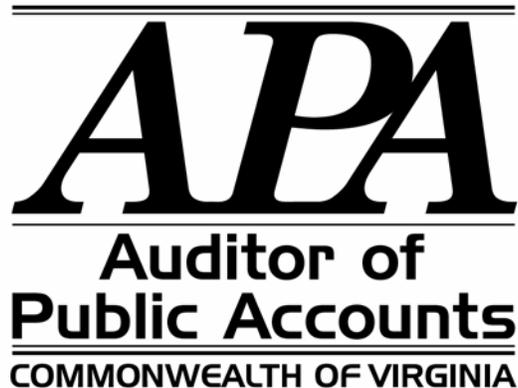


VIRGINIA RACING COMMISSION

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2006**



AUDIT SUMMARY

Our audit of the Virginia Racing Commission for the year ended June 30, 2006, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- matters involving internal control and the Commission's operations that we have communicated to management in the Audit Findings and Recommendations section of this report; and
- one instance of noncompliance with applicable laws and regulations.

We recommend that the Commission:

- update and document its information security program; and
- improve the documentation of its revenue reconciliations.

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AUDIT FINDINGS AND RECOMMENDATIONS

Update and Document Information Security Program

The Virginia Racing Commission (Commission) does not have a documented information security program that meets Virginia's Information Technology security standard, ITRM Standard SEC 2001-01.1. Some of the Commission's operations met the security standard and best practices for information security programs; however, we found some issues of noncompliance and provide suggestions for improvement. Without a documented information security program, the Commission cannot identify or adequately maintain critical IT components (including data) that the Commission relies upon to carry out its business objectives.

As the data owner of information stored on Virginia Information Technologies Agency (VITA) servers, the Commission needs to establish adequate information security policies and procedures for their data and applications and ensure that VITA can provide adequate security policies and procedures for their information technology infrastructure that minimize the risk of unauthorized disclosure or alteration of its critical and/or sensitive data. Based on the Commission's business objectives, and sensitivity and criticality of data in their ownership, the Commission needs to establish their own policies and procedures that include the following components at a minimum.

- Risk Assessment and Business Impact Analysis
- Business Continuity Plan (sometimes called a Continuity of Operations Plan)
- Disaster Recovery Plan
- Incident Response Procedure
- Authorization and Authentication Controls

The Commission does not have any information technology staff and currently relies on VITA to maintain their internal operating system. Under an agreement between VITA and the Commission, VITA has responsibility for maintaining and enhancing the Commission's internal system.

The Department of Information Technology several years ago provided the Commission with most of its current documentation surrounding its information security program. The Commission's agreement with VITA does not indicate that these services will be provided. As the Commission does not currently have the expertise to maintain its own information security program, the Commission should work with VITA to update its agreement to include VITA assisting the Commission with updating its information security policies and procedures to ensure they meet the current security standards and best practices.

Improve Documentation of Revenue Reconciliations

The Commission should improve documentation of its reconciliations of revenue between its internal operating system and the Commonwealth Accounting and Reporting System (CARS). The Commission has recently documented its reconciliation policies and procedures to ensure accuracy of the financial data input to CARS. Although these procedures are adequate, the Commission should ensure they document the resolution of reconciling items and include evidence of supervisory review, to indicate that they have followed the procedures.

AGENCY HIGHLIGHTS

The Virginia Racing Commission controls and prescribes regulations and conditions for all horse racing with pari-mutuel wagering privileges in the Commonwealth. It licenses horse racetracks and satellite facilities and ensures that all their employees have valid Commission permits. The Commission also issues permits to anyone associated with horse racing including horse owners, trainers, jockeys, grooms, veterinarians, and blacksmiths. Pari-mutuel horse racing began in the Commonwealth in September 1997 at Colonial Downs, a privately held racetrack in New Kent County. The Code of Virginia permits up to ten satellite wagering facilities. Currently, there are nine satellite facilities operated by Colonial Downs, which are located in Brunswick, Chesapeake (two), Hampton, Martinsville, Richmond (two), Scott, and Vinton. The Commission monitors each of these facilities as a part of their regulatory oversight.

The Code of Virginia directs the distribution of the funds in the horse racing wagering pools. The percentage distribution varies based on factors such as the type of wagering, whether the race took place within or outside of the Commonwealth, and whether the wagering occurred at the racetrack or at a satellite facility. The Commonwealth retains as a license tax a portion of the wagering pools ranging from 0.75 to 2.25 percent as directed by the Code of Virginia. All revenues received by the Commission go to a special fund known as the State Racing Operations Fund. The Appropriation Act requires the Commission to transfer any funds in excess of the Commission's operating expenses to the General Fund of the Commonwealth. At June 30, 2006, the Commission had a cash balance of \$320,900 in its operating fund related to unspent marketing funds that it was allowed to carry forward to fiscal year 2007.

In 2003, the General Assembly enacted a new statute requiring the Commission to license and regulate advance deposit account wagering companies that have been operating in Virginia. These companies allow individuals to establish an account to be used to place pari-mutuel wagers over the telephone or through the internet. As of June 30, 2006, there had been four licenses granted. The Commission receives 0.50 percent of the amount of advance deposit account wagering and collected approximately \$119,000 in revenue during fiscal year 2006.

The Code of Virginia also created the Virginia Breeders Fund to support an incentive program to foster the industry of breeding racehorses in Virginia. It receives a one percent distribution of the horse racing wagering conducted in the Commonwealth. The Commission contracted with the Virginia Thoroughbred Association and the Virginia Harness Horse Association to manage the fund. The incentive program provides purses for races restricted to Virginia bred or sired horses and awards to the owners and breeders of Virginia bred horses that win or earn purse money in races designated by the Commission. The Breeder's Fund cash balance does not revert to the General Fund at year end.

Below are the results of the fiscal year 2006 financial operations of the Virginia Racing Commission. The Commission increased its budgeted revenue and expenses over the prior years in anticipation of additional race days and the opening of two new satellite wagering facilities during the fiscal year. However, the new wagering facilities did not meet the revenue forecasts of Colonial Downs. These changes resulted in the variances between budgeted and actual taxes and pari-mutuel wagering revenues and incentive payments. The Commission's personal services expenditures exceeded the budgeted amount partly due to the change in the end of fiscal year pay date from July 3 to June 30. A portion of this variance is also due to the Commission budgeting stewards and veterinarians payroll expenses as contractual services. In addition, the Commission did not use its appropriation for marketing expenses, which were included in the contractual services budget. The Appropriation Act allowed the Commission to carry forward \$320,900 of its marketing budget to fiscal year 2007. The Commission began expending these earmarked funds in early fiscal year 2007.

VIRGINIA RACING COMMISSION
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES
IN CASH BALANCES - BUDGET AND ACTUAL
For the year ended June 30, 2006

	Actual			Total	Total Variance Positive/ (Negative)
	Total Budget	Breeder's Fund	Operating Fund		
Revenues:					
Taxes and pari-mutuel wagering	\$ 4,715,000	\$ 1,580,745	\$ 2,890,802	\$ 4,471,547	\$ (243,453)
License and permit fees	135,000	-	155,660	155,660	20,660
Fines and assessments	-	-	25,925	25,925	25,925
Interest	30,000	24,813	3,173	27,986	(2,014)
Total revenues	4,880,000	1,605,558	3,075,560	4,681,118	(198,882)
Expenditures:					
Personal services	745,576	-	893,555	893,555	(147,979)
Contractual services	1,268,930	-	444,049	444,049	824,881
Supplies and materials	20,000	-	21,003	21,003	(1,003)
Incentive payments	2,317,957	1,653,342	284,000	1,937,342	380,615
Continuous charges	40,650	-	74,325	74,325	(33,675)
Equipment	20,350	-	19,162	19,162	1,188
Total expenditures	4,413,463	1,653,342	1,736,094	3,389,436	1,024,027
Transfers out:					
General fund	1,171,870	-	1,176,598	1,176,598	(4,728)
Literary fund	-	-	25,925	25,925	(25,925)
Total transfers	1,171,870	-	1,202,523	1,202,523	(30,653)
Revenues over/(under) expenditures and transfers out	(705,333)	(47,784)	136,943	89,159	794,492
Cash balance at June 30, 2005	760,511	734,763	183,957	918,720	(158,209)
Cash balance at June 30, 2006	\$ 55,178	\$ 686,979	\$ 320,900	\$ 1,007,879	\$ 952,701

Source: Commonwealth Accounting and Reporting System



Commonwealth of Virginia

Walter J. Kucharski, Auditor

Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218

September 30, 2006

The Honorable Timothy M. Kaine
Governor of Virginia
State Capital
Richmond, Virginia

The Honorable Thomas K. Norment, Jr.
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

We have audited the financial records and operations of the **Virginia Racing Commission** for the year ended June 30, 2006. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objectives

Our audit's primary objectives were to evaluate the accuracy of the Commission's financial transactions as recorded in the Commonwealth Accounting and Reporting System, review the adequacy of the Commission's internal controls, test compliance with applicable laws and regulations, and review corrective actions of audit findings from the prior year report.

Audit Scope and Methodology

The Commission's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following significant activities, classes of transactions, and account balances:

Contractual services expenses	License and permit fees
Facility inspection process	Payroll expenses
Incentive payments	Tax and pari-mutuel wagering revenues
TRAC V System	

We performed audit tests to determine whether the Commission's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations. Our audit procedures included inquiries of appropriate personnel and observation of the Commission's operations. We inspected documents including reconciliations, deposit slips and certificates, wagering reports provided by Colonial Downs, revenue summary reports, contracts, and off-track satellite facility review sheets. We reviewed the Commission's policies and procedures and Board minutes and appropriate sections of the Code of Virginia and the 2006 Virginia Acts of Assembly. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

Conclusions

We found that the Commission properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Commission records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

We noted certain matters involving internal control and its operation and compliance with applicable laws and regulations that require management's attention and corrective action. These matters are described in the section entitled "Audit Findings and Recommendations."

The Agency has taken adequate corrective action with respect to audit findings reported in the prior year.

EXIT CONFERENCE

We discussed this report with management on October 20, 2006. Management's response is included at the end of this report.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

SAH:sks
sks:33



COMMONWEALTH of VIRGINIA

Virginia Racing Commission

*10700 Horsemen's Road
New Kent, Virginia 23124
(804) 966-7400; FAX (804) 966-7418*

October 31, 2006

Walter J. Kucharski
Auditor of Public Accounts
101 North 14th Street, 8th Floor
Richmond, VA 23219

Dear Mr. Kucharski:

On behalf of the Virginia Racing Commission and in my capacity as Executive Secretary, I have reviewed the findings and recommendations provided by your office in this report for the period July 1, 2005-June 30, 2006, and offer the following comments:

1. The Racing Commission does not have the expertise or the resources to comply with the myriad of issues involving the Commission's technology systems. We will work with and rely on VITA personnel to bring the Commission up to the required standards. It also should be noted that beginning November 7, 2006, the operating system is being upgraded and any additional appropriate security measures can be addressed by VITA at that time.
2. We agree with the audit report statement that documentation for reconciliation policies and procedures to ensure accuracy of the financial data input to CARS is adequate. While the present method of checks and balances provides the appropriate controls to ensure the accuracy of the deposits made into CARS, the Commission will review its documentation and supervisory sign off.

Sincerely,

A handwritten signature in cursive script that reads "Stanley K. Bowker".

Stanley K. Bowker
Executive Secretary

VIRGINIA RACING COMMISSION

Mark T. Brown
Chairman

Peter C. Burnett David C. Reynolds
Clinton Miller George W. Rimler

Stanley Bowker
Executive Secretary