

THOMAS P. DiNAPOLI  
STATE COMPTROLLER



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STATE OF NEW YORK  
**OFFICE OF THE STATE COMPTROLLER**

August 31, 2010

Charles Hayward  
President and Chief Executive Officer  
New York Racing Association, Inc.  
P.O. Box 90  
Jamaica, NY 11417

Re: First Interim Report on our Ongoing Audit  
of NYRA Operations (Report 2010-S-54)

Dear Mr. Hayward:

According to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution; Article II, Section 8 of the State Finance Law; and Section 209 of the New York State Racing, Pari-mutuel Wagering and Breeding Law, we are in the process of an ongoing audit of NYRA's financial condition and operating practices. The objectives of our audit are to assess the reasonableness of cash flow projections, identify opportunities to enhance revenues and reduce expenses, and assess progress on short-term and long-term strategic initiatives designed for cost savings and operational effectiveness. This is the first in a series of reports pertaining to the ongoing audit. It covers the period July 28, 2010 through August 23, 2010.

**Background**

On July 12, 2010, we issued our audit report 2009-S-89 addressing NYRA's financial condition and selected governance activities. In that report, we assessed the reasonableness of NYRA's cash flow projections as of May 20, 2010 and its need to draw upon a \$25 million operating loan approved by the state Legislature to maintain fiscal solvency. We also examined NYRA's cost cutting endeavors, and recommended certain actions to promote more economical and efficient operations. Our audit found that NYRA's cash flow projections were properly supported and based on reasonable assumptions. However, we also concluded that NYRA had not done enough, or acted quickly enough, to reduce expenses, especially in light of the uncertainties associated with several of its major revenue sources. As an outgrowth of this report, on July 28 we began this ongoing audit to provide ongoing, real-time monitoring of NYRA's fiscal condition and operating practices.

**Cash Flow Projections**

In June 2010, NYRA made an initial draw of \$8.4 million against the \$25 million

operating loan approved by the State. Since then, NYRA has continued to prepare weekly cash flow projections detailing available cash and projected revenues and expenses for several weeks forward. NYRA's projections consider not only prior year revenues and expenses, but also are adjusted for industry trends and current economic conditions. To assess the reasonableness of the projections, we traced the reported cash balances for selected periods to NYRA's accounting records and reconciled these records to associated bank statements on a test basis. As a result, we confirmed that NYRA's available cash totaled about \$14 million as of August 13, 2010.

We also compared the projected revenues and expenses for two months (August and September) against NYRA's operating budget and prior year results and verified that the major assumptions supporting these projections are unchanged and continue to be applied consistently and accurately. Based on these analyses, we conclude that NYRA's cash flow projections continue to be prepared accurately, based on valid assumptions that have been consistently applied and updated on a timely basis. NYRA's current projection is that its cash balance will be about \$5 million at the end of October.

### **Strategic Initiatives**

Our initial audit identified several operating areas where NYRA has an opportunity to cut costs and thereby help it to achieve financial solvency and fulfill its statutory responsibility to operate in a manner that will provide reasonable revenue for the support of State government, as well as the racing industry. These areas included assessing the optimum number of staff necessary to execute NYRA operations, eliminating costs that are not ordinary and necessary to the racing industry, and reevaluating the need for existing personal service contracts with a focus on the potential to renegotiate, discontinue or defer certain activities to address fiscal hardships. In responding to our initial audit, NYRA officials also cited several planned cost cutting initiatives, including the closure of its security barns and the Aqueduct training facility. Officials also plan other actions to enhance revenues, including the build-out of a sports bar/simulcast facility at Aqueduct and efforts to pursue regulatory changes to allow horses with the same trainer, but different owners, to compete against each other. To date, we found that NYRA has fulfilled its commitment to close the security barns and has pursued the regulatory changes needed to allow trainers to enter more horses in the same race. NYRA also plans to close the Aqueduct training facility in December 2010. Once they are all implemented, these actions should reduce NYRA's annual operating costs by about \$4.5 million annually and increase racing revenues.

NYRA officials have generally informed us that they are pursuing other strategic efforts to examine or restructure their operations and expect to see these efforts reflected in their next budgetary process. We urge NYRA officials to be as expeditious as possible in pursuing strategic efforts and initiatives to achieve reforms that save costs.

### **Recommendation**

1. Be as expeditious as possible in undertaking strategic efforts and initiatives to achieve reforms that save costs.

## **Revenues and Expenditures**

We have also conducted certain tests and made various observations of NYRA's ongoing fiscal and operating activities and, in many cases, have found proper controls in place for the activities we observed. For example:

- We observed cash counts performed by NYRA's internal audit staff on July 30 at the Saratoga Meet and verified that proper accountability had been established for funds maintained in the vault facilities at Saratoga.
- We also made observations at the Saratoga entrance gates and parking facilities on several dates and verified that appropriate procedures were in place to ensure proper accountability is established over revenues collected.

At the same time, we also identified several opportunities for NYRA to improve internal controls. For example:

- Financial management staff was aware of the cash count that we observed at least three days prior to the event. Such advance notice limits the effectiveness and reliability of this procedure.
- Most of the food and drink concessions at the Saratoga Racecourse operate under a contract with one vendor (Centerplate) that pays NYRA a percentage of sales. However, we have noted that several of these concessions do not use cash registers or other systems to reliably establish accountability over their daily sales, limiting NYRA's ability to ensure that it receives all revenue to which it is entitled.
- Because NYRA's contracts with concessionaires often include revenues based on a percentage of sales volume, it is important for management to always know the exact number of concessions operating on any given day so that it may have reasonable assurance that all sales are correctly reported. On August 12, NYRA officials provided us with a listing of all vendors operating at Saratoga. Our observations on the same day indicated certain of the listed vendors were not operating, including Haagen-Daz and the funnel cake stand. We believe NYRA would benefit from an automated system to identify the schedule of concessionaires in operation.

## **Recommendations**

2. Conduct periodic cash counts and other verification activities on a surprise basis.
3. Require concessions to utilize appropriate systems to establish accountability over sales and periodically verify that those systems are being used as intended.
4. Develop an automated system to provide an accurate and up to date inventory of all concession operations, which is periodically verified on a surprise basis.

Our staff is continuing to make observations and perform tests related to these and other operational areas, including payroll and staffing, concession operations and inventory control. We will provide you with additional interim reports detailing our conclusions in these areas as they are completed. In the meantime, we wish to thank you and your staff for the continued courtesies and cooperation you have provided to our audit team.

If you have written comments in response to this first interim report, please provide them within 30 days to me at the Office of the State Comptroller, Division of State Government Accountability, 123 William Street, New York City, New York 10038 - 3804.

Very truly yours,

A handwritten signature in black ink, appearing to read "Frank Patone". The signature is fluid and cursive, with a large initial "F" and "P".

Frank P. Patone, CPA  
Audit Director