

Jonathan Zachem, Secretary

Rick Scott, Governor

MEMORANDUM

TO: Jonathan Zachem, Secretary

FROM: Lynne T. Winston, Inspector General 

DATE: July 12, 2018

SUBJECT: Initial Follow-Up Response to Auditor General Report Number 2018-087,
Operational Audit – Division of Pari-Mutuel Wagering and Selected Administrative Activities (OIG Project Number G-1819BPR-001)

Section 20.055, Florida Statutes, requires that I monitor and report to you on the status of implementation of findings and recommendations made in audits issued by the Auditor General. Accordingly, the attached report is our initial follow-up response to Auditor General Report Number 2018-087, *Operational Audit – Division of Pari-Mutuel Wagering and Selected Administrative Activities* (published January 17, 2018).

Our review found that management has taken substantive action to address all audit findings and recommendations made in the initial audit report. Our office concluded that management has taken sufficient corrective action to close the findings addressed in the above referenced report.

We would like to thank the management and staff of the Division of Pari-Mutuel Wagering and Division of Administration and Financial Management for their assistance.

Please contact me if you have any questions.

LTW:sbh

Attachment

cc: Eric W. Miller, Chief Inspector General
Kathy DuBose, Coordinator, Legislative Auditing Committee
Reginald Dixon, Chief of Staff
Andrew Fier, Deputy Secretary of Business Regulation
Robert Ehrhardt, Director, Division of Pari-Mutuel Wagering
Ruth Dillard, Director, Division of Administration and Financial Management



**DEPARTMENT OF BUSINESS & PROFESSIONAL REGULATION
Office of Inspector General**

**Jonathan Zachem
Secretary**

**Lynne T. Winston
Inspector General**



**Initial Six-Month Follow-up Report for
*Operational Audit – Division of Pari-Mutuel Wagering
and Selected Administrative Activities***

Auditor General Report Number 2018-087

July 12, 2018

OIG Project Number G-1819BPR-001

OVERVIEW

Section 20.055(6)(h), Florida Statutes, and internal auditing standards, require the Office of Inspector General to monitor and report to the Secretary on the status of corrective action taken in response to reports issued by the Auditor General.

In January 2018, the Auditor General published Report Number 2018-087, *Operational Audit – Division of Pari-Mutuel Wagering and Selected Administrative Activities*. This operational audit of the department focused on the Division of Pari-Mutuel Wagering (division or PMW) and selected administrative activities. It also included a follow-up to the findings made in the previous Auditor General operational audit (Report No. 2015-066) released in December 2014.

The audit disclosed 4 findings directed to the division and 1 finding concerning the physical inventory of the department, which was directed to the Division of Administration and Financial Management. The purpose of this report is to inform the Secretary of the status of management's response to the audit findings and recommendations.

STATUS REPORT

As part of external audit follow-up testing, our office requested information and supporting documentation from the Division of Pari-Mutuel Wagering and the Division of Administration and Financial Management on corrective actions taken since the release of the Auditor General operational audit in January 2018. Our office performed testing from May 2018 through July 2018. The results of our assessment are presented below.

Finding 1: Testing of Racing Animals

As outlined in the Auditor General's operational audit, the division is responsible for supervising and regulating the welfare of racing animals at pari-mutuel facilities, as well as, adopting rules for holding, conducting, and operating all races and race tracks in the state. Consequently, the division adopted rules governing the usage of, and the sampling and testing of, racing animals for drugs and medications. During the initial operational audit, the Auditor General reviewed activities, processes, and documentation of the division. They further conducted field testing observation at 5 permitholders in April 2017 and observed blood sample testing of 37 racing horses. The Auditor General found that division procedures for sampling and testing racing

animals for drugs and medications could be enhanced to better align with industry best practices.

Recommendations

The Auditor General recommended the division enhance racing animal testing procedures to ensure that separate and distinct split samples are collected and retained; that blood samples are stored upright for at least 30 minutes at room temperature before being centrifuged; that sample information is accurately recorded on division chain of custody documentation and chain of custody records are subject to comprehensive supervisory review and approval; and that blood serum samples are not decanted in test barns.

Division's Initial Response

On May 23, 2017, the division held a rules workshop relating to the specimen collection procedures outlined in Rules 61D-6.005 and 61D-6.006, Florida Administrative Code. The proposed rules included the changes recommended by the Auditor General. The rules require separate and distinct split samples to be collected and retained. They also require that blood samples be stored upright for at least 30 minutes at room temperature before being centrifuged and that blood serum samples not be decanted in test barns. The final versions of the amended rules were adopted on December 4, 2017.

In addition, to ensure specific sample information is accurately recorded for chain of custody, the division has amended PMW 504 forms. On November 18 and 19, 2017, the division's contracted testing laboratory conducted training with division field staff regarding updated chain of custody procedures. The division will continue to emphasize to supervisors that PMW 504 forms are subject to comprehensive supervisory review and approval.

Status as of July 2018

In their initial response to the Auditor General's operational audit, the division cited changes in Florida Administrative Code provisions, which were adopted on December 4, 2017. Our office reviewed the relevant changes promulgated by the division as part of Chapter 61D-6, *Drugs and Veterinarian Procedures*, Florida Administrative Code. The newly promulgated rules include many of the changes recommended by the Auditor General and specifically require separate and distinct blood samples to be collected and retained. These rules also require that blood samples be stored upright for at least 30 minutes at room temperature before being centrifuged and that blood serum samples not be decanted in test barns.

The division also cited that they have updated their specimen collection PMW 504 form to require supervisory review¹. The new 504 form was revised by the division with an effective date of December 4, 2017. This PMW 504 form is the specific chain of custody record for horse racing testing samples. In comparing the old and new form, our office noted that the new form now includes a place for supervisory review of the collection process and supervisory review of the form itself, as requested by the Auditor General. Additionally, the time of urine decanting is located on the form, along with a location for the veterinary assistant to initial. Most notably, the blood centrifuging time has also been added with a place for the PMW Detention Barn Supervisor or State Veterinarian to initial, indicating supervisory review of this centrifuging time.

¹ Our office notes that the PMW 504 form is titled the "*Daily Record of Sample Collection for Racing Horses*".

Our office concluded that improvements have been made to the division's sample collection for racing horses' process as evidenced by the newly revised PMW 504 form. These improvements are in line with the recommendations made by the Auditor General as part of their operational audit.

Based upon the specific nature of the Auditor General finding and recommendation, our office determined that it would be necessary to perform field testing to examine division sample collection processes at a portion of horse racing permitholders. Our office observed horse racing sample collection activities for a total of 28 specimens at 2 permitholder facilities in May 2018. During the course of this field testing, we observed that blood for horse racing animals was collected in 4 separate tubes. Previously only 3 tubes were collected. One of these 4 tubes is the split sample for testing.

Blood sample collection was also observed and the time of this collection was also noted on the PMW 504 form. Audit staff confirmed the accuracy of the time listed on the PMW 504 form for all 28 horse blood samples observed. Our office then noted that centrifuging time was performed and recorded for these blood samples. This centrifuge time was recorded on the PMW 504 form and the accuracy of this listed time was confirmed by audit staff. We further confirmed that blood samples sat upright for a minimum of 30 minutes prior to being centrifuged for all 28 samples. Finally, we noted that blood samples were not decanted during the testing process for any sample.

OIG Assessment

Based upon our analysis of supporting documentation provided by the division and our testing observation of 28 separate horse blood sample collections and centrifuging of these samples, our office determined that the division has taken corrective action to ensure that separate and distinct blood samples are collected and retained, that blood samples are stored upright for at least 30 minutes at room temperature prior to being centrifuged, that sample information is accurately recorded on chain of custody documentation and this documentation is subject to comprehensive supervisory review and approval, and that blood serum samples are not decanted in detention test barns.

As such, our office has determined that corrective action has been taken to close this audit finding and the resulting recommendations. This audit finding and recommendations are now **CLOSED**.

Finding 2: Pari-Mutuel Facility Inspections

The Auditor General noted that the division's Office of Investigations is responsible for performing inspections of pari-mutuel facilities. Office inspectors conduct periodic inspections and document the results, which are reviewed by division supervisors. The Auditor General examined 15 inspection checklists completed during the period July 2015 through February 2017. Auditor General testing determined that, in one instance, the office investigator used an outdated checklist (2008) to conduct the inspection. Comparison of the checklists disclosed that, while the office's current checklist included 33 specific inspection criteria linked to applicable department rules, the 2008 checklist included only a summary format and did not include specific references to applicable department rules. The investigator utilized the outdated checklist to complete 16 of 34 inspections and none of the 34 checklists evidenced supervisory review.

Recommendation

The Auditor General recommended that division management take steps to ensure that the results of the pari-mutuel facility inspections are documented using correct checklists.

Division's Initial Response

The division has counseled the investigator that utilized an outdated cardroom checklist; outdated versions of the form within his possession were physically and electronically destroyed.

In September 2017, the Office of Investigations implemented a procedure that requires investigative supervisors to review all completed checklists to ensure that current cardroom checklists are utilized, replacing the previous process whereby checklists were sampled and reviewed.

Status as of July 2018

In their initial response, the division noted that they counseled the investigator utilizing the outdated cardroom checklist and destroyed all physical and electronic versions of the old checklist. Further, they noted that a new procedure within the Office of Investigations requires investigative supervisors to review all completed checklists to ensure that current checklists are utilized. This process replaced the previous process whereby checklists were sampled and reviewed.

Our office requested a copy of the referenced procedures in place requiring supervisors to review all completed inspections and a sample copy of all inspections completed in April 2018. The division provided a copy of the January 2018 meeting minutes documenting this new internal procedure. According to these staff meeting notes, the correct inspection form is required to be used and investigation supervisors are required to review these forms. Our office concluded that the division's Office of Investigations has implemented a new internal procedure, documented by the January 2018 staff meeting, in which investigative supervisors must review all completed checklists to ensure that current checklists are utilized by division investigators.

The division also responded to our request for a sample of all inspections completed in April 2018. This information was provided to our office and included a sample of all inspections completed by the 10 division inspectors, who performed inspections for the selected week in April 2018. This included kennel inspections, facility inspections, barn inspections, and bi-weekly and quarterly cardroom inspections. Our office reviewed this information and verified that a total of 43 inspections were completed by division investigators for the sample-selected week in April 2018. Our review further indicated that 15 of these 43 completed inspections were either bi-weekly or quarterly cardroom inspections. Finally, our review determined that all of these inspection forms were completed using the updated division version of the inspection checklist.

OIG Assessment

Our office concluded that based upon our analysis of supporting documentation provided by the division and the our testing observation of 43 completed inspection forms, the division has taken

corrective action to ensure that the results of pari-mutuel facility, kennel, barn, and cardroom inspections are being documented using the correct, updated division checklists.

As such, our office has determined that corrective action has been taken to close this audit finding and the resulting recommendation. This audit finding and recommendation are now **CLOSED**.

Finding 3: Conflicts of Interest

The Auditor General cited state law and department policies and procedures, which require all employees with inspection or enforcement related responsibilities to immediately report any potential conflicts of interest and annually submit a conflict of interest form disclosing any potential conflicts of interest or certifying that none exist. The Auditor General evaluated division controls, performed inquiries of division management, and reviewed relevant documentation for 10 Office of Investigations and 16 Office of Operations employees and supervisors. Their review disclosed that the 10 Office of Investigations and 16 Office of Operations division staff tested had not completed conflict of interest forms in accordance with department policies and procedures. They further noted that completion of conflict of interest forms would provide division management greater assurance that department regulatory activities are conducted in an independent and impartial manner.

Recommendation

The Auditor General recommended that division management take steps to ensure that all employees with inspection or enforcement related responsibilities, including those in the Office of Operations, are subject to department conflict of interest policies and procedures and annually complete conflict of interest forms.

Division's Initial Response

The division will require all employees with inspection or enforcement related responsibilities, including those in the Office of Operations, to annually complete a conflict of interest form.

Status as of July 2018

In their initial audit response, the division noted that in addition to the Office of Investigations and the Office of Operations staff, they will require all employees with inspection or enforcement related responsibilities to annually complete a conflict of interest form. In their response to our follow-up request, the division noted that they have obtained a completed conflict of interest form from all division employees. They further noted that any seasonal OPS employees currently not reporting to work will be required to complete such a form upon their return. Any new employees joining the division are required to complete the form as part of their new hire package.

As part of our follow-up testing, our office also requested a listing of all employees with inspection or enforcement related responsibilities and copies of completed conflict of interest forms for Fiscal Year 2017-18. The division provided conflict of interest forms from approximately 176 employees, which included all current division employees. Our office selected a sample of 21 active employees within the division to determine whether conflict of interest forms had been completed. Our office found the completed inspection forms for all 21 of

these employees in our sample and noted that this testing provided reasonable assurance that conflict of interest forms had been completed for all division employees.

OIG Assessment

Our office concluded that, based upon our analysis of supporting documentation provided by the division and our observation of 176 completed conflict of interest forms and sample testing of these forms, the division has taken corrective action to ensure that all PMW employees with inspection or enforcement related responsibilities have completed annual conflict of interest forms.

As such, our office has determined that corrective action has been taken to close this audit finding and the resulting recommendation. This audit finding and recommendation are now **CLOSED**.

Finding 4: Totalisator Company Internal Controls

The Auditor General noted that relevant standards require totalisator companies to maintain a documented system of internal controls and provide that a service auditor's report may be required. Furthermore, they noted that for the period of July 2015 through February 2017, the division did not obtain applicable service auditor's reports from either the totalisator companies or pari-mutuel permitholders. The Auditor General found that the service auditor's reports would provide greater assurance regarding the integrity of wagering operations, including the accuracy and completeness of totalisator data used to calculate applicable fees and taxes due from each pari-mutuel permitholder, by obtaining and reviewing independent service auditor reports on the effectiveness of internal controls established by division-approved totalisator companies.

Recommendation

The Auditor General recommended that due to the critical nature of totalisator data, division management obtain and review service auditor's reports on the effectiveness of the totalisator companies' internal controls.

Division's Initial Response

In accordance with Rule 61D-7.023(10), Florida Administrative Code, the division will make an annual request to totalisator companies operating in Florida for any service auditor reports presented or conducted for a Florida pari-mutuel permitholder.

Status as of July 2018

In their initial audit response, the division noted that in accordance with Rule 61D-7.023(10), Florida Administrative Code, they would make an annual request for service auditor's reports prepared for each permitholder. In their response to our audit follow-up request, the division noted that they have requested and received a copy of these service auditor's reports from all 3 totalisator companies licensed to operate in Florida.

The division noted that a process is in place to ensure that they annually request these service auditor's reports. They also noted that the division is continuing to review these reports to determine their value relative to the division's regulatory authority. The division provided copies

of all 3 service auditor's reports to our office. Our office independently reviewed these reports and found that they referenced internal controls over the totalisator companies, but did not note any specific internal control weaknesses to which the division should be alerted. Our office verified that the division is in fact reviewing these reports to determine potential internal control weaknesses regarding the totalisator data used to calculate applicable fees and taxes due from each permitholder.

OIG Assessment

Our office concluded that, based upon our analysis of supporting documentation provided by the division and the our review and analysis of the service auditor's reports from all 3 totalisator companies currently licensed in Florida, the division has obtained and reviewed these reports and analyzed such reports as to the effectiveness of internal controls established by the division-approved totalisator companies.

As such, our office has determined that corrective action has been taken to close this audit finding and the resulting recommendation. This audit finding and recommendation are now **CLOSED**.

Finding 5: Annual Physical Inventory

The Auditor General noted that the department did not perform a complete physical inventory of all tangible personal property for Fiscal Year 2015-16, as required by Department of Financial Services (DFS) rules. Rule 69I-72.002, Florida Administrative Code, requires the department to record all tangible personal property with a value or cost of \$1,000 or more and a projected useful life of 1 year or more in the Florida Accounting Information Resource (FLAIR) Subsystem Property Subsystem. Rule 69I-72.003 and 69I-72.006(1), Florida Administrative Code, require the department to complete a physical inventory of all personal property at least once each fiscal year. This physical inventory is to be reconciled to the individual property records and noted differences are to be investigated and corrected, as appropriate.

Recommendation

The Auditor General recommended that department management ensure that complete annual physical inventories of department property are conducted in accordance with DFS rules.

Division's Initial Response

The department concurs with the Auditor General's recommendation and will complete annual physical inventories of department property in accordance with DFS rules. The department completed the annual physical inventory for Fiscal Year 2016 – 17 in June 2017; the annual physical inventory for Fiscal Year 2017 – 18 is scheduled to be completed by June 2018.

Status as of July 2018

As noted in the Auditor General Report, department headquarters and all staff, property, and operations were relocated from the Northwood Centre by June 30, 2016. The department noted that a complete physical inventory was not feasible because of the relocation of department headquarters. Instead, a modified physical inventory was conducted, inclusive of only information technology property items. The physical inventory did not capture all items as prescribed by DFS rules. Further, these results were not reconciled with department property

records. The Auditor General noted that a complete inventory would have provided department management greater assurance that all property was safeguarded and accounted for during the relocation.

During our audit follow-up testing, the Division of Administration and Financial Management provided our office with information verifying completion of the required annual inventory for both Fiscal Years 2016-17 and 2017-18.

Our office reviewed this information, performed an analysis of the Fiscal Year 2017-18 inventory, and noted the following information concerning our department inventory:

Property Class	Number of Items	Acquisition Cost
Furniture and Equipment	120	\$ 1,387,999.66
Vehicles	637	9,549,153.42
Scientific Equipment	1	4,173.75
Information Technology	582	1,703,529.05
Communication Equipment	318	1,243,532.84
Other Equipment	19	219,418.78
Books	<u>22</u>	<u>8,185.90</u>
Totals	1699	\$ 14,115,993.4

Our office noted that these totals for Fiscal Year 2017-18, 1699 items with \$14,115,993 in acquisition costs, is a slight increase over the totals from the original Auditor General report, as of January 2017, which noted 1,654 items and \$13,411,906 in acquisition costs.

Our office ultimately concluded that the complete physical inventory had been performed in accordance with, and as required by, DFS rules.

OIG Assessment

Our office determined that based upon our analysis of supporting documentation provided by the Division of Administration and Financial Management, the division has taken corrective action to ensure that complete annual physical inventories of department property in accordance with DFS rules have been conducted.

As such, our office has determined that corrective action has been taken to close this audit finding and the resulting recommendation. This audit finding and recommendation are now **CLOSED**.

In addition to reviewing the specific nature of the Auditor General finding and recommendation, our office also reviewed the nature of the physical inventory process as conducted by the department. Our office determined that a visual inspection of most property items is performed and this information is then cross-referenced with the FLAIR Property Record, which contains all information as required by DFS rules. However, department property at field office locations is reviewed by regional custodians and there is no standard process or requirement as to how this inventory is to be conducted by these regional custodians. Our office further noted that some department property inventory items, which do not meet the \$1,000 threshold as required by DFS rules, but are of a sensitive nature, such as law enforcement equipment and weapons, are not independently visually inspected by the Division of Administration and Financial Management.

Given the nature of the risks associated with this process, our office has placed a Management Review project on our Annual Audit Plan for Fiscal Year 2018-19 concerning a review of department inventory processes. Our preliminary objectives for this assignment are to verify the accuracy of department tangible personal property, to verify the accuracy of a sample of law enforcement equipment as maintained by the Division of Alcoholic Beverages and Tobacco, and to verify the existence and accuracy of equipment purchased during special circumstances, such as an approaching hurricane.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of this follow-up report was to determine the status of action taken by management of the Division of Pari-Mutuel Wagering and the Division of Administration and Financial Management in response to the findings and recommendations made in Auditor General Report Number 2018-087, *Operational Audit – Division of Pari-Mutuel Wagering and Selected Administrative Activities*. Our review focused on corrective action taken since the report's publication in January 2018.

In May and June, 2018, Division of Pari-Mutuel Wagering and Division of Administration and Financial Management staff and management provided updated information on the status of their implementing actions. We reviewed the information and supporting documentation and evaluated whether sufficient corrective action has been taken to mitigate the risks associated with all audit findings and recommendations.

This work product was prepared pursuant to Section 20.055, Florida Statutes, and in accordance with applicable *Principles and Standards for Offices of Inspector Generals* (as published by the Association of Inspectors General) and *International Standards for the Professional Practice of Internal Auditing* (as published by the Institute of Internal Auditors, Inc.).

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This review was conducted by Steven Henry, Auditor, CIGA, CGAP, and CICA, and supervised by Karen Barron, Director of Auditing.

This and other reports prepared by the Office of Inspector General of the Department of Business and Professional Regulation can be obtained by telephone (850-414-6700) or by mail (2601 Blair Stone Road, Tallahassee, FL 32399-1018).