

AUDITOR'S REPORT

SAM HOUSTON RACE PARK ADMISSION FEES FOR THE TWELVE MONTHS ENDED FEBRUARY 28, 2015



December 4, 2015

**Barbara J. Schott, C.P.A.
Harris County Auditor**

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December 4, 2015

Mr. Mike Post
Chief Assistant County Auditor – Accounting Division
1001 Preston, 8th Floor
Houston, Texas 77002

RE: Sam Houston Race Park (the Race Park) Admission Fees for the twelve months ended February 28, 2015

The Audit Services Department performed procedures relative to the Sam Houston Race Park Admission Fees. The objective of the engagement was to obtain an understanding and document the critical controls relative to the recording and disbursing of admission fees, as well as, evaluate compliance with Vernon's Civil Statutes §179e: Texas Racing Act Article 6 Section 6.17 (the Texas Racing Act), and Harris County accounting procedures. Our procedures included the following:

- Selectively testing Race Park attendance records reported to the County.
- Reviewing monthly Race Park fee remittances for accuracy and timeliness of payments.
- Reviewing compliance with prescribed Harris County Accounting Procedure F.24, *Racetrack Admission Fees*.

The engagement process included providing you with engagement and scope letters and conducting an entrance and exit conference with your personnel. The purpose of the letters and conferences were to explain the process, identify areas of concern, describe the procedures to be performed, discuss issues identified during the engagement, and solicit suggestions for resolving the issues. A draft report was provided to you and your personnel for review.

The work performed required our staff to exercise judgment in completing the scope objectives. As the procedures were not a detailed inspection of all transactions, there is a risk that error or fraud was not detected during this engagement. The official therefore, retains the responsibility for the accuracy and completeness of their financial records and ensuring sufficient controls are in place to detect and prevent fraud.

The enclosed Auditor's Report presents the significant issues identified during our procedures, recommendations developed in conjunction with your staff, and any actions you have taken to implement the recommendations. Less significant issues and recommendations have been verbally communicated to your staff.

Mr. Mike Post
Chief Assistant County Auditor – Accounting Division

We appreciate the time and attention provided by you and your staff during this engagement.

Sincerely,

A handwritten signature in blue ink, appearing to read "Barbara J. Schott", with a long horizontal flourish extending to the right.

Barbara J. Schott
County Auditor

cc: District Judges
County Judge Ed Emmett
Commissioners:
 R. Jack Cagle
 El Franco Lee
 Jack Morman
 Steve Radack
Devon Anderson
Vince Ryan
William J. Jackson

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OVERVIEW

Sam Houston Race Park, LLC., owns and operates the Race Park, a Class 1 horse racing facility. Ownership and operation of the Race Park is regulated by the Racing Commission. The Race Park opened to the public on April 29, 1994, and the buildings and grounds have an aggregate capacity of 18,000 patrons and offers pari-mutuel wagering (pool betting system) on thoroughbred or quarter horse racing during certain months and simulcast races throughout the year. Simulcasting is the process by which races held at one racing facility are broadcast simultaneously to other locations so that additional wagers may be placed on the race being broadcast.

The Texas Racing Act Article 6 Section 6.17, *City and County Fees*, unchanged since its effective date of August 1991, allows for a commissioners court to collect, and establish procedures for collecting, a \$.15 admission fee for qualified admissions to a licensed race track. In May 1994, pursuant to the Texas Racing Act, Commissioners' Court established and approved procedures to collect the \$.15 admission fee. The monthly admission fee is based on the number of patrons who enter the Race Park through the turnstiles and electronically monitored gate, without regard to the price paid for admission. The Race Park remits the admission fee each month for all live race and simulcast racing to the Harris County Treasurer. Between March 2014 and February 2015 the Race Park remitted approximately \$71,000 to the County.



RESULTS

Based on procedures performed, the Race Park appears to have materially complied with the Act. No matters came to our attention that caused us to believe that the monthly admission fees submitted to Harris County are materially inaccurate.

However, the procedures performed identified approximately \$840 which was not remitted to the County as required. In addition, the following areas in which compliance with the Accounting Procedure F.23, *Racetrack Admission Fees*, could be improved:

- Accuracy and completeness of attendance records reported and submitted to the County.
- Timeliness of payments submitted to the County.
- Reviewing monthly Race Park fee remittances and supporting documentation submitted to the County for accuracy, completeness and timeliness of payments.
- Assessing and invoicing interest fees for payments not submitted timely to the County.

These and other issues are discussed further in the “Issues and Recommendations” matrix on the following pages.

ISSUES AND RECOMMENDATIONS

| Subject | Background | Issue | Recommendation | Management Response |
|--|--|--|--|--|
| <p>Monthly Admission Fees Supporting Documentation</p> | <p>According to Harris County Accounting Procedure F.24, <i>Racetrack Admission Fees</i>, the Race Park:</p> <ul style="list-style-type: none"> • Maintains accurate attendance records and retains detailed daily reports of attendance in Harris County available for inspection by County officials for a period of at least three years. • Records turnstile attendance, adjustments, and workers and horsemen per Daily Admission Report, in the appropriate column on County Auditor's Form 140I, <i>Monthly Admission Fee Report</i>. Indicates if admissions were for a simulcast only day or a race day in the column provided. If no admissions were recorded on a given | <p>The Race Park was not in compliance with Accounting Procedure F.24, <i>Racetrack Admission Fees</i>, in the following areas:</p> <ul style="list-style-type: none"> • 1 out of 12 (8.3%) Monthly Admission Fee Reports were not calculated correctly due to inaccurate input of attendance figures which resulted in an underpayment of approximately \$400. • 1 out of 12 (8.3%) payments made to the County did not agree to the amount reported on the Monthly Admission Fee Report submitted and resulted in an under-payment of approximately \$300.00. • 12 out of 12 months tested (100%) did not include the Monthly Admission Fee Report in the documentation | <p>Race Park Management should implement controls to ensure that reported attendance amounts and required supporting documentation are timely, accurate, notarized and submitted upon payment in accordance with the County's Accounting Procedure F.24, <i>Racetrack Admission Fees</i>. Amounts underpaid as a result of inaccurate attendance records and inaccurate payment submitted should be remitted to the County.</p> <p>In addition, Accounts Receivable should determine if an analysis of supporting documentation for payments received for previous years should be performed to ensure payments were appropriately calculated.</p> | <p>Sam Houston Race Park management accepts the recommendation included and will implement controls going forward to ensure that payment is made timely and that the appropriate documentation including the notarized monthly attendance report will be attached to such payment.</p> <p>Auditor's Office Accounts Receivable will determine whether an analysis of prior payments should be performed.</p> |

ISSUES AND RECOMMENDATIONS

| Subject | Background | Issue | Recommendation | Management Response |
|--|---|--|----------------|---------------------|
| (continued) Monthly Admission Fees Supporting Documentation | <p>day, record "No Collection" on the appropriate line. If no admissions were recorded for the month, indicate zero for the monthly total and submit the report in the usual manner.</p> <ul style="list-style-type: none"> • Determines daily admissions by adding or subtracting adjustments (as applicable) and subtracting the number of workers and horsemen from turnstile admissions. • Calculates admission fee due for the reporting period by multiplying the total monthly admissions by 15 cents and recording the result in the space provided for admission fees due. • Has an authorized official, such as the Controller, sign the report attesting to the | <p>submitted to the Treasurer at the time of payment.</p> <ul style="list-style-type: none"> • 8 out of 12 (67%) Monthly Admission Fee Reports were not notarized at the time of payment. • 3 of 62 days (4.8%) tested did not contain complete supporting documentation for reported attendance counts. • 3 out of 12 (25%) payments submitted to the County were not made timely. <p>Not maintaining and timely submitting accurate attendance records to the County could result in loss of County funds or inaccurate recording of revenue.</p> | | |

ISSUES AND RECOMMENDATIONS

| Subject | Background | Issue | Recommendation | Management Response |
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| (continued) Monthly Admission Fees Supporting Documentation | <p>accuracy of the recorded information.</p> <ul style="list-style-type: none"> Notarizes the authorized signature and mails the notarized County Auditor's Form 140I, <i>Monthly Admission Fee Report</i>, along with a check for the total monthly fees to the County by the 20th of the following month. | | | |
| Admission Fee Payment Review & Verification | <p>Harris County Accounting Procedure F.24, <i>Racetrack Admission Fees</i>, requires Revenue Accounting to:</p> <ul style="list-style-type: none"> Receive a notarized original of County Auditor's Form 140I, <i>Monthly Admission Fee Report</i>, and County Auditor's Form 161E, <i>Harris County Official Treasurer's Receipt</i>. Maintain a file of County Auditor's Forms 140I, <i>Monthly Admission Fee Report</i>, | <p>Sufficient controls were not in place to ensure compliance with Harris County Accounting Procedure F.24, <i>Racetrack Admission Fee</i>, during the audit period. As a result of not adhering to the following policy requirements, Accounts Receivable did not properly invoice and/or collect approximately \$440 in revenue:</p> <ul style="list-style-type: none"> Mathematical accuracy of daily and monthly | <p>Accounts Receivable Management should implement procedures to comply with Accounting Procedure F.24 requirements to obtain, review, verify the accuracy and timeliness of payments submitted to Harris County, and assess delinquent fees as necessary.</p> <p>In addition, Accounts Receivable should invoice the Race Park for interest due on delinquent payments and collect amounts owed</p> | <p>Accounts Receivable will update/revise the procedures referenced to accurately capture current processes and to cover any control gaps</p> <p>Accounts Receivable will invoice the Race Park for interest due and delinquent payments.</p> |

ISSUES AND RECOMMENDATIONS

| Subject | Background | Issue | Recommendation | Management Response |
|---|--|--|--|---------------------|
| (continued) Admission Fee Payment Review & Verification | <p><i>received.</i></p> <p>In addition, Accounts Receivable is required to:</p> <ul style="list-style-type: none"> • Obtain a copy of County Auditor's Form 140I, <i>Monthly Admission Fee Report</i>, and County Auditor's Form 161E, <i>Harris County Official Treasurer's Receipt</i>, from the Treasurer's receipts filed by Revenue Accounting. • Verify mathematical accuracy of daily and monthly admissions and extends by the fee factor to verify total fees remitted. • Prepare an assessment of interest on delinquent payment of admission fee, if any, at the rate of 12% per annum. • Post the estimated invoice monthly in accordance with | <p>admissions documentation was not verified or reconciled to the payment submitted and resulted in an underpayment of approximately \$300.</p> <ul style="list-style-type: none"> • Interest on delinquent payment of admission fee was not assessed for 3 out of 3 payments submitted late resulting in lost revenue of approximately \$140. • A copy of County Auditor's Form 140I, <i>Monthly Admission Fee Report</i>, submitted by the Sam Houston Race Park was not obtained or maintained. <p>Not adhering to prescribed procedures could result in financial loss and/or inaccurate financial statements.</p> | <p>for payments which were not submitted accurately.</p> | |

ISSUES AND RECOMMENDATIONS

| Subject | Background | Issue | Recommendation | Management Response |
|---|---|---|---|---|
| (continued) Admission Fee Payment Review & Verification | <p>internal procedures.</p> <ul style="list-style-type: none"> Return County Auditor's Form 140I, <i>Monthly Admission Fee Report</i>, to Revenue Accounting. | | | |
| Admission Fee Calculation | <p>Harris County Accounting Procedure F.24, <i>Racetrack Admission Fees</i>, states that the Race Park:</p> <ul style="list-style-type: none"> Determines daily admissions by adding or subtracting adjustments (as applicable) and subtracting the number of workers and horsemen from turnstile admissions. Calculates adjustment for children under 12 by adding the total turnstile attendance for race days only and recording the result in the space provided and multiplying that figure by 1%. Adds the adjustment for children under 12 to the | <p>Harris County Accounting Procedure F.24, <i>Racetrack Admission Fees</i>, is not current with regards to the Race Park's prescribed procedures.</p> <p>Employees, owners and horseman now enter through a separate entrance and are not included in the admission fee calculation.</p> <p>In addition, all individuals, now including children under 12, who enter the Race Park through the designated entrances, are included in the admission fee calculation.</p> <p>It is no longer necessary to make the above mentioned</p> | <p>Systems and Procedures should coordinate with Accounts Receivable to revise and update Harris County Accounting Procedure F.24, <i>Racetrack Admission Fees</i>, to reflect the current operating environment. In addition, County Auditor's Form 140I should be updated to delete the 1% adjustment for children under 12 entering the Race Park.</p> | <p>Accounts Receivable will work with Systems and Procedures to revise and update Harris County Accounting Procedure F.24, <i>Racetrack Admission Fees</i>, to reflect the current operating environment.</p> |

ISSUES AND RECOMMENDATIONS

| Subject | Background | Issue | Recommendation | Management Response |
|---|----------------------------------|---|-----------------------|----------------------------|
| (continued) Admission Fee Calculation | monthly admissions sub-total. | adjustments to reconcile attendance records. Not having current and accurate prescribed procedures could result in financial loss or inaccurate recording of revenue. | | |

RISK ASSESSMENT AND SUMMARY OF RECOMMENDATIONS

The risk matrix below presents the assessed level of risk or exposure identified during our procedures. Inherent risk relates to factors that because of their nature cannot be controlled or mitigated by management. Inherent risk includes factors such as legislative changes, number and dollar amount of transactions processed and/or complex nature of transactions. Control risks relate to factors that can be influenced or controlled by management. Controls such as policies and procedures, electronic or manual approvals, system security access, and separation of job responsibilities may be instituted by management in order to mitigate control risk. Control risk is assessed during the planning phase in order to establish the nature, timing, and extent of testing and at the conclusion of the engagement in order to incorporate actions taken to implement our recommendations. The overall risk considers a combination of inherent and control risks.

| Inherent Risk: | Control Risk: | | Overall Risk: |
|---|---|--------------------------|---|
| <input type="checkbox"/> High <input type="checkbox"/> Moderate <input checked="" type="checkbox"/> Low | Prior to Procedures | After Procedures | <input type="checkbox"/> High <input type="checkbox"/> Moderate <input checked="" type="checkbox"/> Low |
| | Needed Improvement | Needs Improvement | |
| Type of Procedures: Audit | | | |
| Purpose: To obtain an understanding and document the critical controls relative to the recording and disbursing of admission fees, as well as, evaluate compliance with Vernon’s Civil Statutes §179e: Texas Racing Act Article 6 Section 6.17, and Harris County accounting procedures. | | | |
| Outstanding Audit Recommendations: See Below. | | | |
| Priority Rating: | Audit Recommendations: | | |
| 1 | Race Park Management should implement controls to ensure that reported attendance amounts and required supporting documentation are timely, accurate, notarized and submitted upon payment in accordance with the County's Accounting Procedure F.24, <i>Racetrack Admission Fees</i> . Amounts underpaid as a result of inaccurate attendance records and inaccurate payment submitted should be remitted to the County. | | |
| 1 | Accounts Receivable Management should determine if an analysis of supporting documentation for payments received for previous years should be performed to ensure payments were appropriately calculated. | | |

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| 1 | Systems and Procedures should coordinate with Accounts Receivable to revise and update Harris County Accounting Procedure F.24, <i>Racetrack Admission Fees</i> , to reflect the current operating environment. In addition, County Auditor's Form 140I should be updated to delete the 1% adjustment for children under 12 entering the Race Park. |
| 1 | Accounts Receivable Management should implement procedures to comply with Accounting Procedure F.24 requirements to obtain, review, verify the accuracy and timeliness of payments submitted to Harris County, and assess delinquent fees as necessary. |
| 1 | Accounts Receivable should invoice the Race Park for interest due on delinquent payments and collect amounts owed for payments which were not submitted accurately. |

| | |
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| Priority Rating | <ol style="list-style-type: none"> 1. Implement immediately (30 – 90 days) – Serious internal control deficiencies; or recommendations to reduce costs, maximize revenues, or improve internal controls that can be easily implemented. 2. Work towards implementing (6 – 18 months) – Less serious internal control deficiencies, or recommendations that can not be implemented immediately because of constraints imposed on the department (i.e., budgetary, technological constraints, etc.). 3. Implement in the future (two – three years) – Recommendations that should be implemented, but that can not be implemented until significant and/or uncontrolled events occur (i.e., legislative changes, buy and install major systems, requires third party cooperation, etc.). |
|------------------------|--|