The Honorable Christine Todd Whitman  
Governor of New Jersey

The Honorable Donald T. DiFrancesco  
President of the Senate

The Honorable Jack Collins  
Speaker of the General Assembly

Mr. Albert Porroni  
Executive Director  
Office of Legislative Services


If you would like a personal briefing, please call me at (609) 292-3700.

July 18, 2000
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Department of Law and Public Safety
Division of New Jersey Racing Commission

Scope

We have completed an audit of Department of Law and Public Safety, Division of New Jersey Racing Commission (NJRC) for the period July 1, 1998 to May 31, 2000. Our audit included financial activities accounted for in the state’s General Fund, the Casino Simulcasting Fund, the Casino Simulcasting Special Fund and the Horse Racing Injury Compensation Fund.

Total annual expenditures of the Division of New Jersey Racing Commission are $16 million. The prime responsibility of the commission is the regulation of the state’s horse racing industry. Total annual revenues of the commission are $19 million and the major component of revenues was funds received from the tracks and casinos, which is dedicated to the funds listed above.

Objectives

The objectives of our audit were to determine whether financial transactions were related to the agency’s programs, were reasonable, and were recorded properly in the accounting systems.

This audit was conducted pursuant to the State Auditor’s responsibilities as set forth in Article VII, Section 1, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

Methodology

Our audit was conducted in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

In preparation for our testing, we studied legislation, administrative code, circular letters promulgated by the State Comptroller, and policies of the agency. Provisions that we considered significant were documented and compliance with those requirements was verified by interview and observation and through our samples of financial transactions. We
also read the budget message, reviewed financial trends, and interviewed agency personnel to obtain an understanding of the programs and the internal controls.

A nonstatistical sampling approach was used. Our samples of financial transactions were designed to provide conclusions about the validity of transactions as well as internal control and compliance attributes. Sample transactions were judgmentally selected.

Conclusions

We found that the financial transactions included in our testing were related to the agency's programs, were reasonable, and were recorded properly in the accounting systems. In making this determination, we noted certain internal control weaknesses and matters of compliance with laws and regulations meriting management’s attention.
INTERNAL CONTROLS - TIME AND ATTENDANCE RECORDS

In 1997, the Consolidated Administrative Support Services (CASS) unit was formed within the Department of Law and Public Safety to handle various fiscal, payroll and personnel functions for four divisions including the NJRC. Costs associated with the CASS unit are allocated between the divisions. Our review of the payroll and timekeeping system pertaining to the commission found that weaknesses existed in the recording of time and the monitoring of the system. We noted a lack of supervisory approvals, monitoring of overtime, and timely preparation of supporting documentation. Following are some specific exceptions noted during our testing.

Two employees in the CASS unit received over $20,000 in overtime payments during a six month period. However, we found no documented evidence that the overtime was authorized or approved and none of the timesheets for these employees submitted during this period were signed by a supervisor.

Two employees in the CASS unit with full access to the state’s computerized time and leave reporting system (TALRS) recorded their own leave time. Without adequate segregation of duties, errors could occur without being detected. We noted four posting errors totaling 23 hours. We further noted that 25 timesheets submitted by one of these employees appeared to have been prepared on or about the same date, up to 11 months after the end of the payperiod. Seven timesheets for the other employee were prepared up to 14 weeks after the payperiod ended. These timesheets were prepared in December 1999 shortly after the agency was notified of the audit.
Our test of 56 timesheets for one pay period indicated that 26 (46 percent) of the employees had not taken lunch breaks. This resulted in shortened work days, compensatory time, or paid overtime. Although employees may have to work through lunch to deal with a deadline or emergency situation, this should not be a routine occurrence. The department had not established a policy for this issue.

We selected 39 other NJRC employees’ timesheets for one pay period and found that 14 (36 percent) were not signed by a supervisor. Without supervisory approval, the reliability of the timesheet is significantly reduced.

**Recommendation**

We recommend that management establish an effective system of internal control which provides for the supervisory review and approval of time and attendance records. Employees should certify time worked and leave charged, and supervisors should verify and attest to the accuracy of these records. We further recommend that employees with full access to computerized leave records not be permitted to record their own leave time without subsequent review. The agency should also consider a policy to address the issue of working through lunch.

**Auditee’s Response**

As indicated in the narrative of this finding, the Consolidated Administrative Support Services (CASS) is a department unit formed to economically provide administrative services to four divisions within the department, including the Racing Commission, thereby eliminating duplicative positions across these divisions. Costs of the CASS unit are allocated across the affected divisions. Timekeeping in the CASS unit became involved in this audit of the Racing Commission because some employees of CASS are on the payroll records of the Racing Commission. However, the Racing Commission does not have administrative control of the CASS unit.
As a result of this audit, procedural changes have been implemented in the CASS unit regarding time and attendance reporting. These changes include:

1. A requirement that all time sheets be submitted to immediate supervisors for review and approval prior to TALRS cutoff;
2. All time sheets and leave request forms will be reviewed by the Chief Administrative Officer (CAO);
3. All TALRS entries for CASS unit will now be entered by CAO’s Administrative Assistant;
4. The Administrative Assistant’s time sheet and TALRS entry will be verified by CAO or another designated employee;
5. The CAO and Administrative Assistant’s TALRS will be kept at OAG.

The Administrative Assistant to the CAO has always maintained leave time notations to the Novell GroupWise Electronic Calendaring System as well as a daily manual attendance sheet. The Administrative Assistant will continue to cross reference these other sources when completing when completing and verifying TALRS entries.

Overtime was authorized verbally by the previous CAO for the Fiscal Officer and one of the Personnel Officers. The overtime for the fiscal officer was necessary because the lead person in the fiscal area moved to another position in the department and was not replaced. The Personnel staff has not had the necessary resources to perform all of the assigned tasks required of the unit. The department will continue an inquiry into verification of the overtime mentioned in this finding.

Most NJRC employees who are assigned to various racetracks are required to work through lunch because of the need to perform functions on a continuous basis throughout the racing day. This includes licensing personnel, supervisors of mutuels who are
required to eat lunch at their desks and remain working, veterinarians who must evaluate each horse prior to and during racing, racing officials, chemical inspectors, etc. Due to the unique circumstances associated with the regulation of horse racing and the present staffing levels, it is a necessity to require certain employees to work through lunch. In these instances, employees are usually compensated with a shortened workday. No NJRC employee has received overtime for working through lunch. In fact, overtime has not been authorized for any NJRC employee for at least several years.

Unsigned Time Sheets of 14 NJRC Employees: All of these employees are assigned to the racetracks. Eleven of the employees work as racing officials responsible for officiating over the conduct of races as well as many other responsibilities associated with the racing program. The other three employees are chief inspectors, who are responsible to supervise all other NJRC personnel assigned at the racetracks. As soon as the NJRC was advised of this oversight during the audit exit conference, it was corrected to ensure that all NJRC employees’ time sheets are reviewed and signed by the appropriate personnel.

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**BOND TRUST ACCOUNT**

N.J.S.A. 5:5-39 requires that a $10,000 certified check or bank draft must accompany each application to obtain a permit to conduct a horse race meeting. Historically, each permit holder’s $10,000 was deposited in a bank account with the NJRC as custodian of the funds with interest payable to the state on behalf of the permit holders. Since January 1996, interest earnings totaling $7900 due to various permit holders have accumulated in this account. The accumulated interest was not returned to the permit holders as required.
We further noted that prior to 1992 this account was also used for deposits of hearing bonds posted by individuals to cover anticipated hearing costs. Presently, there is over $15,000 due to these individuals. During our prior audit, commission staff indicated they were unable to locate and return these funds to the rightful owners. If the individuals cannot be located, N.J.S.A. 46:30b et seq. requires unclaimed deposits be escheated to the Unclaimed Personal Property Trust Fund.

**Recommendation**

We recommend that the NJRC return accumulated interest earnings to the appropriate permit holders and attempt to locate individuals entitled to a refund of bond funds posted for hearings. Any remaining funds should be escheated to the Unclaimed Personal Property Trust Fund.

**Auditee’s Response**

The department agrees with the audit recommendation. The Racing Commission will make every attempt to identify individuals entitled to refunds and escheat any remaining funds to the Unclaimed Personal Property Trust Fund.

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**THOROUGHBRED HORSEMEN’S BENEVOLENT ASSOCIATION FUNDS**

Custody of the horsemen accounts should be transferred to the horsemen’s association.

Pursuant to N.J.S.A. 5:5-66, 5:5-98, and 5:10-7, the New Jersey Thoroughbred Horsemens’s Benevolent Association (THBA) is entitled to a percentage of the purse generated from live and simulcast horse races in New Jersey. Funds allocated to the THBA are used to finance programs that benefit all New Jersey horsemen. In addition, N.J.A.C. 13:70-3.46 requires each thoroughbred track association to establish a horsemen’s bookkeeper account to hold monies deposited by thoroughbred owners. Each track association is also required to invest these funds in either New Jersey business savings accounts, bank certificates of deposit, or United States Treasury notes. The income realized from the
invested funds are used to reimburse the track association for one-half of the cost and expense of operating the account. The remainder of these funds are also required to be used for programs managed by the THBA and designed to benefit the racing industry. The balance in the accounts at February 29, 2000 was $2.6 million.

Although not required by law, the commission acts as custodian of these funds for the benefit of the THBA. They are not reimbursed for providing accounting services. Management indicated that they have a fiduciary responsibility to oversee the THBA funds. However, since the commission reviews the association’s annual budgets and certified financial statements, the expenditure of staff time and resources to maintain and manage these funds does not appear to be required.

**Recommendation**

We recommend that the commission transfer custody of these funds to the horsemen’s association and then monitor the usage of the funds.

**Auditee’s Response**

The NJRC took control of these funds in the late 1980’s when a group of horsemen claiming to represent the majority of the New Jersey horsemen attempted to utilize this money for purposes other than permitted by law. As a result of the NJRC’s actions, these funds were safeguarded and remain available to the horsemen today. While the threat no longer exists, the THA formerly THBA has and continues to request that the NJRC retain possession of these funds. The NJRC agrees with the recommendation of OSA to return these funds to the control of the THA. Significant time has passed since the NJRC seized control of these funds for the benefit of the NJ horsemen and adequate safeguards are in place to ensure that the funds are utilized for the intended purpose. The NJRC will notify the THA of the decision to return the funds to its control and as soon as the THA is prepared to receive the funds, the transfer will occur.
INTERNAL CONTROLS - APPROPRIATION EXPENDITURES

Purchasing, approval, and payment processing functions should be segregated.

Recommendation

We recommend that management provide for the proper segregation of duties regarding the purchasing, payment processing, and approval functions.

Auditee’s Response

Due to the size of the fiscal staff (three employees) the one individual identified in the audit report was authorized by both the Office of the Attorney General and Office of Management and Budget to have access to create purchase orders and process payments. However, the authority was granted specifically with the understanding that other reviews and approval had to be present. In every instance, the Chief Administrative Officer signed off or initialed all transactions. The CASS unit operates with all procurement requests being processed through the Facilities and Support Service Unit first. The request is then forwarded to fiscal where the request is sent to the CAO for approval. Once CAO approval is given, the fiscal section prepares the purchase order (PO) through NJCFS. When the goods are received or service is rendered they are checked, verified and/or distributed by the Facilities and Support Services Unit. Facilities updates its records and forwards the packing slip or confirmation of service to the fiscal section for payment. Payments are also signed off or initialed by the CAO whenever the PO and payment are processed by the same individual. A segregation of duties did exist where the goods or services were received by someone else in another section. In an effort to eliminate the need for both levels of approval by one individual, The CASS Unit is planning to hire additional staff.