

THE UNITED STATES VIRGIN ISLANDS

OFFICE OF THE VIRGIN ISLANDS INSPECTOR GENERAL



LETTER AUDIT REPORT

**AUDIT OF THE OPERATIONS
OF THE ST. THOMAS - ST. JOHN
HORSE RACING COMMISSION**

**ILLEGAL OR WASTEFUL ACTIVITIES SHOULD BE REPORTED TO
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GOVERNMENT OF THE UNITED STATES VIRGIN ISLANDS
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April 24, 2006

Norma Pickard-Samuel
Chairperson
St. Thomas-St. John Horse Racing Commission
c/o Department of Housing Parks and Recreation
8201 Subbase # 206
St. Thomas, Virgin Islands 00802

Dear Mrs. Pickard-Samuel:

This letter report contains the results of our audit of the St. Thomas-St. John Horse Racing Commission (Commission).

The objectives of the audit were to determine whether: (i) revenues were properly deposited and reported in accordance with prescribed procedures; (ii) expenditures were allocable and allowable to the Commission; and, (iii) internal controls were in place to ensure the effective and efficient operations of the Commission. The objectives also included the identification of inadequacies in the operations of the Commission, and recommendations to address the causes of the inadequacies found.

The Scope of the audit covered the activities of the Commission during fiscal years 2002 and 2003.

To accomplish our audit objectives, we interviewed both present and former Commission members. We reviewed revenue and expenditure documents provided to us by the Commission. We also reviewed bank statements obtained through a subpoena from a Virgin Islands bank. As will be discussed in greater detail in the report, supporting documentation for revenues and expenditures was very limited, thereby severely hampering our ability to meet the audit objectives.

The audit was performed in accordance with generally accepted government auditing standards applicable to performance audits, contained in the Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to provide a reasonable basis for our findings and conclusions. Accordingly, we have performed such tests of records, and conducted other procedures that were considered necessary under the circumstances.

As part of our audit, we evaluated the internal controls over the collection, recording, and reporting of revenues and the usage of funds. Weaknesses in internal controls identified in these areas are discussed in the Audit Results section of the report.

We are unaware of any audit reports issued for the Commission within the past five years.

BACKGROUND

The Horse Racing Commission was established within the Department of Housing, Parks and Recreation under Title 32, Chapter 11 of the Virgin Islands Code (Code). Rules and Regulations were approved in 1997, to further regulate horse racing in the territory. Two separate and independent commissions supervise horse racing activities within their respective districts; one in the St. Thomas-St. John district, and the other in the St. Croix district. This report deals only with the Commission activities in the St. Thomas-St. John district.

The Commission has seven members from St. Thomas and one member from St. John. The Commissioner of Housing, Parks and Recreation serves in an ex-officio capacity, as the ninth member. The Governor appoints the Commission members.

The Commission is authorized under the general direction of the Governor, to regulate all matters relating to horse racing in the St. Thomas-St. John district. The only horse racing facility in the St. Thomas–St. John district is the Clinton Phipps Race Track on St. Thomas. The Commission has the authority to: prescribe the rules and conditions by which horse racing should be governed; prescribe the qualification of persons who can engage in any horse racing activity; provide classification and registration of race horses; provide for the licensing of trainers, jockeys, grooms and other persons directly involved in the conditioning, handling, care or riding of horses; impose administrative fines and penalties; and, hold hearings in any matter concerning horse racing.

AUDIT RESULTS

We found that the Commission did not comply with established rules and regulations as prescribed by Title 32 Sections 201-209 of the Code in that financial and managerial controls were not established nor implemented. Specifically, we found that: (i) there was no accounting system in place to record the income and disbursements from the Commission's operations; (ii) most of the Commission's financial documents did not exist or could not be located; (iii) an automated teller machine (ATH) card was used to withdraw funds from the Commission's account; (iv) one individual functioned as both the chairman and the treasurer; and, (v) a lease agreement between the Commission and a private horse racing promotion company was not managed nor monitored for compliance with the agreement's provisions.

We attribute these conditions to: (i) a lack of over-site of the operations of the Commission by the Board; and, (ii) the failure by the Board to establish basic business management and accounting principles into the operations of the Commission.

As a result: (i) the Board did not have complete and current information on the operations of the Commission; (ii) there were no assurances that all revenues from horse racing activities were deposited into the appropriate Commission account; (iii) there were no assurances that disbursements from the Commission account were allowable and allocable to the operations of the Commission; and, (iv) there were no assurances that the lease agreement between the Commission and the private horse racing promoter was enforced in accordance with its provisions.

We made several recommendations to address the conditions and causes cited in the report. The recommendations addressed areas dealing with accounting and internal controls.

Financial Operations

The Commission did not develop and implement an accounting system to ensure that all receipts were accounted for and disbursements were used for their intended purposes. Specifically, the Commission did not maintain adequate documentation to support disbursements totaling \$28,416. There was no assurance that funds were used for the purposes mandated by the Code. Although recorded deposits for fiscal years 2002 and 2003 totaled \$49,752, we were not able to document the source of the deposits nor could we verify that all revenues were deposited into the account. In addition, there was no evidence to show that the account had ever been reconciled. Finally, a lease agreement between the Commission and a private horse racing promoter was not available and there was no evidence to show that the provisions were enforced and revenues received were accounted for and appropriately deposited into the Commission's account.

Although, the Commission had assigned officers, the treasurer did not function in this capacity and the chairman assumed all the responsibility of the treasurer. As a result, there was no separation of duties, as the individual performed as chairman and treasurer.

Deposits. Based on bank statements obtained, we found that there were 14 deposits totaling \$28,493.74 in fiscal year 2002 and five deposits totaling \$21,258.66 in fiscal year 2003. Total deposits for the two fiscal years totaled \$49,752.40. For fiscal year 2002, there were no deposits for the months of February, April, August, and September. In fiscal year 2003, the months of October through December, February, March, May, June and August also did not have any deposits recorded in the bank statements. We were unable to determine the reason why there were no deposits made in those months. In addition, there were no assurances that all receipts were deposited into the account. As will be discussed later in this report, we were not able to obtain records from the private racing promoter to show how much funds were transferred to the Commission. It was indicated to us, however, that the majority of the transfers were cash transactions.

The schedule below lists the deposits for the 2002 and 2003 fiscal years as recorded in the bank statements.

| Fiscal Year 2002 | | Fiscal Year 2003 | |
|-----------------------|--------------------|-----------------------|--------------------|
| Date | Amount | Date | Amount |
| October 4, 2001 | \$2,694.50 | January 29,2003 | \$2,578.94 |
| November 6, 2001 | 1,021.04 | January 29,2003 | 1,500.00 |
| November 23, 2001 | 1,256.58 | April 10, 2003 | 8,343.98 |
| December 6, 2001 | 1,042.98 | July 9, 2003 | 3,300.00 |
| January 2, 2002 | 897.82 | September 18, 2003 | 5,535.74 |
| January 16, 2002 | 1,000.00 | | |
| January 22, 2002 | 5,318.31 | | |
| March 7, 2002 | 2,512.66 | | |
| March 26, 2002 | 2,548.65 | | |
| May 7, 2002 | 1,419.63 | | |
| May 22, 2002 | 2,344.99 | | |
| June 25, 2002 | 1,039.70 | | |
| July 12, 2002 | 5,207.73 | | |
| July 22, 2002 | 189.15 | | |
| Total Deposits | \$28,493.74 | Total Deposits | \$21,258.66 |

Expenditures. During our review of the bank account we found that there were debits to the account through the use of an ATH card. We were never provided with nor were we able to locate the ATH card. The card was used to make 53 cash withdrawals ranging from \$100 to \$500 over a twenty-three-month period, in fiscal years 2002 and 2003. There were 31 cash withdrawals for \$500 each in fiscal year 2002, and 22 cash withdrawals ranging from \$100 to \$500 in fiscal year 2003. We were not provided with any documentation to show the purpose for the withdrawals, nor were we given an explanation by current or former Commission members.

The following are schedules of the cash withdrawals made for each of the two fiscal years.

| Fiscal Year 2002 | | | |
|-------------------|--------|-------------------------------|-----------------|
| Date | Amount | Date | Amount |
| October 1, 2001 | \$500 | April 16, 2002 | \$500 |
| October 4, 2001 | 500 | April 23, 2002 | 500 |
| October 15, 2001 | 500 | May 7, 2002 | 500 |
| October 22, 2001 | 500 | May 14, 2002 | 500 |
| November 5, 2001 | 500 | May 24, 2002 | 500 |
| November 14, 2001 | 500 | June 12, 2002 | 500 |
| November 26, 2001 | 500 | July 15, 2002 | 500 |
| December 13, 2001 | 500 | July 15, 2002 | 500 |
| December 18, 2001 | 500 | July 23, 2002 | 500 |
| January 22, 2002 | 500 | August 6, 2002 | 500 |
| February 4, 2002 | 500 | August 27, 2002 | 500 |
| February 27, 2002 | 500 | September 3, 2002 | 500 |
| March 7, 2002 | 500 | September 6, 2002 | 500 |
| March 26, 2002 | 500 | September 16, 2002 | 500 |
| April 1, 2002 | 500 | September 24, 2002 | 500 |
| April 8, 2002 | 500 | Total Cash Withdrawals | \$15,500 |

| Fiscal Year 2003 | | | |
|-------------------|--------|-------------------------------|----------------|
| Date | Amount | Date | Amount |
| October 7, 2002 | \$300 | May 20, 2003 | \$500 |
| November 13, 2002 | 250 | June 20, 2003 | 400 |
| January 30, 2003 | 300 | June 24, 2003 | 200 |
| February 10, 2003 | 500 | July 14, 2003 | 300 |
| February 11, 2003 | 260 | July 23, 2003 | 200 |
| March 7, 2003 | 200 | August 20, 2003 | 300 |
| March 19, 2003 | 200 | August 22, 2003 | 100 |
| March 21, 2003 | 200 | September 10, 2003 | 150 |
| March 28, 2003 | 100 | September 24, 2003 | 500 |
| March 31, 2003 | 100 | September 29, 2003 | 300 |
| April 22, 2003 | 500 | Total Cash Withdrawals | \$6,360 |
| April 22, 2003 | 500 | | |

In addition, the ATH card was used to make purchases at a pharmacy and several other retail stores. Over the two-year period reviewed, the ATH card was used to make purchases at a pharmacy in the amount of \$705; at a department store for \$235; at grocery stores totaling \$2,193; and other retail outlets totaling \$3,423. The only explanation we received was that the Commission needed to purchase last minutes supplies on race days. We were told that food was provided on the race days; however, we were also told that it was all catered, and persons providing services to the Commission were paid by check.

Lease Agreement. As per rules and regulations established for the Commission, a lease franchise can be granted for a term of up to twenty (20) years to any individual, partnership, organization, corporation or entity for the daily occupancy, operation and use of all facilities and equipment located at the Clinton Phipps Racetrack on St. Thomas.

In an interview with the chairperson of the Commission, we were told that there was a lease agreement with EQUUS, Inc. (EQUUS). EQUUS is a Virginia-based company that has interests in horse racing throughout the Caribbean and Central and South America, including a 99 percent interest in El Comandante Race Track in Puerto Rico. Although, the chairperson indicated that there was a lease agreement with EQUUS, we were never provided with a copy of the agreement nor was it found in the files reviewed by us.

We were told that in February of 2002, EQUUS signed a contract with the Commission to operate the track. It is claimed, that under the contract, physical improvements such as repairing horse stalls, installing a photo-finish camera, installing a roof to cover the bleachers, a new veterinary center, new jockey quarters and quarantine stables for horses were to be completed by August 2002; however, they were not. It is claimed that the only improvement made by EQUUS was the resurfacing of the track.

We contacted EQUUS's office in Puerto Rico to obtain information concerning the lease agreement with the Commission, but our effort was futile. They were unable to assist us with any information because they claimed that they had not established an accounting system. We were told that any payments made to the Commission were cash payments.

Internal Controls. The Commission did not have a system of internal controls to ensure that all receipts were deposited into the Commission's account and all expenditures were related to Commission activities. There was no separation of duties, no supervisory reviews, and no system of checks and balances. As a result, records were not maintained nor adequately secured. The few documents reviewed by us were in disarray and were kept in tattered boxes with other information not pertaining to the Commission. We could not assure ourselves that all receipts were deposited into the Commission account and that all expenditures were related or necessary for the operations of the Commission.

The Chairman functioned as both the head of the Commission and the treasurer. The individual maintained the records of the Commission, disbursed funds from the account, including the use of the ATH card, and received and deposited revenues. No financial reports were provided for review and we question whether any were ever prepared.

As reported earlier in this report, most receipts and disbursements were by cash, with no documentation available to verify most of the activities.

Recommendations

We recommend that the Commission:

1. Ensure that a proper system of internal controls is established to include at a minimum: the segregation of duties; maintenance of receipts/invoices for revenues and expenditures; and the performance of monthly bank reconciliations and financial reports.

2. Stop the use of all forms of ATH or debit cards in the conduct of business activities for the Commission.

3. Ensure that any future lease agreement be properly approved. Maintain an approved copy in Commission files.

4. Monitor and enforce the provisions of any lease agreement entered into.

5. Ensure that all transfers of funds, to the Commission, are properly documented, with a preference that such transfers be done by check.

A draft report, dated March 10, 2006, was sent to you requesting a response to the recommendations made in the report. However, to date we have not received your comments.

If you or your staff require additional information, please call me at 774-3388.

Sincerely,



Steven van Beverhoudt, CFE, CGFM

V. I. Inspector General