



The Commonwealth of Massachusetts

AUDITOR OF THE COMMONWEALTH

ONE ASHBURTON PLACE, ROOM 1819
BOSTON, MASSACHUSETTS 02108

A. JOSEPH DeNUCCI
AUDITOR

TEL. (617) 727-6200

NO. 2007-1369-30

**INDEPENDENT STATE AUDITOR'S REPORT
ON CERTAIN ACTIVITIES OF THE
STANDBRED OWNERS OF MASSACHUSETTS, INC.
JANUARY 1, 2004 TO SEPTEMBER 30, 2006**

**OFFICIAL AUDIT
REPORT
JANUARY 22, 2007**

TABLE OF CONTENTS/EXECUTIVE SUMMARY

INTRODUCTION

1

Standardbred Owners of Massachusetts, Inc. (SOM) is a nonprofit organization whose purpose is to promote, develop, and encourage, through the Massachusetts Standardbred Breeding Program (SBP), the breeding of standardbred horses in the Commonwealth by offering cash prizes to breeders of such horses. SOM is the representative organization of standardbred breeders and owners and has been approved by the Massachusetts State Racing Commission (SRC) to administer the SBP in accordance with the provisions of Chapter 128, Section 2(J), of the Massachusetts General Laws. The objectives of our audit were to review and analyze controls over cash receipts and disbursements for the period January 1, 2004 to September 30, 2006, assess whether SOM is operating the SBP in accordance with the General Laws, and determine the status of prior audit issues.

AUDIT RESULTS

4

PRIOR AUDIT RESULTS RESOLVED

4

a. IMPROVEMENTS MADE IN FINANCIAL MANAGEMENT PRACTICES

4

Our prior audit (No. 2004-1369-30) of SOM found various deficiencies in SOM's financial management practices, including inadequate segregation of financial-related duties, inadequate evidence of prior approval for expenses, and managerial deficiencies concerning board meetings and financial recordkeeping.

Our follow-up review revealed that SOM implemented our prior recommendations and improved its administrative and accounting internal controls. Specifically, we found that, prior to check preparation, all expenditures are reviewed and approved by the President, who also reviews all bank reconciliations and financial data prepared by the Secretary/Treasurer for accuracy. Moreover, the Secretary/Treasurer prepares and maintains full and accurate accounting records in a timely manner, and quarterly financial reports are now prepared and distributed to all board members at their quarterly meetings and to the State Racing Commission. In addition, we found that detailed Board of Directors' meeting minutes are now being maintained, and SOM provides and maintains proper documentation regarding advance notification to voting members of the SOM Board for all board meetings.

b. GUIDELINES FOR ADMINISTRATIVE EXPENSES ESTABLISHED

5

Our prior audit report disclosed that SOM had not established guidelines, policies, and procedures to ensure that administrative expenditures are made in accordance with the provisions of the General Laws. We also noted that SOM's management of administrative expenses should be conducted in a manner that meets with the approval of the SOM Board and the State Racing Commission, in addition to satisfying statutory provisions. Because no guidelines existed for determining whether administrative expenses were appropriate, allowable, and based on adequate documentation to support

certain charges, we questioned approximately \$34,736 of SOM's administrative expenses during the prior audit period.

Our follow-up review revealed that SOM implemented our prior audit recommendations and resolved this issue. Specifically, we found that SOM has prepared and implemented written guidelines, which were approved by the Board of Directors and forwarded to the State Racing Commission. In addition, all expenditures reviewed were supported with adequate documentation. Moreover, SOM has adopted a policy to address the disposition of any unused administrative funds at the end of each fiscal year.

INTRODUCTION

Background

Standardbred Owners of Massachusetts, Inc. (SOM) is a nonprofit organization incorporated on May 1, 1992. Its purpose is to promote, develop, and encourage, through the Massachusetts Standardbred Breeding Program (SBP), the breeding of standardbred horses in the Commonwealth by offering cash prizes to breeders of such horses. SOM is the representative organization of standardbred breeders and owners and has been approved by the Massachusetts State Racing Commission (SRC) to administer the SBP.

Chapter 128, Section 2(J), of the Massachusetts General Laws was enacted to promote, develop, and encourage the breeding of standardbred horses in the Commonwealth by offering cash prizes to breeders and owners of Massachusetts-bred standardbred racehorses and qualified stallions through sire stakes races. Standardbred horses and stallions eligible to participate must be racing horses between the ages of two and three that are sired by a Massachusetts-registered stallion.

For the period January 1, 2004 through September 30, 2006, SOM revenues totaled \$886,292 and expenditures totaled \$890,044. According to various provisions in the law, a percentage of the handle of all live and simulcast racing at Plainridge Racecourse is to be transferred to SOM. The share of revenue remitted to SOM totaled \$808,618 for the period January 1, 2004 to September 30, 2006. SOM may expend, annually, up to 8% of such revenue for its administrative expenses. The following is a summary of revenues and expenditures for the period January 1, 2004 to September 30, 2006:

Beginning Balance, January 1, 2004		\$ 55,927
Revenues:		
Plainridge Racecourse Revenue	\$808,618	
Fees:		
Qualification	\$52,500	
Race	12,347	
Membership	4,575	
Registration	3,550	
Domicile	<u>3,500</u>	
Total Fees	76,472	
Interest	787	
Miscellaneous	<u>415</u>	
Total Revenues		886,292

Expenditures:	
Purse Awards	\$792,316
Stallion Incentive Awards	39,653
Operating Expenses	37,900
Stipends	19,200
Miscellaneous	<u>975</u>
Total Expenditures	<u>890,044</u>
Ending Balance, September 30, 2006	<u>\$ 52,175</u>

Audit Scope, Objectives, and Methodology

The scope of our audit included an examination of SOM's various operational, program, and administrative activities for the period January 1, 2004 to September 30, 2006. Our audit was conducted in accordance with applicable generally accepted government auditing standards for performance audits and, accordingly, included audit procedures and tests that we considered necessary.

The objectives of our review were to perform an evaluation of internal controls over financial and programmatic operations and to analyze the procedures in place for recording revenues and expenses and administering the overall program. Specifically, our objectives were to:

- Review and analyze controls over cash receipts and cash disbursements to determine whether controls are adequate to safeguard funds and are in compliance with laws, rules, and regulations
- Conduct transaction testing to determine whether expenditures were reasonable, allowable, and applicable to the SBP
- Determine whether SOM is being operated and administered as intended by its enabling legislation
- Assess SOM's progress in addressing the issues noted in our prior audit (No. 2004-1369-30), which covered the period January 1, 2001 to November 6, 2003.

To meet our objectives, we held discussions with SOM and SRC officials and reviewed SOM's policies and procedures. We assessed SOM's system of administrative and accounting controls over its operations to obtain an understanding of the control environment and the flow of transactions. We used this assessment in planning and performing our audit tests. We also reviewed applicable laws, rules, and regulations and examined SOM's financial records, cost reports, invoices, and other

pertinent financial records to ensure that expenses incurred under the SBP were reasonable, allowable, allocable, properly authorized and recorded, and in compliance with applicable laws, rules, and regulations. Based on our audit, we have determined that SOM (1) maintained adequate internal controls over cash receipts and disbursements; (2) complied with laws, rules, and regulations regarding payment of awards, administrative expenditures, eligibility of registered standardbred horses, and revenue received; and (3) satisfactorily implemented the recommendations contained in our prior audit report.

AUDIT RESULTS

PRIOR AUDIT RESULTS RESOLVED

a. IMPROVEMENTS MADE IN FINANCIAL MANAGEMENT PRACTICES

Our prior audit (No. 2004-1369-30) of Standardbred Owners of Massachusetts, Inc., (SOM) found the following internal control weaknesses:

- SOM's Secretary/Treasurer exercised total control over all of SOM's funds, including writing checks for SOM's expenses, signing checks without a cosigner, making deposits, reconciling bank statements, and performing other such financial-related activity.
- There was no indication that second-party approval of expenses was obtained prior or subsequent to payments.
- SOM did not fully adhere to certain provisions of its bylaws, which resulted in incomplete accounting records, missing quarterly financial reports, undocumented minutes of board meetings, and failure to notify SOM members of board meetings.

Our follow-up review, which covered the period January 1, 2004 to September 30, 2006, revealed that SOM has implemented our prior audit recommendations and improved its administrative and accounting controls, as follows:

- Prior to check preparation, all expenditures are reviewed and approved by SOM's President.
- SOM's President reviews all bank reconciliations and financial data prepared by the Secretary/Treasurer for accuracy.
- Full and accurate accounting records are prepared and maintained by the Secretary/Treasurer in a timely manner.
- Quarterly financial reports are now prepared and distributed to all board members at their quarterly meetings, and the State Racing Commission receives these reports.
- Detailed Board of Directors' meeting minutes are now being maintained.
- SOM provides and maintains proper documentation regarding advance notification to voting members of the SOM Board of Directors' for all board meetings.

b. GUIDELINES FOR ADMINISTRATIVE EXPENSES ESTABLISHED

Our prior audit report disclosed that SOM had not established guidelines, policies, and procedures to ensure that administrative expenditures were made in accordance with the provisions of the Massachusetts General Laws. Moreover, we noted that SOM's allocation of administrative funds, their use, and the management of administrative expenses should have been conducted in a manner that meets with the approval of the SOM Board and the State Racing Commission, in addition to satisfying statutory provisions. Because no guidelines existed for determining whether administrative expenses were appropriate, allowable, and based on adequate documentation to support those charges, we questioned approximately \$34,736 of SOM's administrative expenses during the prior audit period.

Our follow-up review revealed that SOM implemented our prior audit recommendations and corrected this prior audit issue, as follows:

- SOM has prepared and implemented written guidelines, which were approved by the Board of Directors and forwarded to the State Racing Commission.
- All expenditures reviewed were supported with adequate documentation.
- SOM has adopted a policy to address the disposition of any unused administrative funds at the end of each fiscal year. Currently, any operating account amount exceeding \$5,000 on December 31st of the year shall be returned to the purse account unless SOM is under threat of an impending lawsuit or other situation that would require extensive funding to defend the organization.