



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

August 5, 2009

The Honorable Thayer Verschoor, Chair
Joint Legislative Audit Committee

The Honorable Judy Burges, Vice Chair
Joint Legislative Audit Committee

Dear Senator Verschoor and Representative Burges:

Our Office has recently completed a 24-month followup of the Arizona Department of Racing and the Arizona Racing Commission regarding the implementation status of the 14 audit recommendations (including sub-parts of the recommendations) presented in the performance audit report released in May 2007 (Auditor General Report No. 07-02). As the attached grid indicates:

- 5 have been implemented;
- 8 are in the process of being implemented; and
- 1 is no longer applicable.

Unless otherwise directed by the Joint Legislative Audit Committee, this concludes our followup work on the Department's efforts to implement the recommendations from the May 2007 performance audit report.

Sincerely,

Melanie M. Chesney, Director
Performance Audit Division

MMC:Acm
Attachment

cc: Luis Marquez, Director
Arizona Department of Racing

**ARIZONA DEPARTMENT OF RACING
AND SUNSET REVIEW OF ARIZONA RACING COMMISSION
Auditor General Report No. 07-02
24-Month Follow-Up Report**

Recommendation	Status/Additional Explanation
Finding 1: Department should improve pari-mutuel oversight program	
1.1 To improve tote testing, the Department should:	
a. Train its pari-mutuel auditors on general audit practices and how to conduct tote system testing under net pool pricing.	Implemented at 6 Months
b. Identify and implement ways to reduce the reliance on manual calculations, such as using testing booklets or spreadsheets.	Implemented at 18 Months
c. Complete the development of the pari-mutuel auditing policies and procedures manual and implement it. The Department should ensure that it contains specific guidance for tote testing under both standard and net pool pricing.	Implementation in Process Although the Department implemented ways to reduce manual calculations for pre-season tote testing in September 2008, as of June 2009 it had not added this new method to its <i>Interim Pari-Mutuel Audit and Review Manual</i> .
1.2 The Department should work with the Legislature to obtain statutory authority to license tote companies.	No Longer Applicable In its 12-month follow-up information, the Department stated that it already had authority to issue licenses to tote companies under the "occupational license" category specified at A.R.S. §5-104(F). In an August 2008 phone interview held with Auditor General staff, the Department's Attorney General representative concurred with the Department's opinion. The Auditor General's General Counsel has reviewed the matter and does not dispute the Department's nor the Attorney General representative's legal opinion.

1.3 If the Department obtains statutory authority to license tote companies, it then should:

a. Modify its administrative rules to identify tote companies as a license category.

Implementation in Process

In its 12-month follow-up documents, the Department stated that it already had authority to issue licenses to tote companies under the "occupational license" category specified at A.R.S. §5-104(F) and its Attorney General representative concurs with this opinion. In May 2008, the Department reported to the Commission that it would propose adopting administrative rules consistent with the ARCI Model Rules, including those related to identifying tote companies as a licensing category. It also reported that it would modify its licensing-fee schedule to specifically designate tote companies, tote company owners, directors, board members, and employees as falling under the "occupational license" category. As of November 2008, the Department was still discussing the proposed administrative rule changes with the Racing Commission and had not started the formal administrative rulemaking process. In January 2009, the Governor implemented a moratorium on rule-making.

b. Include in its administrative rules specific requirements associated with the tote company licensure as recommended in ARCI's proposed additions to its pari-mutuel wagering Model Rules.

Implementation in Process

In January 2009, the Governor implemented a moratorium on rule-making. The Department reported that it will resume work in adopting ARCI's Model Rules regarding tote company licensure and regulation when the moratorium is lifted.

c. Include in its administrative rules for tote company licensure a requirement for a Type II SAS 70 or similar review.

Implementation in Process

In January 2009, the Governor implemented a moratorium on rule-making. The Department reported that it will resume work in adopting ARCI's Model Rules regarding tote company licensure and regulation, including Type II SAS 70 reporting requirements, when the moratorium is lifted.

1.4 To improve how it monitors tote system security, the Department should:

- a. Work toward incorporating other aspects of the proposed additions to the ARCI Model Rules, including those related to reviewing programming changes and access controls, into its administrative rules.
- b. Review ARCI's recommendations related to programming changes, access controls, system security, and other IT control areas, and generally become more familiar with standard IT audit practices.
- c. Incorporate these recommended practices into its pari-mutuel auditing work.

Implementation in Process

In January 2009, the Governor implemented a moratorium on rule-making. The Department reported that it will resume work in adopting ARCI's Model Rules including programming changes and access controls, when the moratorium is lifted.

Implemented at 18 Months

Implementation in Process

In January 2009, the Governor implemented a moratorium on rule-making. The Department reported that it will consider seeking administrative rule changes to gain authority to require permittees to submit third-party audits regarding these IT practices when the moratorium to rule changes is lifted. The Department does not currently have authority to enforce a requirement for permittees to comply with its request to provide those reports along with their annual submission of audited financial statements.

1.5 To improve monitoring of wagering systems for potential anomalies, the Department should explore the feasibility of adopting automated systems. Specifically, the Department should explore the feasibility of implementing the ESI Integrity or ARCI Integrity system in Arizona.

Implementation in Process

The Department has reviewed information related to the ARCI Integrity system and has requested funding to implement it. The Department's fiscal year 2009 budget request was denied because the State had other budgetary priorities. Although the Department again addressed this issue in its fiscal year 2010 budget request, the issue was not included in the Governor's fiscal year 2010 budget recommendations for the Department. The Department reported that it will continue to include this issue in future budget requests, as it is determined appropriate.

1.6 The Department should explore expanding its scope of financial analyses of the monies wagered in Arizona to strengthen oversight of the distribution of handle to parties that are entitled to a portion of it.

Implemented at 12 Months

Finding 2: Department should continue aligning animal drug-testing practices with national standards

2.1 The Department should continue to move forward to align its drug-testing practices with the Model Rules, and seek consensus with the industry in areas where there are concerns.

Implemented at 6 Months

2.2 Once finalized, the Department should put its new equine drug-testing policy and penalties into administrative rule instead of solely in department policy.

Implementation in Process

In January 2009, the Governor implemented a moratorium on rule-making. The Department reported that it will resume work in adopting ARCI's Model Rules regarding animal drug testing when the moratorium is lifted.
