

**STATE OF NEW HAMPSHIRE
RACING AND CHARITABLE
GAMING COMMISSION**

**INTERNAL CONTROL OVER REVENUE
MAY 2012**



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To The Fiscal Committee Of The General Court:

This report presents the results of our assessment of the internal controls in place over the receipt, deposit, and recording of revenues and the activities supporting the generation of revenue at the Racing and Charitable Gaming Commission (RCGC) during the six months ended December 31, 2011.

We conducted our work in accordance with auditing standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings.

The work performed was for the purpose of meeting the audit objectives described on page 3 of this report and did not constitute an audit of financial statements in accordance with GAGAS. The work performed also was not designed for the purpose of expressing an opinion on the effectiveness of the RCGC's internal controls. Accordingly, we do not express an opinion on the effectiveness of the RCGC's internal controls.

The RCGC's response is included with each finding in this report. We did not audit the RCGC's responses.

Office of Legislative Budget Assistant
Office Of Legislative Budget Assistant

May 2012

**STATE OF NEW HAMPSHIRE
RACING AND CHARITABLE GAMING COMMISSION**

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This report can be accessed in its entirety on-line at:
<http://www.gencourt.state.nh.us/LBA/AuditReports/financialreports.aspx>

* Comment suggests legislative action may be required.

**STATE OF NEW HAMPSHIRE
RACING AND CHARITABLE GAMING COMMISSION**

EXECUTIVE SUMMARY

Agency management is responsible for establishing and maintaining effective internal controls, including controls over financial reporting, and controls over compliance with the laws, administrative rules, regulations, contracts, and grant agreements applicable to the agency's activities. The Department of Administrative Services (Department) has developed an *Internal Control Guide* to help State agency personnel understand the concepts of internal control. It explains the purpose of internal control and also explains its five components: control environment, risk assessment, control activities, information and communication, and monitoring. In addition, the Department also maintains a *Manual of Procedures* (Manual), approved by the Governor and Council, for use by all State agencies. The Manual contains guidance in a number of areas, including the use of the State's central accounting system, known as NHFirst.

The objective of this audit was to evaluate whether the Racing and Charitable Gaming Commission (RCGC) has established and implemented adequate accountability and other internal controls over its receipt, recording, and deposit of revenues and other related activities. The objective of this audit was not to render an opinion on the RCGC's financial statement, internal control, or compliance.

Our audit was performed using auditing standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (GAGAS) and criteria in State statute, administrative rule, and policies and procedures including the *Internal Control Guide*, the Manual, and accepted State business practice. The audit methodology is described in the Objectives, Scope, and Methodology section that follows.

SUMMARY OF RESULTS

We found internal controls over the receipt, deposit, and recording of revenues and other related activities were suitably designed to provide reasonable assurance that the specified internal control objectives would be achieved. However, the efficiency of, and controls over, the RCGC's revenue receipt and recording activities would benefit from improved documentation of its information system and improved monitoring procedures over games of chance, Bingo, and simulcast wagering licensee operations, and a current policies and procedures manual.

The RCGC was largely in compliance with statutes, rules, and policies and procedures related to the audit objectives. We noted areas for improvement including the need to: review statutes and rules for continued currency and relevance; clarify revenue reporting; observe statutory bond limits; and improve segregation of incompatible duties over the issuance of occupational licenses.

BACKGROUND

RSA 284:6-a, I, describes the Racing and Charitable Gaming Commission as consisting of six members appointed by the Governor with the advice and consent of the Council.

Pursuant to RSA 284:6-a, the Racing and Charitable Gaming Commission shall:

- assume the powers, rights, duties, and responsibilities granted to the state racing commission and the state greyhound racing commission under RSA 284;
- have the powers, duties, and rights conferred upon state commissions under the United States Interstate Horseracing Act of 1978;
- administer RSA 287-E relating to Bingo and Lucky 7;
- administer RSA 287-D, relating to games of chance conducted by charitable organizations; and
- not authorize the use of any electronic gaming device in connection with the acceptance of wagers on running or harness horse racing, whether live or simulcast, or simulcast dog racing, the type of which was not in use prior to January 1, 2011, unless specific authorization for such electronic gaming device is enacted by the general court.

RSA 284:8 provides the RCGC the authority to employ such assistants and employees as it may deem necessary to provide adequate policing and to carry out the purposes of the RCGC. At December 31, 2011, the RCGC employed 16 full-time and 1 part-time employees.

During the six months ended December 31, 2011, the RCGC reported the following financial activity in the State’s accounting system.

Revenues Collected During The Six Months Ended December 31, 2011 (Unaudited)*

	<u>Revenue Collected</u>	<u>Transfers To Education Trust Fund</u>	<u>Net Revenue **</u>
Games Of Chance	\$ 855,441	\$ 583,745	\$ 271,696
Racing	588,176	295,377	292,799
Lucky 7	469,649	401,282	68,367
Bingo	367,418	-0-	367,418
Total	<u>\$ 2,280,684</u>	<u>\$ 1,280,404</u>	<u>\$ 1,000,280</u>

* Source: *Revenue Source Summary of Restricted Revenue Recognized vs Budget and Detail of Unrestricted Revenues, NHFirst Monthly reports July – December 2011.*

** Net revenue was comprised of approximately \$800,000 of RCGC’s administrative cost recovery and \$200,000 yet to be transferred to the Education Trust Fund at December 31, 2011.

The RCGC is located at 57 Regional Drive, Unit 3, Concord, New Hampshire.

OBJECTIVES, SCOPE, AND METHODOLOGY

Audit Objectives

1. Assess the control environment, including management's policies and procedures for establishment and maintenance of an effective control system relating to the receipt, deposit, and recording of revenue amounts, as well as the controls over revenue-generating activities including licensing, taxing, and related fee collection.
2. Assess the adequacy of the design of internal controls over the receipt, deposit, and recording of revenue amounts, and controls over the activities which generate revenue, including:
 - Adequacy of written policies and procedures,
 - Adequacy of internal audit and inspection functions,
 - Adequacy of controls over compliance.
3. Assess establishment of controls as designed.
4. Assess the operation of the controls, including:
 - Functional compliance with written policies and procedures, laws, and rules related to revenue activities including licensing, collecting fees, and computing tax and breakage.
 - Adequacy of separation of duties and reporting, reconciliations, and reviews of cash handling activities,
 - Safeguarding of cash and check receipts, and
 - Timely recording and timely deposit of cash and check receipts.

Audit Scope

The scope of our audit of the Racing and Charitable Gaming Commission examined the adequacy of internal controls relating to the RCGC's processing of cash, check, and electronic revenue transactions and recording those transactions in its revenue systems, including NHFirst, and other related activities. The audit period was July 1, 2011 through December 31, 2011.

Audit Methodology

1. Interview auditee personnel.
2. Observe revenue processes.
3. Review auditee documentation, including:
 - Agency policies and procedures,
 - Agency documentation of receipt, deposit, and recording of revenues, and
 - Agency documentation of applications, forms, and reports related to revenues from licenses, taxes, and fees.

4. Review State laws, rules, policies and procedures, and records, including:
 - Revised Statutes Annotated,
 - Administrative rules,
 - State policies and procedures, and
 - State accounting system records.

5. Test transactions to determine whether controls over the receipt, deposit, and recording of revenues and the activities related to the revenues were in place and operating as intended.

PRIOR AUDIT

The most recent prior audit that included in its scope the controls over the Racing and Charitable Gaming Commission's recording of revenues was the financial audit of the Pari-Mutuel Commission for the nine months ended March 31, 2005. The appendix to this report on page 21 contains a summary of the current status of the observations contained in that report. A copy of the prior audit report can be accessed on-line at:
<http://www.gencourt.state.nh.us/LBA/AuditReports/financialreports.aspx>.

FINDINGS AND RECOMMENDATIONS

Observation No. 1: Risk Assessment Process Should Be Formalized

Observation:

The RCGC has not formalized its risk assessment process. The RCGC has not established documented policies and procedures for performing the assessment, including stated objectives, timing, and the need for action plans in response to risk. While the RCGC reports it periodically considers and assesses risk, the process is primarily a consideration of risks facing its current, in-house financial operations and not a wider consideration of risks that could affect its ability to reach its current and planned objectives.

Risk assessment is a process for identifying and responding to business risks. A prerequisite to an effective risk assessment is the establishment of an organization's objectives and the risks that may put achieving those objectives in jeopardy. Without a formal risk assessment process, the identification and response to risk often occurs after a risk has been realized and a loss incurred.

Examples of risks the RCGC should consider include license and tax error and fraud, including failure to recognize problems with regulated and licensed facilities; misuse of information by staff or partner organizations; continued changes in the regulatory environment; changes in technology; as well as the risks of error or fraud related to the controlled financial operations of the RCGC's business office activities, the primary subject of the RCGC's current risk assessment.

A similar comment was included in the prior audit report.

Recommendation:

The RCGC should formalize its risk assessment efforts by establishing documented policies and procedures which include stated objectives, documentation of process and results, and description of any actions to be taken in response to identified risks.

Auditee Response:

We concur.

The RCGC concurs that formal policies and procedures to perform the risk assessment are not in place. Policy and procedures with stated objectives will be formally documented. The objective of the RCGC is to ensure the integrity of racing, Bingo, Lucky 7, and games of chance through the enforcement of applicable laws and regulations and the timely collection of all fees and taxes due to the State. To that end the RCGC has performed and documented an agency risk analysis. The risk analysis conducted by the RCGC focused on the financial operations to ensure the collection of all fees and taxes due to the State. Additionally, it considered the information technology risk, confidentiality of licensee records submitted to the agency and risks associated

with licensing to ensure the integrity of gaming. The RCGC will revisit the risk assessment process and expand the scope of the analysis as necessary.

Observation No. 2: Controls Should Be In Place At Tracks

Observation:

The RCGC has not ensured the minimum internal controls necessary for accurate processing of simulcast wagering are in place and operating as intended at the facilities licensed by the RCGC.

Simulcast wagering licensees use a totalisator, or tote system, to accept wagers, calculate odds and payouts, and process betting pools. The tote system also calculates the commission kept by the licensee and the tax and breakage amounts due to the State. Both of the simulcast wagering facilities licensed by the RCGC use the same tote system provider. The RCGC reports it relies extensively on the accuracy and reliability of the tote system to determine, record, and report revenue in the State's accounting system, NHFirst.

The provider of the tote system contracts with a public accounting firm for the preparation of a report on the controls in place over the accuracy and reliability of the tote system. The report, known as a Service Organization Control (SOC2) Report, states that the effectiveness of the controls for the tote system depend upon certain listed controls, referred to as minimum internal controls (MICs), being in place and in operation at the simulcast wagering facility. Because the RCGC does not currently have procedures to ensure controls at the simulcast wagering licensees meet the MICs, information reported by the tote system may not be as reliable as indicated in the SOC2 report.

Recommendation:

The RCGC should ensure that appropriate controls (at least the MICs) are in place and operating at the simulcast wagering licensees, as envisioned by the tote system's SOC2 report.

The RCGC should implement policies and procedures to regularly monitor the simulcast wagering licensees and facilities to ensure the appropriate controls remain in place and are effective.

Auditee Response:

We concur in part.

RCGC concurs that additional procedures should be implemented to ensure the MIC's are in place and operating at the tracks. We will review the required MIC's and implement procedures to enhance monitoring of the simulcast wagering licensees.

The Tote system is used by race tracks throughout the country as a reputable and acceptable system to determine and report revenues from racing activities. In order to ensure the reliability and integrity of the Tote system, the RCGC performs the following:

- Receives and reviews annual SOC 2 reports of the Tote Company prepared by independent Certified Public Accountants.

These reports provide assurances about the controls at the Tote system relative to:

Security (The system is protected from unauthorized physical and logical access);
Availability (The system is available for operation and use as committed or agreed);
Processing Integrity (System processing is complete, accurate, timely and authorized);
Confidentiality (Information designated as confidential is protected as committed or agreed).

None of the Soc 2 reports (or formerly SAS 70 reports) received thus far have had significant negative comments on the Tote system's controls.

- Obtains and reviews annual audited financial statements of the tracks prepared by independent Certified Public Accountants (CPA). The tracks report that none of the reports received thus far have commented on any weaknesses in internal controls at the tracks.
- The RCGC internal auditors review, on a quarterly basis, reports submitted by independent CPA's on the accuracy of the handle and related revenue reported to the RCGC. These reports are compared to the agency database. Discrepancies, if any, are investigated and resolved.
- Comparative track revenue reports are generated for review by the Commission at their monthly meetings. Significant variances, if any, are reviewed and analyzed.

Observation No. 3: Monitoring Efforts Should Be Strengthened

Observation:

The RCGC has developed and implemented limited procedures for reviewing and monitoring games of chance (GOC) and Bingo licensee operations to determine that accurate financial information and taxes are reported and paid by the licensees to the RCGC.

While the RCGC has procedures in place to ensure revenues remitted by licensees are properly processed, deposited, and recorded in the State's accounting system, the RCGC could improve procedures to ensure all revenues that should be reported and remitted to the State are in fact remitted in a timely manner.

The RCGC relies largely on GOC and Bingo licensees to report and remit the correct amount of tax due to the State. During the audit period, routine on-site inspections performed by the RCGC inspectors did not include procedures sufficient to verify that cash handling or collections are

complete and intact, that the State is receiving the correct amount of tax, and that the partnering charity is receiving its appropriate profit share. While the RCGC does some in-house desk reviews of reported information, its ability and resources to perform significant data analysis are limited.

In addition to the activities of its investigators and in-house data reviews, the RCGC reported its audit function performed field audits of four GOC and three Bingo and Lucky 7 licensees over the past three years.

At December 31, 2011, the RCGC licensed approximately 11 GOC facilities, 10 game operators, 11 commercial Bingo halls, 200 charities offering Bingo and Lucky 7, and 470 charities offering games of chance.

Recommendation:

The RCGC should strengthen its inspection and auditing processes to gain greater assurance that the RCGC is receiving accurate and complete activity reporting and tax remittances from GOC and Bingo licensees.

The RCGC should also strengthen its in-house data review capacity to improve the review and analysis of reported GOC and Bingo activity to be able to identify and react to data trends, outliers, and other indicators of incomplete or inaccurate reported information.

Auditee Response:

We concur.

The RCGC believes procedures are in place to review and monitor the licensees within the constraints of available resources at its disposal. The RCGC has on its staff three investigators and three auditors. The inspectors routinely perform inspections of the charitable gaming facilities including Bingo, Lucky 7, and games of chance. Their inspection procedures include the use of a (20) point checklist to ensure charitable gaming is conducted in accordance with State rules and regulations. During the last year alone, they conducted 1,600 inspections and issued numerous warnings for non-compliance by licensees. These warnings are reported to the Commission at monthly meetings for their review and disposition.

Prior to the audit occurring, the RCGC was in the process of revising its audit and monitoring processes. Inspection procedures were implemented in March 2012 to include observing on a regular basis, the cash handling and collections to verify that monies collected at the gaming tables are properly counted and transmitted accurately from the tables to the cage. Inspectors arrive at the gaming facility in advance to observe the opening of the cage, count and verify the beginning cash and chip bank, and remain at the facility observing cash handling until the conclusion of the day's activities. During the games and at the end of the night, inspectors ensure that the cash and chips collected in the drop boxes at the respective tables are securely delivered from the tables to the cage, counted, verified, and secured in the safe. The cash counts are

documented on “Cash Poker Rake Analysis” worksheets that are subject to verification by the auditors during the course of their examinations.

In an effort to further enhance monitoring, the RCGC ardently supported HB 348 as amended by the Senate that culminated in RSA 287-D:2-e. This statute imposes mandatory surveillance requirements on game operators to conduct and record video surveillance that allows clear, unobstructed views of cashier transactions, table games where cash wagers are accepted, and the counting of money from storage boxes removed from a gaming table. These tapes are available to RCGC for inspection as needed.

Monthly financial reports for games of chance, Bingo, and Lucky 7 activities for each game date are submitted to the RCGC in accordance with the statutory requirements, within 15 days after the end of the month. A report of late financials is included in the Commission’s monthly meeting agenda for review by the Commissioners. Revenue due to the State is submitted timely for Bingo and Lucky 7, within (15) days after the end of the month and within (5) business days after the end of each game date for the games of Chance.

The auditors perform field audits and desk reviews. The field audits involve pre-planning, preparation of detailed audit programs, internal control assessments, testing, report writing, and exit interviews with the auditees. The detailed audit process is time consuming.

In addition to field audits noted in the observation, RCGC auditors have performed over (125) desk reviews. These reviews included examining quarterly Lucky 7 remittances by licensed distributors to ensure Lucky 7 fees are properly remitted to the State. This was a recommendation of the last LBA audit of the RCGC. Auditors have conducted “charity allocation reviews” of (9) out of the (10) licensed game operators to ensure charities are paid their statutory minimum of (35%) of gaming proceeds after prizes. The auditors also routinely review the account wagering liability accounts maintained by the race tracks, games of chance jackpot pools, and assist with review of agency internal controls and data reconciliations. Due to the recent budget cuts, they also assist the licensing unit on an as needed basis. It should be noted that there has been no funds in the budget to train the auditors to be more effective in the audit of a unique industry. A significant portion of their initial year was expended in in-house guidance and training through site visits, the internet, professional books, and other resources and becoming familiar with new statutes and rules. As they continue to gain more experience, RCGC is confident the audits will become more efficient and effective. In the meantime, the RCGC is receptive to any specific suggestions to improve the overall monitoring efforts of the agency. Finally, the RCGC will continue to work with members of the legislature as it has in the past, to improve the statutes to protect the charities and the wagering public.

Observation No. 4: Policies And Procedures Manual Should Be Current And Complete

Observation:

The RCGC's policies and procedures manual is not current, limiting its value to the RCGC.

The RCGC maintains a policies and procedures manual covering its licensing, enforcement, accounting, administrative, rule-making, accounts receivable, and information technology processes. The RCGC reports certain policies and procedures in the manual are outdated and other policies and procedures identified in the manual have not yet been fully established. For example, some of the policies and procedures in the manual address recording financial information in the State's prior accounting system, NHIFS, which was replaced by NHFirst on July 1, 2009. Other process topics including budgeting, audit, and information technology are identified in the manual, however the relevant policies and procedures have largely not been established.

The lack of a current and complete policies and procedures manual increases the risk that RCGC processes will not operate in a consistent and controlled manner and that continuity of operations will be at risk if incumbent employees leave service on short notice.

The RCGC reported it was in the process of updating the manual at the time of the audit.

Recommendation:

The RCGC should continue with its efforts to update and complete its policies and procedures manual.

This effort should include a process by which regular updates are made when either internal or external processes change and related responsibilities are added or revised.

Auditee Response:

We concur.

RCGC concurs that the policies and procedures require updating and others need to be completed. While the procedures manual references the State's prior accounting system, NHIFS, these aspects of the manual are not used by the RCGC staff. They rely exclusively on the extensive online policies and procedures manual of the State's new accounting system, NH First. RCGC has cross trained employees in critical agency functions such as accounting and licensing. RCGC will continue with its efforts to update and complete its policies and procedures.

Observation No. 5: Segregation Of Duties Over The Issuance Of Occupational Licenses Should Be Improved

Observation:

The RCGC has not established segregation of duties controls over the issuance of occupational licenses at simulcast wagering facilities and the collection of the fees from those licenses. One part-time RCGC employee is responsible for certain incompatible duties related to the issuance of occupational licenses without appropriate review and approval controls over those duties.

This RCGC employee is responsible for collecting occupational license applications and fees, including applications and fees for criminal background checks; recording the relevant information in the occupational licenses database; preparing and distributing the occupational licenses; and reviewing track payroll records to ensure all track employees are appropriately licensed. The work of this employee is not subject to regular supervisory review and approval control activities by others at the RCGC. The RCGC would likely not become aware if this employee did not perform these duties in an accurate and complete manner.

During testing, we noted the file for one of a sample of twenty license applications selected for review did not contain a completed criminal records release authorization required by RSA 284:20-f, or a supplemental application form, required by N.H. Admin. Rule, Pari 605.22. The lack of these required documents did not prevent the individual from receiving the requested occupational license. When asked, the RCGC could not explain the missing documentation.

Recommendation:

The RCGC should establish segregation of duties controls over the issuance of occupational licenses at simulcast wagering facilities and the collection of the fees from those licenses, including regular supervisory review and approval for those activities.

If the RCGC determines segregation of duties cannot be efficiently achieved, the RCGC should implement mitigating controls to lessen the inherent risks resulting from conflicting responsibilities.

Auditee Response:

We concur.

With the abolishment of live dog racing by the legislature and discontinuance of live harness racing by a licensee, the number of occupational licenses issued by the RCGC has decreased significantly. Currently, the RCGC occupational license revenue represents less than one tenth of one percent of the total agency revenue. Nevertheless, the RCGC will review the functions performed by the part-time employee and institute appropriate controls to mitigate conflicting responsibilities. The license application in question was that of a security guard at the track. Security guards are already licensed by the Department of Safety (DOS) in accordance with RSA

106-F:7. Security guards licensed under this statute are required to submit to a fingerprint examination conducted by the Federal Bureau of Investigation, and screening by DOS.

Observation No. 6: Controls Over Database Should Be Improved

Observation:

The database used by the RCGC for licensing and other critical financial operations does not incorporate many generally accepted controls that should be present in a well-designed database system.

The RCGC uses a database system largely designed and built by a former employee, supplemented by aspects of a legacy application inherited from the Lottery Commission, to process significant operational information such as Bingo, Lucky 7, and games of chance licenses; occupational licenses for individuals who work at the racetracks; taxes and fees paid by Bingo, games of chance, and racetrack licensees; and unclaimed tickets, as well as other financial information required for all licensees.

While the database was developed by a former RCGC employee a number of years ago, as noted in Observation No. 7, there has been little documentation amassed to support the controlled operation of the system. Currently, no one employed at RCGC has the knowledge and expertise necessary to maintain the system or to make modifications to the database if changes are needed.

The database appears to have been designed with program functionality in mind but it does not include certain controls that should be included in a critical information system relied on by a State agency to control, accumulate, and report significant financial activity. Certain logical controls, such as forced periodic changing of passwords, were not incorporated into the database design. Database passwords reportedly have not been changed since users initially obtained access to the system. As noted in Observation No. 7, user documentation of the system is also limited.

The limitations in the RCGC's database system increase the risk that a critical failure in the system could significantly impact the RCGC's ability to meet its financial and other objectives.

Recommendations:

The RCGC should, as soon as practical, address the weaknesses in its database information system.

The RCGC should immediately begin to document its database system to better understand its operating abilities and limitations and to take advantage of available control opportunities. Where possible, accountability controls, including segregation of duties, should be emphasized.

Where practical, the RCGC should implement mitigating controls for database weaknesses that cannot be directly addressed. For example, if forced password changes are not possible, employees should be regularly reminded to change passwords.

Auditee Response:

We concur.

The RCGC concurs that the existing system has limitations and could impact the agency operations. RCGC requested funding in the 2011-2012 biennium budgets to address the database issue but was unsuccessful in obtaining the necessary funds. The RCGC is again working with the Department of Information Technology (DOIT) to migrate its database to the State's licensing software that will alleviate the limitations in the existing database. However, this will require additional funding estimated to be around \$75,000 and is subject to approval by the legislature.

Although forced periodic changing of passwords is not incorporated within the design of the databases, there are many generally accepted controls that are present in our database systems which allow us to control, accumulate, and report our financial revenue related activities.

For example; transaction details and item counts by revenue account type are tracked in the databases. The detailed and summary revenue accounts as well as the item counts, established in the GOC and Bingo/Lucky 7 databases, are reconciled to each other and the revenue amounts are reconciled to Lawson/NHFIRST on a monthly basis as well as a daily basis if required by the internal audit staff.

There are numerous program functionality controls and user notifications which have been incorporated into the databases. For example, the licensed game dates in the system by organization listed on the Monthly Financial Reports (MFR) by the licensees must match to the charitable organization licensed game dates in the system or the system will flag the user. There are additional controls which prohibit licensees from obtaining additional licenses in situations where the financial reports are overdue.

The reporting functionality that currently exists in our databases does provide us with timely and accurate information which can be queried by a user defined date range or with data current from the most recent daily posting event.

Recently password change requirements have been established for the GOC, Bingo/Lucky 7, and Paristat databases. The RCGC has implemented procedures whereby an employee independent of licensing manually clears the passwords in the user account tables on an ongoing basis every 90 days requiring the authorized user's to create new passwords in order to regain access to the required database in accordance with the established requirements and procedures.

The RCGC is in the process of adding logon accounts for the Outs databases. Although forced logons with reminders of user password change screens may not be implemented at this time

without programming support, the RCGC has established password changes on a 90 day interval through the user account tables.

Observation No. 7: Database Should Be Utilized For Unclaimed Tickets

Observation:

The RCGC has not adequately documented and cross-trained employees in the use of the so-called Outs database used for unclaimed winning race wagers (unclaimed tickets). As a result, RCGC employees were not able to upload data files or effectively use the database subsequent to the termination of an RCGC employee at the end of fiscal year 2011. While alternative manual processes were implemented, those processes were inefficient and insufficient to properly control the financial activity related to the collection and payment of unclaimed ticket amounts.

Prior to June 30, 2011, the RCGC's Computer Programmer was responsible for uploading unclaimed ticket information into the Outs database. Subsequent to the elimination of the Computer Programmer position, no one at the RCGC had the expertise needed to import the text data files into the Outs database. The Outs database had been used by RCGC to reconcile unclaimed ticket funds received from racetracks, to determine whether tickets submitted to the RCGC were eligible for payment, and to track payments on previously unclaimed tickets.

Since the RCGC has not been able to maintain a current Outs database, an RCGC employee has used text searching software to search the text files submitted by the tracks to determine if an unclaimed ticket presented for payment is in fact eligible for payment. The RCGC tracks the payments it makes for previously unclaimed tickets on an electronic spreadsheet. Previously, this information was efficiently captured and available for searching in the Outs database.

In addition to the inefficiencies associated with manually tracking transactions, based on discussions with the RCGC, the RCGC did not reconcile the data files to the respective checks received from the racetracks. The lack of reconciliation increases the risk that an error in the tracks' reporting would not be detected and corrected timely.

Recommendation:

The RCGC should obtain the assistance necessary from the Department of Information Technology to allow it to fully utilize its Outs database, or if more appropriate, develop a new efficient system for controlling the receipt and payment of unclaimed ticket amounts.

The RCGC should establish policies and procedures, including detailed operating instructions for all of its critical information systems to minimize the risk of becoming reliant upon a single employee for its continued, efficient operations.

Auditee Response:

We concur.

The RCGC concurs that it should fully utilize its data base for processing the Outs ticket more efficiently. However, the recent budgetary cuts have forced the RCGC to eliminate the computer programmer position leaving no in-house technical expertise to download the text data files into the Outs database. As a result alternative methods were employed to prevent delays in processing unclaimed tickets. The RCGC has reached out to the Department of Information Technology (DOIT) for programming assistance with the database. However, DOIT has indicated it does not have support for Access databases and has recommended that the RCGC seek outside support services. In accordance with the DOIT recommendation, the RCGC placed a "Request for Information" and received a preliminary quote of \$46,000 to provide a user based database without reliance on technical support. The RCGC will include a request for this amount in the upcoming budget. The transfer of the "Outs" money from the tracks is a one time annual event with the receipt of a maximum of four checks representing unclaimed tickets and vouchers. While there may not be a formal documented reconciliation process, the amounts were compared to the total amounts listed on the database files listing the detail of the unclaimed tickets and vouchers. In the future RCGC will formally document the comparison process. Finally, the receipt of unclaimed ticket and voucher checks, deposit, and payout functions are segregated to ensure appropriate internal controls are in place for such revenues.

Observation No. 8: Statutes And Rules Should Be Reviewed For Continued Currency And Relevance

Observation:

The statutes and rules regulating the RCGC have not remained current with recent statutory changes and changes in the entities regulated by the RCGC. For example:

1. An amendment to RSA 284:21-j, effective July 1, 2011, directs all revenues collected under RSA 284, Horse and Dog Racing, to be deposited into a special fund with the excess of revenues over expenditures to be transferred to the State's Education Trust Fund. Other RCGC statutes, including RSA 284:31 with a later, September 11, 2011 effective date, directs RCGC unclaimed ticket and voucher revenues to be deposited into the State's General Fund. As of February 2012, the RCGC deposited approximately \$400,000 of unclaimed ticket and voucher revenue related to the reporting period ended December 31, 2011 in the special fund, even though the later statute directed the revenue to be posted to the General Fund.

RSA 287-D:3, IX and X, (games of chance assessment) also directs the RCGC to deposit these receipts into the General Fund; however, this statute predates the amendment to RSA 284:21-j.

2. There are a number of statutes that require the RCGC to have administrative rules regulating the operation of live greyhound and horse racing facilities and operations in the State. Based on a review of the statutes and discussions with the RCGC, certain of those rules have not been adopted, have expired, or have lost relevance due to the cessation of live racing in the State. For example:

- The occupational licenses issued to employees of a former greyhound racing facility that continues to offer wagering for simulcast racing cite greyhound racing rules that further cite statutes which were repealed effective January 1, 2011, upon the abolishment of live greyhound racing in the State. Similarly, the occupational licenses for employees of a facility offering similar simulcast wagering at a horse racing facility are issued under the horse racing statutes and rules even though the occupational licenses issued have no clear relationship to horse racing.

The RCGC reported it collected approximately \$2,600 from occupational licenses during the six months ended December 31, 2011. Occupational licenses were issued to: mutuel managers; mutuel department employees; licensed track security, admissions, and maintenance personnel; vendors; totalisator company; and totalisator company employees. The scope and importance of occupational licenses were much more significant when live racing occurred at the tracks and licenses were also issued to individuals responsible for animal handling and care and for race performance.

- RSA 284:12, XI, effective July 13, 2011, requires the RCGC to adopt administrative rules related to surveillance regulations pursuant to RSA 287-D:2-e. As of April 2012, those rules have not been adopted.
 - RSA 287-D:1-b, VIII and XII, effective July 16, 2006, requires the RCGC to adopt administrative rules related to games of chance refunds of licensee fees, pursuant to RSA 287-D:2-d, VI, and the issuance of subpoenas, pursuant to RSA 287-D:9, respectively. As of April 2012, those rules have not been adopted.
3. RSA 284:31 states, "On or before January 31 of each year every [licensee]...shall pay to the state treasurer all moneys collected during the previous year of pari-mutuel pool tickets and vouchers which have not been redeemed." The last sentence of the statute states, "Vouchers shall be remitted to the state treasurer on January 31 of the calendar year, 24 months after the year of the unclaimed voucher." These apparently conflicting remitting requirements cause confusion as to when unclaimed vouchers should be remitted by licensees. While the RCGC reported it understood the statute to require licensees to report 2009 unclaimed vouchers at January 31, 2012, that interpretation does not appear to comply with statute. A review of the data file submitted by licensees to the RCGC in January 2012 reported a total of approximately \$15,000 in unclaimed vouchers covering both calendar years 2009 and 2010.

Recommendation:

The RCGC should review its statutes and rules to identify those that are not current, and work to ensure they remain current and relevant. The RCGC should adopt and maintain all required rules. The RCGC should request legislative clarification for unclear or conflicting statutes.

The RCGC should record unclaimed ticket and voucher revenues in the General Fund, pursuant to RSA 284:31.

Auditee Response:

We concur in part.

The RCGC concurs that the relevant statutes and rules should be reviewed and conflicting language should be clarified and updated. However, with the ban on live dog racing the RCGC priorities have changed and limited resources were directed at addressing current statutes relevant to the RCGC operations.

Regarding the unclaimed ticket and voucher revenues, the RCGC does not concur. The RCGC believes it was the intent of the legislation to transfer all RCGC racing revenue net of administrative costs to the Education Trust Fund as evidenced by the passage of the State budget per House Bill 1. The RCGC will work with the legislature during the upcoming legislative session to clarify the conflicting language in the statute.

Observation No. 9: Revenue Reporting Should Be Clarified

Observation:

The process used by the RCGC to transfer amounts to the Education Trust Fund pursuant to RSA 284:21-j does not promote the fair presentation of the RCGC's revenue activity in its primary revenue accounts.

Pursuant to RSA 284:21-j, RCGC's revenues net of its operating costs are transferred from the RCGC's primary revenue accounts to revenue accounts in the State's Education Trust Fund. During the audit period, the RCGC accomplished the monthly transfer in the State's accounting system, NHFirst, by posting a negative amount to RCGC's primary revenue accounts and posting an equal positive revenue amount to an Education Trust Fund revenue account. As a result of these postings, the RCGC's revenue accounts in NHFirst reported a net amount of revenue from RCGC's operations. For example, during the six months ended December 31, 2011, the RCGC's primary revenue accounts reported a balance of approximately \$1 million of revenue having been collected even though the RCGC had actually collected approximately \$2.3 million of revenue from its activities during this period. The difference represented amounts that had been transferred to Education Trust Fund revenue accounts during the same period.

Recommendation:

The RCGC should request assistance from the Department of Administrative Services to establish a process by which the RCGC can transfer amounts to the Education Trust Fund without affecting the revenues reported in the RCGC's primary revenue accounts.

Auditee Response:

We concur.

The RCGC concurs that the practice employed to transfer amounts to the Education Trust Fund understates the revenue activity in the primary revenue accounts. However, the transfer method used by the RCGC is controlled by the budgetary process established by the Department of Administrative Services (DAS). The current budget and the NH First system do not have a line item established to transfer amounts to the Education Trust Fund without affecting the revenue accounts. The RCGC does track revenues internally however, so as to properly report actual revenues in the RCGC annual report, the year end financial statements submitted to the DAS, and monthly reports submitted to the Commission. RCGC will seek the assistance of the DAS to resolve the issue during the upcoming budget cycle.

Observation No. 10: Statutory Bond Limit Should Be Observed

Observation:

At December 31, 2011, the cash value of one licensee bond held by the RCGC was approximately \$13,000 more than the \$300,000 limit specified by RSA 284:18.

RSA 284:18, Bond of Licensee, states, "I. Every person, association or corporation licensed under the provisions of the preceding sections hereof, shall, before said license is issued, give a bond to the state in such reasonable sum not exceeding \$300,000, as may be fixed by the commission, with a surety or sureties to be approved by the commission, conditioned to faithfully make the payments prescribed hereby...".

In January 2008, a racetrack posted \$300,000 as surety for its live and simulcast race wagering activities pursuant to RSA 284:18. During the audit period, the bond was held by the State Treasurer in a money market account. While the track no longer offers live racing, the bond has remained in place to guarantee the track's continuing simulcast race wagering activity. Since January 2008, the balance in the track's bond account has increased by approximately \$13,000 of earned interest.

The RCGC has not documented its basis for retaining a bond in excess of the \$300,000 statutory limit nor established policies and procedures for a regular and documented review of licensee activity and bond amounts to ensure bond amounts remain reasonable. The lack of a regular review process could result in bonds that do not meet the "reasonable sum" statutory criteria.

Recommendation:

The RCGC should return the excess amount to the licensee. If the RCGC determines the \$300,000 statutory limit is no longer in the best interests of the State, the RCGC should request an appropriate statutory revision.

The RCGC should establish policies and procedures for the regular and documented review of licensee bond amounts to ensure the bonds remain reasonable as required by statute.

Auditee Response:

We concur.

RCGC agrees that the bond amount now exceeds the statutorily required amount of \$300,000 and a review of the established amount may be warranted in light of the recent changes in the racing activities. However, the RCGC asserts that the statute is silent on the disposition of the interest earned on the bond. RCGC has requested an opinion from the Attorney General's office on the proper disposition of the excess in the bond account.

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APPENDIX - CURRENT STATUS OF PRIOR AUDIT FINDINGS

The following is a summary, as of May 2012, of the current status of the revenue-related observations contained in the financial and compliance audit report of the Pari-Mutuel Commission for the nine months ended March 31, 2005. The Pari-Mutuel Commission was the precursor agency of the Racing and Charitable Gaming Commission. The prior audit report can be accessed on-line at <http://www.gencourt.state.nh.us/LBA/AuditReports/financialreports/asp>.

	<u>Status</u>		
<i>Internal Control Comments</i>			
<i>Reportable Conditions</i>			
<u>Administrative Issues</u>			
2. Reconciliations Should Be Performed	●	●	●
4. The PMC Should Establish Formal Risk Assessment Policies And Procedures (<i>See Current Observation No. 1</i>)	●	●	○
5. Formal Fraud Prevention, Deterrence, And Detection Program Should Be Established	●	●	●
6. Forms Of Acceptable Licensee Sureties Should Be Reviewed	●	●	●
<u>Receipts/Revenue Issues</u>			
8. Effectiveness Of Review And Approval Controls Over Recording Of Revenues Should Be Regularly Monitored	●	●	●
9. Receipts From Normal Operations Should Be Recorded And Reported As Revenues	●	●	●
10. Breakage Revenue Should Be Reported Gross Of Amounts Paid Back To Tracks	●	●	●
11. Tax And Breakage Receipts Should Be Processed More Frequently	●	●	●
12. Controls Should Be Improved Over Lucky 7 Remittances	●	●	●
13. Revenue Collection And Processing Controls Should Be Improved	●	●	●
<i>Management Issues Comments</i>			
22. Effectiveness Of Capping Lab Fees Should Be Reviewed	●	●	●

<u>Status Key</u>	●	●	○	●	<u>Count</u>
Fully Resolved	●	●	●	●	9
Substantially Resolved	●	●	○	○	0
Partially Resolved	●	○	○	○	1
Unresolved	○	○	○	○	0
No Longer Applicable	●	●	●	●	1

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