Auditor General and his staff in the firm belief that the audit would find no major fault in the Board's supervision over horse racing in this State. Some improvements in the Board's procedures suggested during the course of the audit have already been formulated and instituted by the Board's staff. The Board must be mindful of its present limitations - limitations necessary due to the minimal resources provided the Board for its operations - and suggests that several of the recommendations made by the Auditor General can be implemented only with increased financial support.

GENERAL RESPONSES

The California Horse Racing Board regulates all horse racing meetings in this State where parimutuel wagering is conducted. The jurisdiction of the Board, although continuous throughout the year, must

be concentrated during periods of licensed operation of the 29 licensed race meetings at 14 principal locations in the State. The Board exercised this jurisdiction in 1981 over California horse racing meetings involving a total 1,093 days of racing having estimated parimutuel wagers in excess of 2 billion dollars. The Board's combined staffing consists of 34 positions, of which 11 are assigned to occupational licensing, 14 assigned to investigative duties, and 9 positions in the general office to service the complex regulatory functions of the Board. The Board is provided resources totalling 1.2 million dollars for its operations. Field staffing averages 4.5 personnel per racing day<sup>1/</sup> and the total cost of Board operation per racing day averages \$1,116<sup>2/</sup>, while racing revenues amount to an average of \$110,887 per racing day<sup>3/</sup>.

### SPECIFIC RESPONSES

#### AUDIT PROCEDURE FOR THE PARIMUTUEL WAGERING TOTALISATOR SYSTEM:

Until 1979, the principal type of totalisator system in use in California was the American Totalisator Company duplex totalisator that utilized a variety of types of ticket issuing machines. The parimutuel tickets issued by those machines were in a variety of denominations and types but were not machine-numbered nor otherwise individually accounted for. Only the gross number and total dollar amount of tickets issued for that parimutuel pool was determined and then each ticket cashed was subject to verification by "ticket counters". Those tickets were reconciled with the money in the money room. In 1979, American Totalisator Company introduced in California its AmTote 300 System, a fully computerized ticket issuance and accounting system which utilizes TIM 300 "smart terminal" ticket issuing machines. Each ticket has an individual audit trail provided by a unique identifying number, and cannot be successfully duplicated, counterfeited nor subject to substitution. The AmTote 300 System has gradually been introduced and is now the totalisator system utilized at all major California tracks, although some of the fair tracks still rely on a duplex system. As a result of this introduction of the AmTote 300 System, auditing procedures in use for the duplex system were not similarly applicable in total to the AmTote 300 System. However, the AmTote 300 System has its own internal auditing programs which have not yet been fully utilized by the auditors approved by the Board at each meeting. The area of reconciliation which should be added to the current audit procedures has been identified by the Auditor General as reconciliation of money received in the money room against the totalisator computer record of the amounts wagered. The Auditor General submits that

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<sup>1/</sup> In 1981, 21 persons were assigned to the field staff providing a total of 39,396 man-hours or 4,924 man-days for 1,093 racing days.

<sup>2/</sup> \$1.22 million divided by 1,093 racing days.

<sup>3/</sup> \$121.2 million divided by 1,093 racing days.

such reconciliation would provide the Board further assurance that bets will be paid off accurately and that the State will receive its proper share of the total money wagered. That the money room may be short or over in its total cash has no bearing on the totalisator calculations, but any reconciliation failure would identify a problem requiring additional and extensive review. Secondly, while the Board is not in a position to resolve differences between the association and its AmTote 300 terminal operators as such resolutions must be made pursuant to a collective bargaining agreement over which the Board has no jurisdiction, the audit information would be valuable in the adjustment process on the part of the management. Accordingly, we accept the recommendation to formalize an additional internal control audit feature to reconcile money room amounts with totalisator computations and propose to do so if given sufficient resources to contract for the preparation of audit guidelines for the State's parimutuel operations.

We believe it to be most improbable that the AmTote 300 System could be abused by an illegal wiretap or by lack of sufficient control over history tapes, absent the most widespread conspiracy among computer operators, programmers in Maryland, money room personnel and parimutuel auditors, and even then the probability of any such abuse being undetected is so low as to be virtually non-existent in fact or theory. Yet it is within the realm of possibility and therefore recognized. We have reviewed the proposed audit procedures developed for the State Racing Commission of Michigan by Price-Waterhouse & Co., which also developed audit procedures for the Florida Division of Parimutuel Wagering, but we submit that to implement those procedures as suggested in the Price-Waterhouse proposal would require a tripling of the present audit staff to include an auditor trained in advance computer technology. An alternate to this approach is to provide the Board the resources to contract for development of an audit procedures proposal and also the resources to appoint an employee in a Parimutuel Examiner position who is capable of providing continuing audit supervision of California parimutuel operations.

#### CHARITY RACE DAY PROCEEDS:

The Horse Racing Law, Section 19555, provides that each licensee shall pay over charity days net proceeds to its distributing agent as soon as practicable after the determination thereof. Thus the statute itself does not provide a firm and inviolate time limit in which the charity day proceeds must be paid. As a general rule, an association makes no such distribution payment until completion of its fiscal year after an audit of its year of operations has been completed. Fixed overhead expenses of the association must be prorated for charity days operation pursuant to Section 19553 and that calculation cannot reasonably be made until the end of the operating year. Thus its payment to its distributing agent may not be made for some months after the charity days have been conducted. The major amount of charity proceeds come from those associations that are corporations required to make audit reports

to shareholders and to the Securities and Exchange Commission on regular schedule and a part of those required reports include a report of charity days operation. The racing charity foundations, or distributing agents, fall within the purview of the Division of Charitable Trusts of the Department of Justice and as such are required to make financial reports to that Division on a regular basis.

Accordingly, we believe there are adequate means available to assure the accuracy of the association's financial reports as they relate to charity days operations. In considering the recommendation made in the report of the Auditor General, we believe it is practical to impose more strict guidelines for the submission of charity days financial reports and for the Board's staff to reconcile the association's financial report for its operations with its report of payment to its distributing agent and with the distribution of those proceeds by that distributing agent. However, we also believe that an amendment to Section 19555 to provide a more specific time limit for payment of and distribution of charity days racing proceeds is in order.

THE OFFICIAL RACING LABORATORY:

The only laboratory presently approved by the Board as an official racing laboratory is Truesdail Laboratories, Inc. of Los Angeles. Although there have been requests in the past on the part of other privately-owned laboratories for approval by the Board as an official racing laboratory, no such applicant has completed the requisite steps for approval.

Truesdail Laboratories is a member in good standing and a founding member of the Association of Official Racing Chemists (AORC) and to maintain its membership in that association must subscribe to certain testing standards consistent with advanced scientific techniques for toxicological analysis of biological samples. Truesdail has, since July of 1981, participated in a quality assurance program sponsored by the Canadian Department of Agriculture which is well recognized for its scientific competency. In 1980 the Board required Truesdail to submit split samples to the Equine Toxicology Center in New Bolton, Pennsylvania, for analyses verification, as is indicated in the report of the Auditor General. Because of the tremendous costs involved for full, detailed, scientific analysis of each test sample for all possible foreign substances, the Board only requested that the verification laboratory identify any prohibited drug substance detected in the split test sample. (In late 1981, a single sample sent to the Center for full and detailed analysis cost the Board \$1,495.) It is known that a complete and detailed verification of a biological sample analysis cannot be absolute inasmuch as a natural deterioration of a biological product is inevitable; that minute drug residue

may be destroyed by this natural process; and that even the smallest variation to analysis procedure can cause a difference to the chemist's report of evaluation. These factors are minimized if the verification laboratory - or quality control laboratory - is available locally.

We concur with the recommendation of the Auditor General in this regard and have already presented a recommendation to the Governor and the Legislature in the Board's Annual Report for 1981 in which the Board sought funding to establish a quality control and research laboratory at the School of Veterinary Medicine, University of California at Davis.

#### ROLE AND DUTIES OF CHRB INVESTIGATORS:

The Chief Investigator of the Board does provide an Investigator's Manual in which directives relating to the role of the investigator, investigator duties and priorities for those duties were established. The rapid expansion to the number of racing days, the unexpected disability retirement of the former Chief Investigator, and other personnel changes created problems which we believe have now been overcome. The Chief Investigator and the supervisor of licensing are now in the process of up-dating the Investigator's Manual and preparing a licensing manual, respectively. Among the procedures to be detailed in each manual are the establishment of priorities for specific duties and duty statements. We also propose to develop additional means to assess the enforcement activity of each investigator. In earlier years, the Board employed Race Track Investigators - the position title - rather than the varying levels of investigator classes as is now the case. In order to utilize to the fullest extent the enforcement resources available, the Board agreed to employ Investigator Trainees and Special Investigators. The Race Track Investigator was reclassified as Senior Special Investigator and two Supervising Special Investigator I positions were approved. This provided the appropriate position structure but the manual was not revised to take into account the differing position specifications. That is now in the process of correction.

However, we believe that the investigative workloads and the duties being performed by the Board's investigative personnel stand high in comparison to other regulatory and enforcement agencies and that the total enforcement efforts of the Board's field staff have been sufficient to prevent and suppress violations of the Board's regulations or the Horse Racing Law and to investigate all racing offenses observed or referred for such action.

#### FINGERPRINTING OF LICENSE APPLICANTS:

A substantial portion of the Board's appropriation for Attorney General Services is dedicated for payment to the Department of Justice for the processing of fingerprint cards obtained from license applicants. Each fingerprint card processed at the Department of Justice costs \$6.50 at present and the cost will

increase in the next fiscal year. In the Board's present budget, \$22,000. of the total appropriation for AG services of \$78,683. is so dedicated for fingerprint processing. The Board has already expended its total appropriation for these services and must curtail further expenditures in this area absent a budget augmentation.

We have accepted the recommendation in the report and have already instituted procedures to assure that fingerprint cards sent to the Department of Justice are properly indexed and that the resultant records received from DOJ whether negative or positive are made a part of the licensee's permanent record in the Board's files.

We did review further the matter of the 154 licensees for which no fingerprint record was found at the Department of Justice and found, fortunately, that a check by name disclosed that none of the 154 had any disqualifying record in the California files.

IMPACT OF ASSEMBLY BILL 3383 (Chapter 1043 Statutes of 1980):

As stated in the Board's Annual Report for 1981, Assembly Bill 3383 has had the desired effect of increasing the financial stability and economic well-being of the horse racing industry in California by realignment of the take-out distributions. At the time of enactment of AB3383 it was foreseen that State revenues would be diminished in the short term, but that increases to the racing schedule to full year-around circuits north and south would provide additional employment, additional resources to be used for track improvement by the association, and schedule stability, and that any short term drop in revenues would be soon recovered in succeeding years of full racing operations. The study report of March, 1979, entitled "An Analysis of the California Horse Racing Industry", by Temple, Barker & Sloan, predicted the positive effect the realignment of take-out would have on the California racing industry and concluded that any short term revenue loss to the State would be the means to assure a continuing and growing source of revenues in the future.

DAILY DEPOSIT OF LICENSE FEES:

The Horse Racing Law now requires license fees from associations be paid weekly. California racing associations are allocated "racing weeks" during which the race meetings are conducted. The actual days of operation of a meeting may vary, but the major thoroughbred associations in Southern California conduct racing programs on Wednesdays through Sundays and have no racing on Mondays and Tuesdays unless on a holiday schedule. If the license fee were to be collected daily, the fee for Friday racing and Saturday racing would be paid over on the non-banking days of Saturday and Sunday, and the Sunday fee paid on the non-racing Monday which is a regular day off for both association personnel and Board field staff at that meeting. This would require rearrangement to staffing schedules to accomodate fee collection on the non-racing day off and would be a cost factor to consider. As indicated in the report, the statute must be amended if the license fee is to be collected daily.

CONCLUSION

The Auditor General recommends that the California Horse Racing Board adopt measures to improve its regulatory control of horse racing activities and to assist the Board in carrying out its statutory responsibilities. We conclude that several of the recommended measures are cost items for which the Board has no existing resources.

- To develop, implement and maintain standard guidelines for the audit of parimutuel wagering activities will require funds to contract with a competent C.P.A. audit firm or to enter into an interagency agreement for development of the guidelines, and for the establishment of a Parimutuel Examiner position to ensure the guidelines are complied with by the parimutuel auditors.
- The development and implementation of improved procedures for monitoring charity race day proceeds is being undertaken. However, legislative amendment to Section 19555 of the Horse Racing Law may be indicated to require specific time limits for the payment of charity racing proceeds to the distributing agent.
- The development of detailed duty statements and procedural manuals for the Board's field staff is in progress. However, the Board has no means at present to assign non-investigative ancillary duties from investigator personnel to other personnel classes absent some future change to the personnel classifications within the Board's authorized organization.
- To improve the Board's licensing procedures to ensure that no license application is processed without a fingerprint card will require additional appropriated funds. A recommendation to the Governor and the Legislature that the Board computerize its records to track all individual licensee records continuously has been included in the Board's Annual Report for 1981. A procedure to record submission of fingerprint cards to C.I.I. and the return of any record from C.I.I. has already been initiated.
- To develop and implement a program to conduct quality control procedures to ensure laboratory proficiency will require an appropriation or legislated authorization to pass through such costs for quality control to the official racing laboratory and the racing associations. In its Annual Report for 1981, the Board recommended it be provided an appropriation to contract with the University of California at Davis for the construction, equipping and operation of a racing laboratory for research and quality control.

Mr. Thomas W. Hayes

8.

February 25, 1982

The Auditor General has identified areas of concern which the Board has already addressed and which have been the subject of continuing requests for additional appropriations to undertake these new or improved programs. It was the Board's view that its request for additional appropriations had been met by an amendment to Section 19641, enacted as Chapter 1043, Statutes of 1980, which in effect provide the Board a source of funding for security and racing research, but from which funds were not appropriated to the Board in the amounts required to make the improvements now being recommended by the Auditor General.

Very truly yours,

CALIFORNIA HORSE RACING BOARD

  
NATHANIEL S. COLLEY  
Chairman

NSC/LF:rs



cc: Members of the Legislature  
Office of the Governor  
Office of the Lieutenant Governor  
Secretary of State  
State Controller  
State Treasurer  
Legislative Analyst  
Director of Finance  
Assembly Office of Research  
Senate Office of Research  
Assembly Majority/Minority Consultants  
Senate Majority/Minority Consultants  
California State Department Heads  
Capitol Press Corps